# 2018

Annual Report

SCBC

Covered Bonds of SBAB

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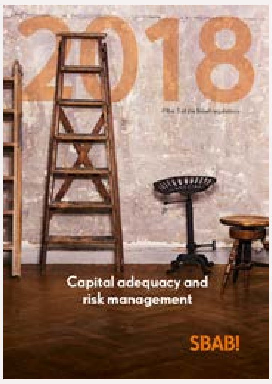
## Financial calendar

| | |
|---|---|
| Year-end report 2018 | 15 February 2019 |
| Annual General Meeting | 29 April 2019 |
| Interim report January–June 2019 | 17 July 2019 |
| Year-end report 2019 | 14 February 2020 |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The Sustainability Report for The Swedish Covered Bond Corporation (SCBC) is included in the 2018 Annual Report for the Parent Company, SBAB Bank AB (publ).

# The year in brief

**SUMMARY SCBC**

| | 2018 | 2017 |
|---|---|---|
| **Income-statement items** | | |
| Net interest income, SEK million | 3,069 | 2,855 |
| Operating profit, SEK million | 1,979 | 1,982 |
| Profit after tax, SEK million | 1,541 | 1,546 |
| **Balance-sheet items** | | |
| Lending to the public, SEK billion | 339.4 | 312.2 |
| **Key metrics** | | |
| Loan loss ratio, % | –0.01 | 0.00 |
| **Capital adequacy** | | |
| CET1 capital ratio, % | 17.1 | 78.0 |
| Tier 1 capital ratio, % | 17.1 | 78.0 |
| Total capital ratio, % | 17.1 | 78.0 |
| **Rating, long-term funding** | | |
| Moody's | Aaa | Aaa |

**Net interest income**

SEK **3,069** million

2017: SEK 2,855 million

**Operating profit**

SEK **1,979** million

2017: SEK 1,982 million

# Operations

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

The Swedish Covered Bond Corporation (SCBC), Corp. Reg. No. 556645-9755, is a wholly-owned subsidiary of SBAB, Corp. Reg. No. 556253-7513.

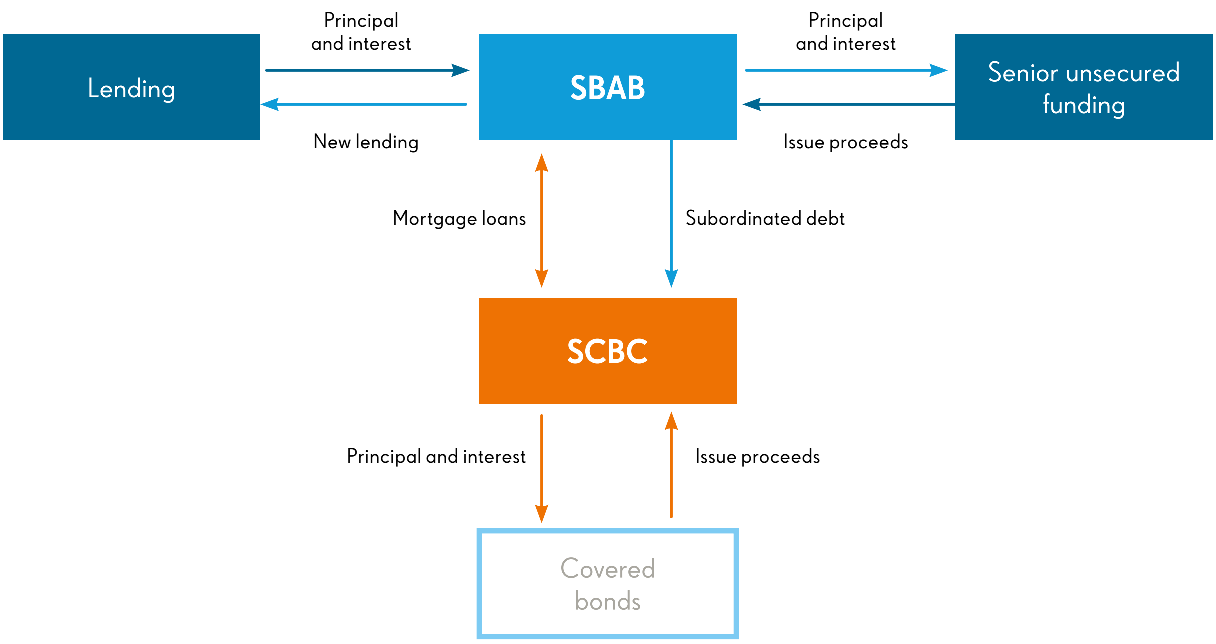
SCBC is a credit market company and is regulated by the Swedish Banking and Financing Business Act (2004:297) and subject to supervision by the Swedish FSA (Sweden's financial supervisory authority).

The primary operations within SCBC comprise the issue of covered bonds in accordance with the Swedish Covered Bonds (Issuance) Act (2003:1223) and the Swedish FSA's regulation FFFS 2013:1. Issues are conducted in both Swedish and international capital markets.

SCBC complies with and reports to the European Covered Bond Council's (ECBC) "Labelling Initiative," and reports on a monthly basis in line with "National templates" as published by the Association of Swedish Covered Bond issuers (ASCB).

SCBC is domiciled in Solna and its operating activities are mainly outsourced to the Parent Company.

SCBC'S ROLE IN THE SBAB GROUP



# Lending

**SCBC does not conduct any new lending itself, but instead acquires loans from SBAB Bank on an ongoing basis. The aim of securing these loans is to include the loans, in part or in full, in the assets that comprise collateral for holders of SCBC's covered bonds and derivative counterparties.**

### Loan portfolio

At 31 December 2018, lending to the public amounted to SEK 339.4 billion (312.2). SCBC's portfolio mainly comprises loans for residential mortgages, with the retail market as the largest segment. The underlying collateral consists primarily of mortgage deeds in houses and multi-family dwellings, and of collateral in tenant-owners' rights. All provision of credit is conducted in the Swedish market and is geographically concentrated to the metropolitan areas, university cities and growth regions.

### Cover pool

SCBC's total loan portfolio consists to around 95.4% (98.3) of assets that qualify for inclusion in the cover pool for the issuance of covered bonds. Of SCBC's loan portfolio, 89.0% is included in the cover pool. Of the loans in the cover pool, approximately 99.7% (99.7) consist of loans against collateral in mortgage deeds or tenant-owners' rights. In calculating the loan-to-value (LTV) ratio for these loans, the upper limit of the loans' (or group of loans) LTV ratio in the collateral used — is known as the max LTV.

### Credit quality

Credit risk declined slightly during the year, despite an expanding loan portfolio. The general quality of the loan portfolio has improved, for example, probability of default is now lower for households, corporates and tenant-owners' associations. However, loan-to-value ratios have increased as a result of a revaluation of the stock and the housing market trend over the year.

**KEY METRICS, COVER POOL**

| | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Total cover pool, SEK million | 301,956 | 282,026 |
| Loan portfolio, SEK million | 339,370 | 312,199 |
| Weighted average max LTV, % | 55.5 | 53.7 |
| Average loan amount, SEK thousand | 738 | 736 |
| Weighted average seasoning, years | 6.8 | 7.1 |
| Average remaining maturity, years [1] | 0.9 | 1.1 |
| Substitute collateral, SEK million | – | – |

[1] Regarding maturity until the next date for changes in terms for all borrower categories.

**LTV BREAKDOWN**

| | Credit volume | | | |
|---|---|---|---|---|
| | 31 Dec 2018 | | 31 Dec 2017 | |
| **LTV, %** | **SEK million** | **%** | **SEK million** | **%** |
| –10 | 64,089 | 21.3 | 61,159 | 21.8 |
| 10–20 | 58,647 | 19.5 | 56,102 | 20.0 |
| 20–30 | 52,544 | 17.4 | 49,943 | 17.8 |
| 30–40 | 45,026 | 15.0 | 42,392 | 15.1 |
| 40–50 | 35,605 | 11.8 | 33,000 | 11.7 |
| 50–60 | 25,139 | 8.3 | 22,740 | 8.1 |
| 60–70 | 15,550 | 5.2 | 12,670 | 4.5 |
| 70–75 | 4,512 | 1.5 | 3,183 | 1.1 |
| 75– | 0 | 0.0 | 0 | 0.0 |
| **Total** | **301,113** | **100.0** | **281,190** | **100.0** |

# Financial performance

**Operations continue to develop favourably. Operating profit for 2018 totalled SEK 1,979 million (1,982) and net interest income amounted to SEK 3,069 million (2,855).**

### Development of operations

SCBC's operating profit shrank slightly to SEK 1,979 million (1,982), mainly due to higher expenses. Higher net interest income positively impacted earnings.

SCBC's net interest income grew to SEK 3,069 million (2,855), mainly due to higher lending volumes. Increased funding costs negatively impacted net interest income. The resolution fee, which is recognised in net interest income, totalled SEK 192 million (149) for the period.

The net commission expense amounted to SEK 119 million (expense: 63), primarily due to a non-recurring commission expense to an intermediary for the SBAB Group's mortgage loans in conjunction with winding up the partnership in Q3 2018. The net expense from financial transactions was SEK 43 million (expense: 61). The difference between the periods was mainly attributable to a lower expense for previously wound up hedge accounting.

SCBC's expenses rose to SEK 902 million (761), and mainly comprised fees to SBAB for administrative services in line with the applicable outsourcing agreements.

Net credit losses for the period increased and totalled SEK 26 million (recoveries: 12) for the year, mainly as a result of the internal movement of credit-impaired loans from SBAB due to the transition to IFRS 9. The credit impaired loans are not included in the assets that qualify for inclusion in the cover pool for the issuance of covered bonds. Confirmed credit losses totalled SEK 1 million. For more information on credit losses; please refer to Note IC 5.

### Capital adequacy and liquidity risk

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

SCBC's total capital ratio and CET1 capital ratio amounted to 17.1% (78.0) at 31 December. The difference between the periods is attributable to the decision by the Swedish FSA to amend the method for applying the existing risk-weight floor for Swedish mortgages, which was previously applied in Pillar 2, by replacing it with the corresponding requirement within the framework of Article 458 of the Regulation on Prudential Requirements for Credit Institutions and Investment Firms, which means that the requirement applies in the same way as a requirement in Pillar 1. The change entails, from 31 December 2018, an increase in the risk exposure amount (REA) of around SEK 68 billion and a decrease in the capital ratio, expressed as a percentage of the REA. The amendment entered force from 31 December 2018 and applies for two years. For more information, please refer to Note RC 9. Net profit is included in own funds, while the expected dividend has reduced own funds.

The internally assessed capital requirement amounted to SEK 12 billion (4.6) at 31 December 2018. The increase in the internally assessed capital requirement was attributable to a change in the method for calculating the capital requirement compared with previous periods. Previously, the risk-weight floor in Pillar 2 had not been included for SCBC, since the company had not undergone an SREP[1]. Accordingly, the increase stems from the harmonisation of the calculation of capital requirement and the method now reflects the consolidated situation. As of 31 December 2018, SCBC's internally assessed capital requirement also includes the risk-weight floor for Swedish residential mortgages.

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

For more information on capital adequacy; please refer to Note RC 9.

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

### Dividend policy and appropriation of profits

SCBC has no established dividend policy. Dividends are proposed by the Board in accordance with the provisions of the Companies Act and are resolved by the Annual General Meeting. For 2018, it is proposed that no dividend be paid. The full proposed appropriation of profits can be found on page 15.

All shares are owned by the Parent Company, SBAB.

### Corporate Governance Report

SCBC's Corporate Governance Report for 2018 is included in this Annual Report, see page 10.Information regarding the most important aspects of the company's system for internal governance and control can be found in the aforementioned report.

### Events after the balance sheet date

*EGM*

At SCBC's EGM on 4 February 2019, a resolution was passed to make a retroactive distribution to SBAB Bank AB, for a total of SEK 3 billion.

*Green covered bond*

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

# Funding

**In the markets in which SCBC is active, investor demand for SCBC's bonds was healthy during the year.**

SCBC operates primarily in the Swedish and European covered bond markets. The issue of covered bonds through SCBC is one of the SBAB Group's key sources of funding. The annual funding requirement is influenced by both lending and deposit volumes. 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.

In the markets in which SCBC is active, investor demand for SCBC's bonds was healthy during the year.

### Funding programmes

SCBC's primary operations comprise the issue of covered bonds in the Swedish and international capital markets. To this end, the company makes use of funding programmes. A covered funding programme with no fixed limit is used in Sweden, while in the international market, a EUR 16 billion EMTCN programme (Euro Medium Term Covered Note Programme) is primarily used. SCBC also has an AUD 4 billion Australian covered bond funding programme.

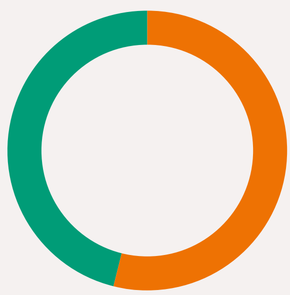
At 31 December 2018, the total value of issued debt securities outstanding under SCBC's lending programme was SEK 234.8 billion (204.2), distributed as follows: Swedish covered bonds SEK 126.1 billion (118.9) and the Euro Medium Term Covered Note Programme SEK 108.7 billion (85.3).

During the year, securities amounting to SEK 60.6 billion (57.6) were issued. At the same time, securities amounting to SEK 13.8 billion (14) were repurchased, while securities amounting to SEK 19.2 billion (14.9) matured. Alongside changes in premiums/discounts and changes in SEK exchange rates, this resulted in an increase in issued debt securities of SEK 30.6 billion in the year.

### Rating

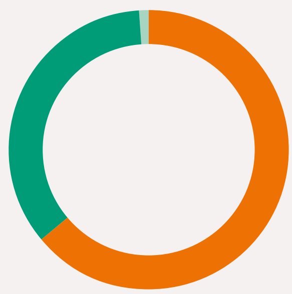
All of SCBC's funding programmes have received the highest possible credit rating of Aaa from the rating agency Moody's.

**FUNDING – DEBT OUTSTANDING, 31 DECEMBER 2018: SEK 234.8 BILLION (204.2)**



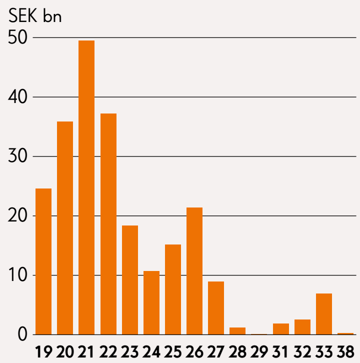
- Swedish covered bonds **54%** (58)
- EMTCN **46%** (42)

**FUNDING – CURRENCY BREAKDOWN, 31 DECEMBER 2018: SEK 234.8 BILLION (204.2)**

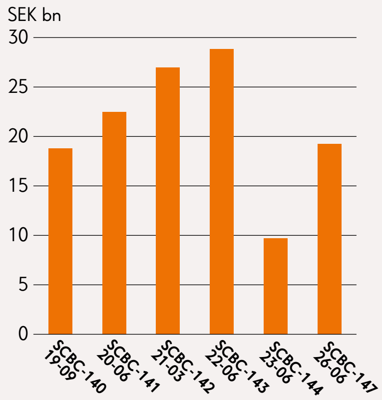


- SEK **64%** (73)
- EUR **35%** (25)
- GBP **1%** (1)
- NOK **0%** (1)

**TOTAL FUNDING – MATURITY PROFILE**




**VOLUME OUTSTANDING FOR SCBC'S SWEDISH COVERED BONDS**



# Risk management

**SCBC's risk taking is low and is kept at a level commensurate with financial targets for return and the scope of risk capital. SCBC's risks consist mainly of credit risk through its lending operations. For further information about SCBC's risk management and capital adequacy, refer to Note RC or visit SBAB's website: www.sbab.se.**

**Risks in SCBC's operations**
Risk is defined as a potentially negative impact that may arise due to ongoing internal processes or future internal or external events. The definition of risk includes the probability that an event occurs as well as the impact the event could have on SCBC's earnings, equity or value.

**Authority and responsibility**
SCBC's Board of Directors bears the ultimate responsibility for the company's total risk exposure. It is the Board's responsibility to ensure that operations are conducted with good internal control to thereby ensure that SCBC's ability to meet its obligations is not compromised. As SCBC's operations are outsourced to the Parent Company SBAB Bank AB (publ), SBAB's CRO also acts as the CRO of SCBC.

The CEO is responsible for day-to-day administration in accordance with the strategies, guidelines and policies adopted by the Board of Directors. The CEO also ensures, on an ongoing basis, that each unit, including the independent Risk Control function, reports in accordance with the relevant instructions to the Board.

The independent Risk Control function is responsible for the identification, quantification, analysis and reporting of all risks. The CRO, who reports directly to SCBC's CEO and Board, is responsible for independent risk control.

| Risk | Description |
|---|---|
| **Credit risk** | The counterparty is unable to fulfil its payment obligation. |
| **Market risk** | The risk of losses or reduced future income due to market fluctuations. |
| **Operational risk** | The risk of losses due to inappropriate or unsuccessful processes, human error, faulty systems or external events, including legal risks. |
| **Capital targets** | The levels adopted by the Board of Directors for regulatory capital. |
| **Liquidity risk** | The risk of being unable to meet payment obligations on due dates without the cost of raising funds for that purpose increasing significantly. |
| **Compliance** | That SCBC does not comply with legislation, rules, ethical guidelines, good market practices or other relevant regulations for operations requiring licences and therefore is affected by statements or sanctions by the Swedish FSA, negative publicity in the media and/or reduced confidence from customers and other stakeholders. |

**Risk strategy**
SCBC is tasked with identifying, measuring, governing, reporting internally and maintaining control of the risks to which SCBC is or may become exposed. The Board adopts the strategic direction and the overarching risk level that SCBC is willing to accept, based on our business and how value is created for our customers. This means SCBC is to consciously expose itself only to risks that are directly connected to or are regarded as necessary for its operations. It is also about maintaining sufficient liquidity and capital to meet unforeseen events. Knowledge and awareness of any risks that SCBC 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 SCBC whose principle task is to ensure adequate risk awareness and acceptance for managing risks on a daily basis. SCBC 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**

SCBC'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 SCBC's business model is that the risks to which we are exposed are low and predictable. In reality, this does not mean that each individual credit exposure has very low risk; rather, SCBC's total lending portfolio consists largely of low-risk loans and every loan's internal risk effect is such that the total risk is limited.

The basis for SCBC'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 SCBC's business model, in other words the positive effects anticipated to be achieved in the form of expected revenue, cost savings or the mitigation of other risks.

**Risks and uncertainties**

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

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

# Corporate Governance Report

**SCBC is domiciled in Solna. Owner governance of SCBC is exercised through general shareholder meetings, the Board of Directors and CEO in accordance with the Companies Act, the Articles of Association, and internal policies and instructions adopted by SCBC. SCBC was established with the aim of broadening the SBAB Group's funding opportunities and decreasing its funding costs following changes in Swedish legislation in 2004 that permitted the issuance of covered bonds.**

### SCBC's operations

SCBC's operations comprise the issuance of covered bonds and associated activities. In addition to the policies and instructions that have been developed especially for SCBC, the Board of SCBC annually adopts the appropriate parts of policies and instructions adopted by the Board of the Parent Company that also apply to SCBC. This approach is suitable since SCBC's business operations are conducted by the Parent Company on assignment from SCBC and SCBC's operations serve as an instrument for the Group's funding. SCBC's targets and strategies form part of the Parent Company's funding strategy and are included in the Parent Company's business plan.

### Articles of Association

SCBC's Articles of Association govern items such as SCBC's business objectives. The Articles of Association do not include any provisions regulating the appointment or removal of Board Members, with the exception of the provision on the minimum and maximum number of Board Members. The Articles of Association require that notification of an Extraordinary General Meeting convened to address amendments to the Articles of Association must be issued not earlier than six weeks and not later than four weeks prior to the meeting.

### Annual General Meeting

SCBC's Annual General Meeting was held on 24 April 2018 in Solna. The Meeting re-elected Board Members Bo Magnusson (who was also elected Chairman of the Board), Jane Lundgren-Ericsson and Klas Danielsson. The Annual General Meeting 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, and fees to the Board Members who are not employees of the Group. The Annual General Meeting elected Deloitte AB, with Patrick Honeth as the auditor-in-charge, as SCBC's auditor until the close of the 2019 Annual General Meeting.

The General Meeting did not authorise the Board of Directors to issue new shares or buy back the company's shares.

### The Board of Directors and the Board's work

The Articles of Association stipulate that the Board of Directors is to comprise not fewer than three and not more than seven members, with no more than six alternates.

The members are normally elected at the Annual General Meeting for the period until the next Annual General Meeting. The CEO of SCBC is not a member of the Board. SCBC's Board of Directors comprises the Parent Company's CEO and members of the Board of Directors of the Parent Company.

The Board of Directors bears ultimate responsibility for the company's organisation and administration. The Board is also responsible for continuously assessing SCBC's financial position and for ensuring that the organisation is structured in a manner that enables the accounting, asset management and the company's other financial circumstances to be controlled in a satisfactory manner. The work of the Board complies with the formal work plan adopted annually at the Board's statutory meeting immediately after the Annual General Meeting. The working procedures address summonses, agendas and quorums for Board meetings, as well as the division of duties between the Board and the CEO.

SCBC's Board makes decisions on matters relating to SCBC's strategic direction, financing, policies, and certain instructions. The Board addresses the company's year-end report, Annual Report and six-month reports, and determines their adoption and publication. The Board's measures to follow up internal control of financial reporting include the Board's regular follow-up of SCBC's performance and key performance indicators, but also include the Board's review and follow-up of the auditor's review reports. At least once annually, the Board receives reports from the independent inspector appointed by the Swedish FSA, independent risk control, internal audit and compliance regarding observations from performed reviews and assessments, as well as assessments of how well control and regulatory compliance are upheld within the company.

The names, ages, main qualifications, work experience and other assignments of the Board members and their attendance at Board meetings and its committees are detailed on page 11. None of the Board members or the CEO hold shares or financial instruments issued by SCBC.

### Diversity and eligibility policies

The Board has adopted a policy pertaining to Board diversity and an instruction for assessing the eligibility of Board members, the CEO and senior executives. The diversity policy includes a prohibition against discrimination based on gender, transgender identity or expression, ethnicity, religion or other beliefs, disabilities, sexual orientation or age. 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.

**The Board's committees**

*Audit and Compliance Committee*

SCBC's Board has established an Audit and Compliance Committee. The Committee is SCBC's Audit Committee and its main task is, based on the assignment and the applicable regulations, to examine the company's governance, internal controls and financial information and to prepare issues in these areas for decision by the Board. The Audit and Compliance Committee is also responsible for monitoring financial statements and the efficiency of risk management and of the work carried out by internal audit and compliance. The Audit and Compliance Committee is also responsible for evaluating the external auditing work, informing the owner of the results of this work and assisting in the drafting of proposals for auditors. The Audit and Compliance Committee is also tasked with reviewing and monitoring 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 decisions or for presentation to the Board. The Committee includes Board members from SCBC's Board of Directors.

*Credit Committee, Risk and Capital Committee and Remuneration Committee*

SCBC has not established an own Credit Committee, an own Risk and Capital Committee or an own Remuneration Committee. The Group's committees address issues concerning SCBC as part of their work.

The principal task of the Credit Committee is to decide on credits and limits in the Group's lending and funding operations. The Credit Committee also has the task of preparing matters involving changes in the credit policy and credit instructions, 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 Credit Committee is the Board entity for all matters relating to credit risk, including the approval of new IRB models or significant changes to existing models.

The Risk and Capital Committee prepares matters regarding the Group's finance operations and matters involving risk and capital, including the use of new financial instruments. The Risk and Capital Committee also prepares issues concerning objectives, strategies and control documents within the areas of risk and capital.

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 above committees include members of the Board of Directors of the Parent Company. Each committee has at least one member who is a Board member for SCBC. This member is responsible for ensuring that any issues regarding SCBC are addressed by the committee and reported back to SCBC's other Board members.

**CEO**

The Board has adopted an instruction governing the role and duties of the CEO. The CEO bears responsibility for the day-to-day administration of operations in accordance with the Board's issued guidelines, established policies and instructions and reports on an ongoing basis to the Board. The CEO is assisted by a number of senior executives and other employees in the operational management and governance of SCBC.

**Remuneration of Board of Directors and senior executives**

Information regarding the remuneration of the Board is presented in Note IC 4 in the Annual Report. No remuneration was paid to Board members employed by the Parent Company or to the CEO of SCBC. Issues regarding the remuneration of SCBC's senior executives are addressed by the SBAB Group's Remuneration Committee. The Board of Directors has established a remuneration policy, under which if the Board determines that salary or other remuneration is to be paid to employees within SCBC, the remuneration policy is to be updated in accordance with the directives issued by the Swedish FSA and general rules regarding remuneration structures in credit institutions, securities companies and fund management companies. At the 2016 Annual General Meeting, it was resolved that on issues regarding remuneration and other terms of employment for senior executives, SCBC is to adhere to the government's guidelines for senior executives in state-owned companies as applicable at any given time.

**Control functions**

SCBC has three independent control functions:

- a Risk Function;
- a Compliance Function (Compliance); and
- an Internal Audit Function.

The Risk and Internal Audit functions have been outsourced to the Parent Company in accordance with the outsourcing agreement. Compliance is executed by SCBC through one employee. The operations requiring licences to issue covered bonds under the Covered Bonds (Issuance) Act (2003:1223) are conducted by SCBC through its employees, mainly those in the Legal, Accounting and Treasury functions. Furthermore, SCBC has outsourced parts of its operations to the Parent Company in accordance with the outsourcing agreement; these parts include the administration of credits and collateral as well as IT services.

**Risk**

SCBC has engaged the Parent Company to discharge SCBC's Risk function and to conduct the requisite tasks for ensuring independent risk control in the company. Risk is responsible for maintaining SCBC's risk management framework and for monitoring and checking risk management. The function is also responsible for checking that the risk management framework is efficient and for identifying, measuring, checking, analysing and reporting all of SCBC's risks and risk developments. It is also responsible for identifying new risks that could arise as a result of changed circumstances. Risk reports directly to SCBC's CEO and Board.

**Compliance**

SCBC's Compliance function is executed through one employee. The function is independent of the business operations and is directly subordinate to the CEO. The Compliance function is tasked with, inter alia, identifying which risks exist that would prevent SCBC from discharging its duties in accordance with laws, regulations and other provisions that govern operations requiring licences, and checking that these risks are managed by the affected functions. Compliance is primarily active in the areas of internal governance and control, customer protection and market conduct. The function is also tasked with providing advice and support on compliance matters. Compliance reports on an ongoing basis to the CEO and through a quarterly written report to the CEO and Board. The scope and focus of compliance work is established in an annual plan after approval by the CEO and decision by the Board.

**Internal Audit**

The Parent Company conducts SCBC's Internal Audit function in accordance with the outsourcing agreement. The Internal Audit's main task is to review and evaluate governance and internal control, and to review and evaluate the appropriateness and effectiveness of the company's organisation, control processes, IT systems, models and procedures. The Internal Audit is also tasked with the review and evaluation of the reliability and quality of the work performed by the various other control functions at SCBC. The Internal Audit prepares an audit plan for each financial year. The audit plan must be approved by the Audit and Compliance Committee and is adopted by SCBC's Board. The plan specifies which areas or operations will be reviewed during the year. The scope and focus of the planned review is determined after taking into consideration the Internal Audit's assessment of the risks and how these should be managed. Internal Audit also submits quarterly reports directly to SCBC's Board.

**Independent inspector**

According to the Swedish Covered Bond Issuance Act, the Swedish FSA is to appoint an independent inspector for each issuing institution. The inspector's duties include overseeing that the register that issuing institutions are obliged to maintain listing the covered bonds, cover pool and derivatives contracts is properly maintained and in accordance with the provisions of the Act.

The Swedish FSA's regulation FFFS 2013:1 describes the independent inspector's role and tasks in greater detail. The independent inspector reports regularly to the Swedish FSA, and these reports are also addressed to SCBC's Board. The Swedish FSA has appointed Authorised Public Accountant Stefan Lundberg, who is an authorised public accountant at Lundberg & Source Consulting AB, as the independent inspector for SCBC.

**Auditors**

The 2016 Annual General Meeting appointed Deloitte AB as the 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 is provided in Note IC 4 of this Annual Report. The auditors are responsible for examining the Annual Report, consolidated financial statements and accounts and also the Board's and CEO's administration of the company. Moreover, the auditor reviews SCBC's six-month and year-end reports.

## Internal control over financial reporting

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

*Control environment*
The starting point for internal control over financial reporting comprises SCBC's values, organisational structure, code of conduct, policies, instructions and guidelines for SCBC's operations.

*Risk measurement*
Each respective responsible function at SCBC identifies, measures, manages and assesses its own risks. An analysis of risk levels in all operations, including financial reporting, is conducted on a regular basis and reported to the Board, the CEO and the Executive Management.

Risk measurement is carried out each year through a self-assessment of material business processes, including financial reporting, and is managed and reported using a separate risk tool.

*Control activities*
Business processes that deliver data to the financial reports must be charted and include control activities in terms of operating procedures, reasonableness assessments, reconciliations, authorisations and the analysis of results. Internal regulations are in place that include accounting policies, and planning and reporting procedures to ensure the application of control activities.

SCBC's financial position and earnings, target attainment and analysis of operations are reported monthly to the company's management and Board. The company's Audit and Compliance Committee monitor the financial reporting and the efficiency of internal control and audit.

*Information and communication*
The accounting and financial unit ensure that instructions pertaining to accounting financial reporting are updated, communicated and available to those units that need this data for their operations.

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

# The Board of Directors and CEO

**JANE LUNDGREN-ERICSSON**

**Board Member**

Master of laws, LL.M (London). Born in 1965. Elected 2017.

**Board assignments:** Board member of SBAB Bank AB (publ), deputy member of Miskatonic Musik Aktiebolag.

**Other assignments:** –

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

**Board attendance:** 5 of 5.

**KLAS DANIELSSON**

**Board Member**

BSc in Business Administration. Born 1963. Elected 2014.

**Board assignments:** Board member of DE Capital Nordic AB of Spiderweb Consulting AB. Chairman of the Board of Booli Search Technologies AB. Deputy Member of the Board of the Swedish Bankers' Association.

**Other assignments:** CEO of SBAB Bank AB (publ), Chairman of the Nomination Committee for Stockholms Stadsmission.

**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.

**Board attendance:** 5 of 5.

**BO MAGNUSSON**

**Chairman**

Advanced bank training (SEB). Born 1962. Elected 2013.

**Board assignments:** Chairman of the Board of Carnegie Investment Bank AB and Carnegie Holding AB, Rikshem AB and Rikshem intressenter AB and SBAB Bank AB (publ). Board member of KBC Bank N.V.

**Other assignments:** –

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

**Board attendance:** 5 of 5.

**MIKAEL INGLANDER**

**CEO**

MSc. in Business Administration and Economics Born 1963. Employed: 2014

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

**Other assignments:** CFO of SBAB Bank AB (publ).

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

**AUDITORS**

**Patrick Honeth**
Deloitte AB
Auditor in Charge at SCBC since 2016.

# Proposed appropriation of profits

SCBC posted a net profit for the year after tax of SEK 1,541,041,123. According to the balance sheet, SEK 15,703,672,090 is at the disposal of the Annual General Meeting.

| | |
|---|---|
| Shareholder contribution | 9,550,000,000 |
| Fair value reserve | 457,601,626 |
| Retained earnings | 7,155,029,341 |
| Net profit for the year | 1,541,041,123 |
| **Total earnings according to the balance sheet as per 31 December 2018** | **18,703,672,090** |
| Dividend decided at the extraordinary general meeting on 4 February 2019 | –3,000,000,000 |
| **Total** | **15,703,672,090** |

| | |
|---|---|
| *The Board proposes that the earnings be appropriated as follows:* | |
| Carried forward to next year | 15,703,672,090 |
| **Total** | **15,703,672,090** |

The consolidated situation, SCBC and SBAB, must always comply with the applicable regulations for capital adequacy and major exposures. This means that sufficient own funds and adequate capital must always be available in each legal entity. The Group's dividends are distributed by the Parent Company, while overwhelming majority of earnings are within SCBC, which holds the majority of the assets and accordingly, is where interest income arises. The year's dividend of SEK 3,000,000,000 can therefore be considered a balance of the capitalisation between the legal entities.

The assessment of the Board of Directors is that the financial position of the company does not give rise to any other assessment than that the company can be expected to meet its obligations in both the short and the long term.

# Income statement

| SEK million | Note | 2018 | 2017 |
|---|---|---|---|
| Interest income | IC 1 | 4,495 | 3,684 |
| Interest expense | IC 1 | –1,426 | –829 |
| **Net interest income** | | **3,069** | **2,855** |
| Commission income | IC 2 | 13 | 7 |
| Commission expense | IC 2 | –132 | –70 |
| Net expense from financial transactions | IC 3 | –43 | –61 |
| Other operating income | | 0 | 0 |
| **Total operating income** | | **2,907** | **2,731** |
| General administrative expenses | IC 4 | –898 | –761 |
| Other operating expenses | | –4 | 0 |
| **Total expenses before credit losses** | | **–902** | **–761** |
| **Profit before credit losses** | | **2,005** | **1,970** |
| Net credit losses | IC 5 | –26 | 12 |
| **Operating profit** | | **1,979** | **1,982** |
| Tax | TX 1 | –438 | –436 |
| **Net profit for the year** | | **1,541** | **1,546** |

# Statement of comprehensive income

| SEK million | Note | 2018 | 2017 |
|---|---|---|---|
| **Net profit for the year** | | **1,541** | **1,546** |
| *Components that will be reclassified to profit or loss* | | | |
| Changes related to cash-flow hedges, before tax | EQ 1 | 493 | –618 |
| *Tax attributable to components that will be reclassified to profit or loss* | | *–105* | *136* |
| Other comprehensive income for the year, net of tax | | 388 | –482 |
| **Total comprehensive income for the year** | | **1,929** | **1,064** |

Interest income on financial assets measured at amortised cost, calculated using the effective-interest method, amounted to SEK 4,673 million (3,921).

# Balance sheet

| SEK million | Note | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Lending to credit institutions | A 1 | 0 | 150 |
| Lending to the public | A 2 | 339,370 | 312,199 |
| Value changes of interest-rate-risk hedged items in macro hedges | | 108 | 224 |
| Derivatives | A 3 | 6,771 | 3,862 |
| Other assets | A 4 | 35 | 30 |
| Prepaid expenses and accrued income | A 5 | 103 | 119 |
| **Total assets** | | **346,387** | **316,584** |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Liabilities to credit institutions | L 1 | 1 | 955 |
| Issued debt securities, etc. | L 2 | 234,774 | 204,153 |
| Derivatives | A 3 | 595 | 574 |
| Other liabilities | L 3 | 91 | 55 |
| Accrued expenses and deferred income | L 4 | 1,622 | 1,430 |
| Deferred tax liabilities | TX 2 | 136 | 39 |
| Subordinated debt to the Parent Company | L 5 | 90,414 | 92,593 |
| **Total liabilities** | | **327,633** | **299,799** |
| **Equity** | | | |
| Share capital | | 50 | 50 |
| Shareholder contribution | | 9,550 | 9,550 |
| Fair value reserve | EQ 1 | 458 | 70 |
| Retained earnings | | 7,155 | 5,569 |
| Net profit for the year | | 1,541 | 1,546 |
| **Total equity** | EQ 1 | **18,754** | **16,785** |
| **Total liabilities and equity** | | **346,387** | **316,584** |

# Statement of changes in equity

| SEK million | Note | Restricted equity | Unrestricted equity | | | | |
|---|---|---|---|---|---|---|---|
| | | Share capital | Fair value reserve | Shareholder contribution | Retained earnings | Net profit for the year | Total equity |
| **Closing balance, 31 December 2017** | | **50** | **70** | **9,550** | **7,115** | **–** | **16,785** |
| Effect of changes in accounting policy, IFRS 9 | | – | – | – | 40 | – | 40 |
| **Opening balance, 1 January 2018** [1] | | **50** | **70** | **9,550** | **7,155** | **–** | **16,825** |
| Other comprehensive income, net of tax | EQ 1 | – | 388 | – | – | – | 388 |
| Net profit for the year | | – | – | – | – | 1,541 | 1,541 |
| **Comprehensive income for the year** | | **–** | **388** | **–** | **–** | **1,541** | **1,929** |
| **Closing balance, 31 December 2018** | | **50** | **458** | **9,550** | **7,155** | **1,541** | **18,754** |
| | | | | | | | |
| **Opening balance, 1 January 2017** | | **50** | **552** | **9,550** | **5,569** | **–** | **15,721** |
| Other comprehensive income, net of tax | EQ 1 | – | –482 | – | – | – | –482 |
| Net profit for the year | | – | – | – | – | 1,546 | 1,546 |
| **Comprehensive income for the year** | | **–** | **–482** | **–** | **–** | **1,546** | **1,064** |
| **Closing balance, 31 December 2017** | | **50** | **70** | **9,550** | **5,569** | **1,546** | **16,785** |

[1] The opening balance has been restated pursuant to IFRS 9, see Note G:4.

The shareholder contributions that were paid were conditional and the Parent Company, SBAB Bank AB (publ), is entitled to reimbursement for these contributions from the Swedish Covered Bond Corporation's distributable earnings, with the proviso that the Annual General Meeting grants approval thereof.

# Cash-flow statement

| SEK million | 2018 | 2017 |
|---|---|---|
| **Opening cash and cash equivalents** | **150** | **102** |
| **OPERATING ACTIVITIES** | | |
| Interest received | 4,501 | 3,689 |
| Commission received | 18 | 2 |
| Interest paid | −1,213 | −1,021 |
| Commission paid | −132 | −70 |
| Outflows to suppliers | −902 | −761 |
| Income tax paid | −429 | −64 |
| Change in lending to the public | −27,142 | −67,742 |
| Change in liabilities to credit institutions | −953 | 457 |
| Change in debt securities issued, etc. | 30,532 | 29,103 |
| Change in other assets and liabilities | −2,250 | −1,016 |
| **Cash flow from operating activities** | **2,030** | **−37,423** |
| **INVESTING ACTIVITIES** | | |
| **Cash flow from investing activities** | **–** | **–** |
| **FINANCING ACTIVITIES** | | |
| Subordinated debt issued | −2,180 | 37,471 |
| **Cash flow from financing activities** | **−2,180** | **37,471** |
| **Increase/decrease in cash and cash equivalents** | **−150** | **48** |
| **Closing cash and cash equivalents** | **0** | **150** |

**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 lending to credit institutions.

**CHANGE IN LIABILITIES ATTRIBUTABLE TO FINANCING ACTIVITIES**

| | | | NON-CASH ITEMS | | | | | NON-CASH ITEMS | | |
|---|---|---|---|---|---|---|---|---|---|---|
| SEK million | Opening balance 1 Jan. 2018 | Cash flow | Fair value | Other | Closing balance 31 Dec. 2018 | Opening balance, 1 Jan. 2017 | Cash flow | Fair value | Other | Closing balance, 31 Dec. 2017 |
| Subordinated debt | 92,593 | -2,180 | – | – | 90,413 | 55,122 | 37,471 | – | – | 92,593 |
| **Total** | **92,593** | **-2,180** | **–** | **–** | **90,413** | **55,122** | **37,471** | **–** | **–** | **92,593** |

# Financial notes

# G General information and overriding accounting policies

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## G:1 | Accounting policies

The Swedish Covered Bond Corporation (SCBC) (in Swedish: AB Sveriges Säkerställda Obligationer (publ)) is a wholly-owned subsidiary of SBAB Bank (publ) ("SBAB"). SCBC is a credit market company whose operations focus on the issuance of covered bonds.

Operations commenced in 2006, when the company was granted a licence by Finansinspektionen (Sweden's financial supervisory authority) to issue covered bonds. The Parent Company, SBAB Bank, 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.

This Annual Report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. SCBC applies statutory IFRS, which means that the 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 and Finansinspektionen's (the Swedish FSA) regulations and general guidelines on annual accounts for credit institutions and securities companies (FFFS 2008:25).

The Annual Report has been prepared in accordance with the cost method, apart from derivatives, and financial assets and liabilities measured at fair value through profit or loss (FVTPL), 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. SCBC 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 sheet of the company 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. SCBC 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, reports or cash flow. SCBC's previously applied principles for recognition of income is in agreement with the requirements in IFRS 15. The standard has been applied from 1 January 2018.

**IFRS 16 Leases**

The new IFRS 16 has changed the lease classification criteria.
IFRS 16 has been adopted by the EU and will apply from the 2019 financial year.
The new standard entails that all leases (with the exception of short-term and low-value leases) are to be recognised as right-of-use assets with corresponding liabilities in the lessee's balance sheet.
The lease payments are recognised as depreciation and interest expenses.
Moreover, disclosure requirements apply. The introduction will not have any material effect on SCBC's financial reporting.

**Other amendments**

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

### 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 recognised in profit or loss under 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 SCBC. This compensation is recognised as income directly under the "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 FVTPL
- Financial liabilities measured at FVTPL
- Financial Liabilities measured at amortised cost

SCBC has no assets under the classifications "Investments measured at FVTOCI." 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 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 "Net credit losses," 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 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 result of financial transactions," while the effective interest rate is recognised as interest income. This category includes assets that do not meet the definitions for other valuation categories and, accordingly, are measured at FVTPL. (For example, assets with cash flows other than capital and interest on capital). At SCBC, 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 the company'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 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.

**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
- Financial liabilities measured at FVTPL
- Other financial liabilities

SCBC has no assets under the classifications "Investments held to maturity" or "Available-for-sale financial assets."

*Financial assets and liabilities measured at FVTPL*
The categories "Financial assets measured at FVTPL" and "Financial liabilities measured at FVTPL" are divided into "held for trading" and "financial assets/liabilities that Executive Management designated as such upon initial recognition." All of SCBC's assets and liabilities in these categories are derivatives and have been classified as held for trading. Both categories include derivatives that are not subject to hedge accounting. Assets and liabilities in these categories 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 assets and liabilities are recognised in profit or loss under the "Net result of financial transactions," while the effective interest rate is recognised in net interest income.

*Loans and accounts receivable*
Financial assets classified as loans and accounts receivable are initially 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.

Changes in value and impairment are recognised as "Net loan losses," while the effective interest rate is recognised as interest income. Refer also to the "Loan losses" section.

*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 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."

**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 in 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 conducted in connection with measurement are based on observable market information. The main tools used are models based on discounted cash flows. In individual cases, the calculations may also be based on assumptions or estimates.

**Derivatives and hedge accounting**
Derivatives are used primarily to manage interest-rate and currency risk in the company's assets and liabilities. The derivatives 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, SCBC 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 the "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 structured 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 a provision (loss allowance) is recognised in the balance sheet 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.

**Expected credit losses for financial assets in the balance sheet**
Under IFRS 9, following initial recognition, financial assets in 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 |
| **Timing** | From initial recognition | On a significant increase in credit risk following initial recognition | On default |
| **Loss allowance** | 12-month ECL | Lifetime ECL | Lifetime ECL |
| **Interest income** | 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, SCBC 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[1]. 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. SCBC 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 assets 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. SCBC 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 SCBC's definition of default.

[1] 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 (CRR).

**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 receivable in a given month exceeds the threshold value. The loan receivable 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 SCBC'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 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 SCBC 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 SCBC'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, SCBC assesses this as a good approximation.

**Uncertainty in estimating ECL**
The forward-looking information comprises the largest source of uncertainty. SCBC 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 | Scenario 2 | Scenario 3 | Scenario 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 %** | **+48 %** | **+73 %** |
| Δ Housing prices | +8 % | +0 % | –25 % | –47 % |
| **Δ LGD** | **–11 %** | **+0 %** | **+87 %** | **347 %** |
| **∑ Δ ECL** | **+4 MSEK** | **+3 MSEK** | **+52 MSEK** | **+186 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 | Scenario 2 | Scenario 3 | Scenario 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 | Percentile 10 | Percentile 5 |
|---|---|---|---|
| Credit stage 1 | 88.1 % | 94.3 % | 97.7 % |
| Credit stage 2 | 11.9 % | 5.6 % | 2.2 % |
| Credit stage 3 | 0.1 % | 0.1 % | 0.1 % |
| **Δ ECL** | **20.1 %** | **–** | **-18.2 %** |

**Modification of financial assets**
If the cash flows from a loan are renegotiated or otherwise modified, SCBC 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 date of 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 SCBC 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 2017)**

*Loans and receivables recognised at amortised cost*
On the balance-sheet date, an assessment takes place of whether any objective evidence exists of impairment of an individual loan or group of loans. 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 loan 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 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 is effected in gross amounts and, when there is a guarantee, 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 loan receivable is not regarded as doubtful. The impairment is recognised in profit or loss under the heading "Net loan losses."

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.

*Measurement in relation to the assumption of receivables*
Intra-group loan receivables between the Parent Company and the subsidiary, SCBC, are recognised at fair value. When a reserved receivable is transferred between the companies, it is assumed at the net carrying amount after provisions. The selling company recognises the loss as a confirmed loss, while the purchasing company recognises the receivable at the net carrying amount, without provisions. The loan will continue to be recognised as a doubtful receivable in the purchasing company, albeit at the net carrying amount. If it is later established that the receivable can be measured at its original value (after amortisation), the income will be recognised in profit or loss under "Net result of financial transactions."

*Loans with renegotiated terms and conditions*
Loans with renegotiated terms and conditions are receivables where SCBC 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.

## Other

**Functional currency**
The functional currency is the currency used in the primary economic environments in which SCBC operates. SCBC's functional currency and 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."

**Tax**
Total tax consists of current tax and deferred tax. Current tax comprises 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 lending to credit institutions.

**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. SCBC's operations consist primarily of investments in loan receivables with a risk level permitting the issue of covered bonds. Consequently, only a single segment is reported, SCBC as a whole.

**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 SBAB to the subsidiary, SCBC. The transfers are conducted at fair value.

**Dividend**
Dividends to the Parent Company are recognised in the balance sheet when the dividend has been approved by the Annual General Meeting.

**Group contributions**
Group contributions paid or received are recognised as a decrease or increase in unrestricted equity after adjustments for estimated tax, in accordance with the principal rule in RFR 2 IAS 27, p2.

## Critical accounting estimates and judgements

**Critical assumptions**
To prepare the annual accounts in compliance with statutory IFRS, it is required 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.

## G:2 Related party disclosures

SCBC is a wholly-owned subsidiary of SBAB Bank AB (publ) with the Corp. Reg. No. 556253-7513. Related-party transactions are conducted at market terms.

| | SBAB BANK AB | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| SEK million | Assets/ Liabilities | Interest income/ Interest expense | Assets/ Liabilities | Interest income/ Interest expense |
| Derivatives | 6,625 | 1,476 | 3,697 | 901 |
| Other assets | – | – | – | – |
| **Total** | **6,625** | **1,476** | **3,697** | **901** |
| Liabilities to credit institutions | 90,414 | –976 | 92,593 | –429 |
| Derivatives | 595 | –115 | 574 | –106 |
| Other liabilities | 138 | – | 89 | – |
| **Total** | **91,147** | **–1,091** | **93,256** | **–535** |

Of SCBC's commission expense, SEK 23 million (14) pertained to the possibility for SCBC to utilise a liquidity facility at the Parent Company. Of the company's general administrative costs, SEK 895 million (757) represented compensation to the Parent Company for administrative services rendered in accordance with an outsourcing agreement.

### LOANS TO KEY PERSONNEL

| | SBAB BANK AB | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| SEK million | Lending | Interest income | Lending | Interest income |
| CEO | – | – | – | – |
| Board of Directors | – | – | – | – |
| Other key senior executives | 6 | 0 | 2 | 0 |
| **Total** | **6** | **0** | **2** | **0** |

The Parent Company SBAB has lending to key personnel at SCBC via SCBC. Lending to key personnel at SCBC is not permitted on terms that are not available to other personnel. 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 a taxable benefit. The interest rate received after the discount must not be less than 0.25%.

### DEPOSITS FROM KEY PERSONNEL

| | SBAB BANK AB | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| SEK million | Deposits | Interest expense | Deposits | Interest expense |
| CEO and other key senior executives | – | – | – | – |
| Board of Directors | 3 | 0 | 2 | 0 |
| **Total** | **3** | **0** | **2** | **0** |

The Parent Company SBAB has deposits from key personnel at SCBC. Deposits from key personnel are made on the same terms and conditions as other deposits at SBAB.

## G:3 | Proposed appropriation of profits

SCBC posted a net profit for the year after tax of SEK 1,541,041,123. According to the balance sheet, SEK 15,703,672,090 is at the disposal of the Annual General Meeting.

| | |
|---|---|
| Shareholder contribution | 9,550,000,000 |
| Fair value reserve | 457,601,626 |
| Retained earnings | 7,155,029,341 |
| Net profit for the year | 1,541,041,123 |
| **Total earnings according to the balance sheet as per 31 December 2018** | **18,703,672,090** |
| Dividend decided at the extraordinary general meeting on 4 February 2019 | –3,000,000,000 |
| **Total** | **15,703,672,090** |

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

| | |
|---|---|
| Carried forward to next year | 15,703,672,090 |
| **Total** | **15,703,672,090** |

The consolidated situation, SCBC and SBAB, must always comply with applicable regulations for capital adequacy and major exposures. This means that sufficiently large Own funds and acceptable capital must always be accessible in each legal entity. The Group's dividends are carried out by the Parent Company, while overwhelming majority of earnings are within SCBC, which houses the largest portion of the assets and thereby where interest income arises. The year's dividend of SEK 3,000,000,000 can thereby be considered a balance of the capitalisation among the legal entities.

The assessment of the Board of Directors is that the financial position of the company does not give rise to any other assessment than that the company can be expected to meet its obligations in both the short and the 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 | Previous accounting policies | Impairment, expected credit losses | IFRS 9 |
|---|---|---|---|
| **ASSETS** | | | |
| Lending to credit institutions | 150 | – | 150 |
| Lending to the public | 312,199 | 55 | 312,254 |
| Value changes of interest-rate-risk hedged items in macro hedges | 224 | – | 224 |
| Derivatives | 3,862 | – | 3,862 |
| Other assets | 30 | – | 30 |
| Prepaid expenses and accrued income | 119 | -4 | 115 |
| **TOTAL ASSETS** | **316,584** | **51** | **316,635** |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Liabilities to credit institutions | 955 | – | 955 |
| Issued debt securities, etc. | 204,153 | – | 204,153 |
| Derivatives | 574 | – | 574 |
| Other liabilities | 55 | – | 55 |
| Accrued expenses and deferred income | 1,430 | – | 1,430 |
| Deferred tax liabilities | 39 | 11 | 50 |
| Subordinated debt to the Parent Company | 92,593 | – | 92,593 |
| **Total liabilities** | **299,799** | **11** | **299,810** |
| **Equity** | | | |
| **Restricted equity** | | | |
| Share capital | 50 | – | 50 |
| **Total restricted equity** | **50** | **–** | **50** |
| **Unrestricted equity** | | | |
| Shareholder contribution | 9,550 | – | 9,550 |
| Fair value reserve | 70 | – | 70 |
| Retained earnings | 5,569 | 40 | 5,609 |
| Net profit for the year | 1,546 | – | 1,546 |
| **Total unrestricted equity** | **16,735** | **40** | **16,775** |
| **Total equity** | **16,785** | **40** | **16,825** |
| **TOTAL LIABILITIES AND EQUITY** | **316,584** | **51** | **316,635** |

### TRANSITIONAL IMPACT ON CREDIT PROVISIONS FROM CHANGING ACCOUNTING POLICY TO IFRS 9

| | 31 December 2017, IAS 39 | | | | 1 January 2018, IFRS 9 | | | |
|---|---|---|---|---|---|---|---|---|
| SEK million | 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 | – | –140 | –140 | 55 | –24 | –58 | –3 | –85 |

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 historically 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.

| | 2018 | | | |
|---|---|---|---|---|
| | Financial assets measured at FVTPL | | | |
| SEK million | Derivatives in hedge accounting | Other (Obligatory) classification | Financial assets measured at amortised cost | Total |
| **Closing balance 31 December 2017** | **–** | **–** | **–** | **316,581** |
| **Reclassification** | | | | |
| Reclassified from financial assets at FVTPL | 3,720 | 142 | – | 3,862 |
| Reclassified from loan receivables | – | – | 312,719 | 312,719 |
| **Impairment, expected credit losses** | | | | |
| Value change recognised directly in equity | – | – | 51 | 51 |
| **Opening balance, 1 January 2018** | **3,720** | **142** | **312,770** | **316,632** |

# 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. SCBC does not conduct its own lending operations – instead, all loans are acquired from the Parent Company SBAB. 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. The loans acquired from the Parent Company have only been approved for counterparties who are expected to able to pay interest and make capital repayments when interest rates comfortably exceed the rate prevailing when the loan decision was taken. Moreover, the credit risk is restricted by credit limits adopted for various customers or customer groups.

The credit risk is primarily 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. SCBC applies the IRB approach for retail loans and most 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, SCBC 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 EL 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) [1]. 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 131 million (123). The loss allowance under IFRS 9 for corresponding loans totalled SEK 96 million (122). For capital adequacy purposes, non-performing loans are separated from 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 customer is included in a lower risk class. The lower risk classes for retail customers (Retail – R) comprise the levels R1–R4, while the lower risk classes for Corporate customers, (Corporate – C) comprise the levels C0–C3, and manually adjusted from C3 to C4[2]. 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. SCBC does not hold any collateral that has been taken over in foreclosure to protect claims. Lending to the public accounts for 98% (99) of SCBC's overall assets. Without taking collateral received or any other forms of credit enhancement into account, the maximum credit risk exposure for the lending operations matches the carrying amount.

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.

[1] 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.

[2] "Retail loans" refers to all lending to the public pertaining to houses, holiday homes and tenant-owners' rights, as well as 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 against collateral in real property.

### LOAN AMOUNTS BROKEN DOWN BY LTV INTERVAL

| | 2018 | | | 2017 |
|---|---|---|---|---|
| SEK million | Residential mortgages | Corporate Clients & Tenant-Owners' Associations | Total | Total |
| **Lending to the public** | | | | |
| LTV <50% | 73,617 | 33,248 | 106,865 | 115,750 |
| LTV 50–69% | 95,978 | 23,376 | 119,354 | 126,521 |
| LTV >69% | 103,044 | 10,216 | 113,260 | 69,928 |
| **Total** | **272,639** | **66,840** | **339,479** | **312,199** |

### LENDING TO THE PUBLIC BROKEN DOWN BY RISK CLASS

As per 31 December 2018, SCBC's lending to the public amounted to SEK 339 billion (312). 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 24 million (54), which were attributable to loans brokered by business partners, are distributed in the table on a pro rata basis.

| LENDING TO THE PUBLIC | 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 due to IAS 39 |
| R0/C0 | 2 | 0 | – | – | – | – | 2 | 0 | 78 | – |
| R1/C1 | 149,816 | –2 | 468 | 0 | – | – | 150,284 | –2 | 126,102 | – |
| R2/C2 | 98,556 | –3 | 119 | 0 | – | – | 98,675 | –3 | 90,336 | – |
| R3/C3 | 45,648 | –3 | 1,070 | 0 | – | – | 46,718 | –3 | 49,458 | – |
| R4/C4 | 21,415 | –8 | 6,750 | –5 | – | – | 28,164 | –13 | 29,531 | – |
| R5/C5 | 4,104 | –6 | 7,655 | –17 | – | – | 11,759 | –23 | 12,985 | –57 |
| R6/C6 | 272 | –2 | 2,021 | –12 | – | – | 2,293 | –14 | 2,409 | –24 |
| R7/C7 | 21 | 0 | 1,343 | –30 | 1 | 0 | 1,364 | –30 | 1,366 | –53 |
| R8/C8 | – | – | – | – | 219 | –21 | 220 | –21 | 74 | –6 |
| **Total** | **319,834** | **–24** | **19,425** | **–64** | **220** | **–21** | **339,479** | **–109** | **312,339** | **–140** |
| Guarantees [1] | – | 5 | – | 8 | – | 0 | – | 13 | – | 18 |
| **Total lending after provisions and guarantees** | **319,834** | **–19** | **19,425** | **–56** | **220** | **–21** | **339,477** | **–96** | **312,339** | **–122** |

[1] Guarantees are included in the balance-sheet item "Prepaid expenses and accrued income."

| RESIDENTIAL MORTGAGES | 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 due to IAS 39 |
| R1 | 102,134 | –1 | – | – | – | – | 102,134 | –1 | 109,974 | – |
| R2 | 83,029 | –2 | 89 | 0 | – | – | 83,119 | –2 | 84,259 | – |
| R3 | 42,955 | –3 | 980 | 0 | – | – | 43,935 | –3 | 48,264 | – |
| R4 | 21,293 | –8 | 6,637 | –5 | – | – | 27,930 | –13 | 29,502 | – |
| R5 | 4,061 | –5 | 7,634 | –17 | – | – | 11,695 | –22 | 12,971 | –57 |
| R6 | 252 | –1 | 2,021 | –12 | – | – | 2,273 | –13 | 2,409 | –24 |
| R7 | 21 | 0 | 1,332 | –30 | 1 | 0 | 1,354 | –30 | 1,355 | –52 |
| R8 | – | – | – | – | 200 | –12 | 200 | –12 | 74 | –6 |
| **Total** | **253,745** | **–20** | **18,693** | **–64** | **201** | **–12** | **272,639** | **–96** | **288,808** | **–139** |
| Guarantees [1] | – | 2 | – | 8 | – | 1 | – | 11 | – | 18 |
| **Total lending after provisions and guarantees** | **253,745** | **–18** | **18,693** | **–56** | **201** | **–11** | **272,639** | **–85** | **288,808** | **–121** |

| CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS | 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 due to IAS 39 |
| C0 | 2 | 0 | – | – | – | – | 2 | 0 | 78 | – |
| C1 | 47,682 | –1 | 468 | 0 | – | – | 48,150 | –1 | 16,128 | – |
| C2 | 15,527 | –1 | 30 | 0 | – | – | 15,557 | –1 | 6,077 | – |
| C3 | 2,693 | 0 | 90 | 0 | – | – | 2,783 | 0 | 1,194 | – |
| C4 | 122 | 0 | 113 | 0 | – | – | 235 | 0 | 28 | – |
| C5 | 43 | –1 | 21 | 0 | – | – | 64 | –1 | 15 | – |
| C6 | 20 | –1 | – | – | – | – | 20 | –1 | 0 | 0 |
| C7 | – | – | 10 | 0 | – | – | 11 | 0 | 11 | –1 |
| C8 | – | – | – | – | 19 | –9 | 19 | –9 | – | – |
| **Total** | **66,089** | **–4** | **732** | **0** | **19** | **–9** | **66,840** | **–13** | **23 531** | **–1** |
| Guarantees [1] | – | 2 | – | 0 | – | – | – | 2 | – | – |
| **Total lending after provisions and guarantees** | **66,089** | **–2** | **732** | **0** | **19** | **–9** | **66,840** | **–11** | **23 531** | **–1** |

[1] 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[1)]

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. Of SCBC's loan portfolio totalling SEK 339 billion (312), SEK 140 million (291) of the principal has past-due unpaid amounts.

| SEK million | 2018 Residential mortgages | 2018 Corporate Clients & Tenant-Owners' Associations | 2018 Total | 2017 Residential mortgages | 2017 Corporate Clients & Tenant-Owners' Associations | 2017 Total |
|---|---|---|---|---|---|---|
| Past due 5–30 days [1)] | 8 | 8 | 16 | 14 | 4 | 18 |
| Past-due 31–60 days | 59 | – | 59 | 249 | 3 | 252 |
| Past-due 61–90 days | 19 | – | 19 | 20 | – | 20 |
| Past-due 91–180 days | 22 | – | 22 | 1 | – | 1 |
| Past due >180 days | 24 | – | 24 | – | – | – |
| **Total** | **132** | **8** | **140** | **284** | **7** | **291** |

[1)] 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 2. 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 prepayments in the reporting period.
- Write-offs due to confirmed credit losses – Write offs during the reporting period.
- Other – A residual item.

| TOTAL | 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 under IAS 39 |
| **Opening balance** | **291,854** | **–24** | **20,411** | **–59** | **74** | **–3** | **312,339** | **–85** | **244,543** | **–98** |
| Migrated to credit stage 1 | 13,346 | –27 | –13,334 | 27 | –12 | 0 | 0 | 0 | – | – |
| Migrated to credit stage 2 | –8,691 | 1 | 8,724 | –3 | –33 | 1 | 0 | 0 | – | – |
| Migrated to credit stage 3 | –36 | 0 | –110 | 1 | 146 | –1 | 0 | 0 | – | – |
| Change in provision under IAS 39 | – | – | – | – | – | – | – | – | – | –42 |
| Remeasurement of provision | –1,409 | 37 | 158 | –21 | –3 | –4 | –1,254 | 12 | – | – |
| Transferred to/from Group companies, net | 50,755 | –15 | 6,424 | –15 | 86 | –18 | 57,265 | –49 | 89,847 | – |
| Repayment and redemption | –25,958 | 4 | –2,845 | 5 | –37 | 2 | –28,840 | 13 | –22,050 | – |
| Write-offs due to confirmed credit losses | 0 | 0 | 0 | 0 | –1 | 0 | –1 | 0 | –1 | – |
| Other | –27 | – | –3 | – | 0 | 0 | –30 | – | – | – |
| **Closing balance** | **319,834** | **–24** | **19,425** | **–64** | **220** | **–21** | **339,479** | **–109** | **312,339** | **–140** |

| RESIDENTIAL MORTGAGES | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Credit stage 1 | | Credit stage 2 | | Credit stage 3 | | Total | |
| SEK million | Gross lending | Provision | Gross lending | Provision | Gross lending | Provision | Gross lending | Provision |
| **Opening balance** | **224,144** | **–19** | **19,537** | **–58** | **71** | **–3** | **243,752** | **–80** |
| Migrated to credit stage 1 | 12,495 | –27 | –12,486 | 27 | –9 | 0 | 0 | 0 |
| Migrated to credit stage 2 | –8,444 | 1 | 8,477 | –3 | –33 | 2 | 0 | 0 |
| Migrated to credit stage 3 | –36 | 0 | –110 | 1 | 146 | –1 | 0 | 0 |
| Remeasurement of provision | –3,198 | 36 | –204 | –21 | –2 | –4 | –3,404 | 11 |
| Transferred to/from Group companies, net | 47,502 | –14 | 6,220 | –16 | 66 | 8 | 53,788 | –38 |
| Repayment and redemption | –18,691 | 3 | –2,738 | 6 | –38 | 2 | –21,466 | 11 |
| Write-offs due to confirmed credit losses | 0 | 0 | 0 | 0 | –1 | 0 | –1 | 0 |
| Other | –27 | – | –3 | – | – | – | –30 | – |
| **Closing balance** | **253,745** | **–20** | **18,693** | **–64** | **201** | **–12** | **272,639** | **–96** |

| CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Credit stage 1 | | Credit stage 2 | | Credit stage 3 | | Total | |
| SEK million | Gross lending | Provision | Gross lending | Provision | Gross lending | Provision | Gross lending | Provision |
| **Opening balance** | **67,710** | **–5** | **874** | **–1** | **3** | **1** | **68,587** | **–5** |
| Migrated to credit stage 1 | 851 | 0 | –848 | 0 | –3 | 0 | 0 | 0 |
| Migrated to credit stage 2 | –247 | 0 | 247 | 0 | – | – | 0 | 0 |
| Migrated to credit stage 3 | – | – | – | – | – | – | 0 | 0 |
| Remeasurement of provision | 1,789 | 1 | 362 | 0 | –1 | 0 | 2,150 | 1 |
| Transferred to/from Group companies, net [1] | 3,253 | –1 | 204 | 0 | 20 | –10 | 3,477 | –11 |
| Repayment and redemption | –7,267 | 1 | –107 | 1 | – | – | –7,374 | 2 |
| Write-offs due to confirmed credit losses | – | – | – | – | – | – | – | – |
| Other | – | – | – | – | – | – | – | – |
| **Closing balance** | **66,089** | **–4** | **732** | **0** | **19** | **–9** | **66,840** | **–13** |

[1] Net amount is the loan's total amount less any internal transfers from other loans.

**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.

**LENDING TO THE PUBLIC, MODIFIED ASSETS IN CREDIT STAGES 2 AND 3 (THAT HAVE NOT LED TO DERECOGNITION)**

| | 2018 | | |
|---|---|---|---|
| SEK million | Residential mortgages | Corporate Clients & Tenant-Owners' Associations | Total |
| Amortised cost prior to modification | 730 | – | **730** |
| Modification gain/loss, net | 0 | – | **0** |
| Amortised post after modification | 730 | – | **730** |
| *Of which: Carrying amount prior to provision for assets migrated from credit stage 2 or 3 to credit stage 1.* | *331* | – | *331* |

## RC:2 | Credit risk in treasury operations

Credit risk in treasury operations arises when the counterparty is unable to fulfil its payment obligations. In treasury operations, credit risk arises in the form of counterparty risk for the derivative and repo contracts entered into by SCBC to manage its financial risks.

### LIMIT UTILISATION PER RATING CATEGORY

| SEK million | 2018 Limit | 2018 Utilised limit | 2017 Limit | 2017 Utilised limit |
|---|---|---|---|---|
| AAA | – | – | – | – |
| AA- to AA+ | 11,600 | 143 | 11,400 | 127 |
| A- to A+ | 12,050 | 50 | 14,500 | 51 |
| Lower than A- | 3,900 | 0 | 4,800 | 19 |
| **Total** | **27,550** | **193** | **30,700** | **197** |

The "Limit utilisation per rating category" table shows the limits and the utilised limits, respectively, for SCBC'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 comprise an aggregate of individual derivative counterparty's total exposure and the limits for the respective rating category. The exposure in the summary includes external derivative and repo contracts entered into by SCBC and which are outstanding as of 31 December 2018. At Group level, limits for each counterparty are set for all investments, and derivative and repo contracts. The above table shows the limits for the SBAB Group.

As per the credit instruction, the limits are set by SBAB'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 GMRAs 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. 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.

**Counterparty risk**

Counterparty risk at SCBC comprises exposures to well-reputed, major banks as well as the Parent Company as counterparties, which is hedged entirely through unilateral collateral agreements in which the counterparty pledges collateral by transferring funds or securities with the aim of reducing net exposure — known as a Credit Support Annex (CSA). Wherever applicable, the collateral received 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.

To limit the potential counterparty credit risk associated with derivative transactions involving non-standardised derivatives that are not cleared by clearing organisations approved by the competent authority (in accordance with Regulation (EU) No 648/2012), a framework agreement is to be entered into with the counterparty. Where appropriate, the framework agreement, an ISDA Master Agreement or equivalent agreement, has been supplemented with an associated collateral agreement, CSA. A CSA must always be established for counterparties entering into derivative contracts with SCBC. The framework agreements entitle the parties to offset receivables against debt in the event of a payment default.

Counterparty risk is reconciled on a daily basis for all counterparties. When entered into, CSAs are reconciled on a daily basis or on a weekly basis. Derivative contracts entered into with external counterparties are mostly entered into with the Parent Company as the counterparty. The effects of posted and received collateral are shown in greater detail in Note FI 3. At 31 December 2018, SCBC had received collateral for a total value of SEK 0 million (25).

Credit risk limits are established by SBAB's Credit Committee for all counterparties in treasury operations. In the table "Maximum credit risk exposure in treasury operations," the maximum credit risk exposure is shown with and without taking collateral received or other credit enhancements into account.

### MAXIMUM CREDIT RISK EXPOSURE IN TREASURY OPERATIONS

| SEK million | Without taking into account collateral received or other credit enhancements 2018 | Without taking into account collateral received or other credit enhancements 2017 | Taking into account collateral received or other credit enhancements 2018 | Taking into account collateral received or other credit enhancements 2017 |
|---|---|---|---|---|
| Lending to credit institutions | 0 | 150 | 0 | 150 |
| Chargeable treasury bills, etc. | – | – | – | – |
| Bonds and other interest-bearing securities | – | – | – | – |
| Derivatives | 6,771 | 3,862 | 6,771 | 3,836 |
| **Total** | **6,771** | **4,012** | **6,771** | **3,986** |

### COLLATERAL POSTED AND RECEIVED UNDER COLLATERAL AGREEMENTS, 31 DECEMBER 2018

| SEK million, Company | Collateral pledged | Collateral received |
|---|---|---|
| SCBC | 0 | 0 |

**LENDING TO CREDIT INSTITUTIONS**

| | 2018 | |
|---|---|---|
| | Financial assets measured at amortised cost | |
| | Credit stage 1 | |
| **SEK million** | **Securities, gross** | **Provision** |
| **Opening balance** | **150** | **–** |
| Change in cash balances | 0 | – |
| Purchases | 191,019 | – |
| Sales | – | – |
| Maturity | –191,169 | – |
| Write-offs, redemption, etc. | – | – |
| Change in risk parameters during the period | – | – |
| Change in model/method | – | – |
| Currency revaluation | – | – |
| Other | – | – |
| **Closing balance** | **0** | **–** |

## 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. Liquidity risk management for SCBC is performed as an integral part of the Group's overarching management. Regular follow-up and internal reporting of liquidity risk takes place at the SCBC level by measuring the overcollateralisation in the cover pool, both under normal conditions and under various stressed scenarios.

SCBC has an agreement regarding a liquidity facility with the Parent Company, SBAB. The aim of the agreement is to allow SCBC to borrow funds from the Parent Company in the event that SCBC is unable to pay bond holders when SCBC's bonds mature. For more information; please refer to Note RC 3 in the SBAB Group's Annual Report.

**MATURITIES OF FINANCIAL ASSETS AND LIABILITIES (AMOUNTS REFER TO CONTRACTUAL, UNDISCOUNTED CASH FLOWS)**

| | 2018 | | | | | | | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **SEK million** | **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** |
| **ASSETS** | | | | | | | | | | | | | | |
| Lending to credit institutions | – | – | – | – | – | – | – | – | 150 | – | – | – | – | 150 |
| Lending to the public | – | 65,809 | 69,464 | 142,032 | 64,757 | 3,363 | 345,425 | – | 40,013 | 63,372 | 119,690 | 92,361 | 3,770 | 319,206 |
| Derivatives | – | 432 | 595 | 552 | 49,220 | 45,588 | 96,387 | – | 434 | 1,270 | 1,361 | 39,168 | 20,888 | 63,121 |
| Other assets | 35 | – | – | – | – | – | 35 | 31 | – | – | – | – | – | 31 |
| **Total financial assets** | **35** | **66,241** | **70,059** | **142,584** | **113,977** | **48,951** | **441,847** | **31** | **40,597** | **64,642** | **121,051** | **131,529** | **24,658** | **382,508** |
| **LIABILITIES** | | | | | | | | | | | | | | |
| Liabilities to credit institutions | 1 | – | – | – | – | – | 1 | – | 954 | – | – | – | – | 954 |
| Debt securities issued, etc. | – | 945 | 2,028 | 31,569 | 217,749 | 90,959 | 343,250 | – | 6,532 | 2,939 | 31,247 | 201,859 | 54,961 | 297,538 |
| Derivatives | – | 138 | 150 | 377 | 46,031 | 45,713 | 92,409 | – | 161 | 983 | 841 | 37,552 | 21,420 | 60,957 |
| Other liabilities | 92 | – | – | – | – | – | 92 | 54 | – | – | – | – | – | 54 |
| Subordinated debt | 90,414 | – | – | – | – | – | 90,414 | 92,593 | – | – | – | – | – | 92,593 |
| **Total financial liabilities** | **90,507** | **1,083** | **2,178** | **31,946** | **263,780** | **136,972** | **526,166** | **92,647** | **7,647** | **3,922** | **32,088** | **239,411** | **76,381** | **452,096** |

The fixed-interest periods for the capital repayments 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 using forward interest rates based on the actual interest base, usually the three-month STIBOR.

**MATURITIES OF HEDGED CASH FLOWS IN CASH-FLOW HEDGES**

| SEK million | No maturity | <3 months | 3–6 months | 6–12 months | 1–5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|
| Interest-rate-hedged | – | 175 | 158 | 162 | 1,633 | 1,440 | 3,568 |
| Currency-hedged | – | – | – | – | –43,124 | –40,496 | –83,710 |
| **Net, 31 Dec 2018** | – | **175** | **158** | **162** | –41,581 | –39,056 | –80,710 |
| **Net, 31 Dec 2017** | – | **135** | **52** | **–216** | **–33,158** | **–17,804** | **–50,991** |

## RC:4 | Market risk

Market risk is the risk of loss or reduced future income due to market fluctuations. SCBC is characterised by low risk taking that is managed within the framework of the SBAB Group's overall risk appetite and limits for Value at Risk (VaR), which are determined by the Board. 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.

The management of SCBC's risks is outsourced to the Parent Company, SBAB, where they are followed up and managed at company and Group levels.

The basic objective for SBAB's management of SCBC's market risk is to minimise risk in the cover pool, with the overriding aim of meeting the requirements for matching rules as expressed in the Covered Bonds Issuance Act (2003:1223).

The general principle governing SCBC'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. SCBC'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 swap contracts. As per 31 December 2018, total assets and liabilities in foreign currency amounted to a net liability of SEK 84.8 billion (liability: 55.0) in nominal terms. The risk outstanding was reduced using derivatives where the nominal amount was equivalent to SEK 84.8 billion (55.0). 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 measurement expressing the potential loss that could occur given a certain level of probability and holding period. The 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.

The limit for SCBC's market risk is based on a probability level of 99.97% and a holding period of one year.

As per 31 December 2018, SCBC's market risk exposure was SEK 385 million, compared with the limit of SEK 1,000 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 the SBAB Group and SCBC are 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. Basis spread income volatility is followed up at the Group level, which includes SCBC's positions.

Income volatility from basis spreads arises because the derivatives used to hedge funding are recognised at fair value while the underlying funding is reported at book value, in accordance with the accounting standards applied by the SBAB Group. This causes effects to arise in operating profit that do not correspond to the actual risk to which the SBAB Group's portfolio is exposed to. 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 that are not 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 630 million (negative: 543) for a 2 percentage-point parallel upward shift and SEK 649 million (564) for a 2 percentage-point parallel downward shift. As SCBC's own funds amounted to SEK 15.3 billion (16.7) at 31 December 2018, the effect of the stress tests amounted to negative 4.1% (negative: 3.3) and 4.3% (3.4) of own funds, respectively.

**NOMINAL AMOUNTS FOR ASSETS, LIABILITIES AND DERIVATIVES IN FOREIGN CURRENCY**

| SEK million | Assets and liabilities | Derivatives |
|---|---|---|
| EUR | –82,036 | 82,035 |
| GBP | –2,288 | 2,288 |
| NOK | –514 | 514 |
| USD | 0 | 0 |
| **Total** | **–84,839** | **84,837** |

**FIXED-INTEREST PERIODS FOR FINANCIAL ASSETS AND LIABILITIES, CARRYING AMOUNTS**

| | 2018 | | | | | | | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK million | 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 |
| **ASSETS** | | | | | | | | | | | | | | |
| Lending to credit institutions | – | – | – | – | – | – | – | – | 150 | – | – | – | – | 150 |
| Lending to the public | – | 245,411 | 12,136 | 28,945 | 50,338 | 2,540 | 339,370 | – | 203,643 | 10,414 | 17,276 | 77,748 | 3,118 | 312,199 |
| Change in fair value of interest-rate-hedged loan receivables | – | –1 | –1 | 1 | 89 | 20 | 108 | – | 1 | 4 | 17 | 187 | 15 | 224 |
| Derivatives | – | –2,006 | 8 | 92 | 2,147 | 6,530 | 6,771 | – | –1,739 | 34 | 177 | 2,159 | 3,231 | 3,862 |
| Other assets | 138 | –1 | – | – | – | – | 137 | 149 | – | – | – | – | – | 149 |
| **Total financial assets** | **138** | **243,403** | **12,143** | **29,038** | **52,574** | **9,090** | **346,386** | **149** | **202,055** | **10,452** | **17,470** | **80,094** | **6,364** | **316,584** |
| **LIABILITIES** | | | | | | | | | | | | | | |
| Liabilities to credit institutions | – | 1 | – | – | – | – | 1 | – | 955 | – | – | – | – | 955 |
| Debt securities issued, etc. | – | 10,148 | 5,202 | 18,810 | 131,946 | 68,668 | 234,774 | – | 22,627 | 6,318 | 14,113 | 121,703 | 39,392 | 204,153 |
| Derivatives | – | 309 | – | 19 | 157 | 110 | 595 | – | 1,741 | –519 | –20 | 128 | –756 | 574 |
| Other liabilities | 1,714 | – | – | – | – | – | 1,714 | 1,484 | – | – | – | – | – | 1,484 |
| Subordinated debt | – | 90,414 | – | – | – | – | 90,414 | – | 92,593 | – | – | – | – | 92,593 |
| **Total financial liabilities** | **1,714** | **100,872** | **5,202** | **18,829** | **132,103** | **68,778** | **327,498** | **1,484** | **117,916** | **5,799** | **14,093** | **121,831** | **38,636** | **299,759** |
| **Difference assets and liabilities** | **–1,576** | **142,531** | **6,941** | **10,209** | **–79,529** | **-59,688** | **18,888** | **–1,335** | **84,139** | **4,653** | **3,377** | **–41,737** | **-32,272** | **16,825** |

## 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 SCBC'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.

*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*

SCBC 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*

SCBC'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 SCBC. 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*

SCBC 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.

**Capital requirements for operational risks**

SCBC 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

Business risk means the risk of declining earnings due to harsher competition, inappropriate strategies or erroneous decisions. Business risk includes strategic risk, reputational risk and margin risk, which arise when the interest margins on lending and funding have different maturities.

Business risk is included in the calculation of the capital requirement as part of SBAB's stress tests, where the effects of a stressed 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. The SBAB Group 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 counterparties accounted for 4.2% of total assets and primarily comprised tenant-owners' association and privately-owned apartment blocks. 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 amounted to SEK 430 million, all of which pertained to credit risk in lending 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. 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. At 31 December 2018, Article 458 of the CRR was activated, which for SCBC entails a risk-weight floor in Pillar 1 of 25%. Since SCBC previously was not subject to any risk-weight floor margin under Pillar 2, this change entailed an additional amount compared with last year, which explains the following difference in internal capital requirement between the periods.

Taken together, the above comprise the capital that, in accordance with Basel 3, is required to meet all risks in the operations. The internally assessed capital requirement for SCBC amounted to SEK 11,963 million (4,637) on 31 December 2018. 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.

# 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 higher capital requirements, stricter demands on capital quality, the introduction of a non-risk-based metric (leverage ratio) and quantitative liquidity requirements. SCBC has taken this into account in its capital planning and meets the requirements under the new rules.

Within the framework of these regulations, 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 Risk-weight floor section. Banks that are considered systemic will be subject to additional capital requirements. SCBC is not subject to these requirements.

The introduction of IFRS 9 on 1 January 2018 had limited impact on SCBC's capital adequacy ratios and an application was submitted to disapply the transitional rules.

SCBC has decided not to apply the transitional rules in conjunction with the introduction of IFRS 9.

SCBC primarily recognises credit risk in accordance with the internal ratings-based (IRB) approach, and operational and market risk in accordance with the standardised approaches. SCBC's own funds consist solely of CET1 capital. Net profit/loss for the period is included in the calculation of own funds after deduction of the foreseeable dividend. The surplus has been verified by the company's auditors, in accordance with Article 26, item 2, of the CRR. The deduction that forms the basis of "Additional value adjustments" in the "Own funds" table emanate from the rules on a prudent valuation of assets.

Note RC 8 contains a summary of the method used to assess the internal capital requirement.

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 generally stipulated by the Companies Act.

**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 measure 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.

**Impact on SCBC**

The shift of the risk-weight floor from Pillar 2 to Pillar 1 has affected SCBC's capital ratios and the total capital ratio has therefore declined from 70.9% to 17.1% as of 31 December 2018. Nor had the risk-weight floor been included in SCBC's internally assessed capital requirement, since the company had not previously undergone an SREP. The shift to Pillar 1 thus entails an increased capital requirement in nominal terms for SCBC, which is a difference compared with the consolidated situation where there is no change in the capital requirement in nominal terms. However, SCBC remains very strongly capitalised with an extremely high margin to the capital requirement, even after implementing a risk-weight floor in Pillar 1.

**CAPITAL ADEQUACY [1]**

| SEK million | 2018 | 2017 |
|---|---|---|
| CET1 capital | 15,250 | 16,710 |
| Tier 1 capital | 15,250 | 16,710 |
| Total capital | 15,253 | 16,710 |
| Risk exposure amount | 89,188 | 21,422 |
| CET1 capital ratio, % | 17.1 | 78.0 |
| Excess [2] of Tier 1 capital | 11,237 | 15,746 |
| Tier 1 capital ratio, % | 17.1 | 78.0 |
| Excess [2] of Tier 1 capital | 9,899 | 15,424 |
| Total capital ratio, % | 17.1 | 78.0 |
| Excess total capital | 8,118 | 14,996 |

1) The risk exposure amount, the excess and capital ratios have been impacted by the risk-weight floor for residential mortgages.

*2) Excess capital has been calculated based on minimum capital requirements (without buffer requirements).*

## OWN FUNDS

| SEK million | 2018 | 2017 |
|---|---|---|
| **CET1 capital: Instruments and reserves** | | |
| Capital instruments and the related share premium accounts | 9,600 | 9,600 |
| Retained earnings | 7,155 | 5,569 |
| Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)) | 458 | 70 |
| Independently verified net profit for the year net of any foreseeable charge or dividend [1] | –1,459 | 1,546 |
| **CET1 capital before regulatory adjustments** | **15,754** | **16,785** |
| **CET1 capital: Regulatory adjustments** | | |
| Additional value adjustments (negative amount) | –7 | –4 |
| Fair value reserves related to gains or losses on cash-flow hedges | –458 | –70 |
| Negative amounts resulting from the calculation of expected loss amounts | –39 | –1 |
| Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | 0 | – |
| **Total regulatory adjustments to CET1 capital** | **–504** | **–75** |
| **CET1 capital** | **15,250** | **16,710** |
| **Additional Tier 1 capital: Instruments** | | |
| **Additional Tier 1 capital before regulatory adjustments** | – | – |
| **Additional Tier 1 capital: Regulatory adjustments** | | |
| **Total regulatory adjustments to Additional Tier 1 capital** | – | – |
| **Additional Tier 1 capital** | – | – |
| **Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)** | **15,250** | **16,710** |
| **Tier 2 capital: Instruments and provisions** | | |
| Credit risk adjustments | 3 | – |
| **Tier 2 capital before regulatory adjustments** | **3** | – |
| **Tier 2 capital: Regulatory adjustments** | | |
| **Total regulatory adjustments to Tier 2 capital** | – | – |
| **Tier 2 capital** | **3** | – |
| **Total capital (Total capital=Tier 1 capital + Tier 2 capital)** | **15,253** | **16,710** |
| **Total risk-weighted exposure amount** | **89,188** | **21,422** |
| **Capital ratio and buffers** | | |
| CET1 capital (as a percentage of total risk-weighted exposure amount), % | 17.1 | 78.0 |
| Tier 1 capital (as a percentage of total risk-weighted exposure amount), % | 17.1 | 78.0 |
| Total capital (as a percentage of total risk-weighted exposure amount), % | 17.1 | 78.0 |
| Institution-specific buffer requirements (CET1 capital requirement in accordance with Article 92(1)(a) plus the capital conservation buffer and countercyclical capital buffer requirements, plus the systemic risk buffer, plus the systemically important institution buffers [G-SII buffer and O-SII buffer]) expressed as a percentage of the risk-weighted exposure amount, % | 9.0 | 9.0 |
| *of which: CET1 capital, minimum requirement, %* | *4.5* | *4.5* |
| *of which, capital conservation buffer requirement, %* | *2.5* | *2.5* |
| *of which, countercyclical buffer requirement, %* | *2.0* | *2.0* |
| *of which, systemic risk buffer requirement, %* | | |
| *of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffers, %* | | |
| CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts, %) | 12.6 | 70.0 |
| **Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)** | | |
| Current cap on AT1 instruments subject to phase-out arrangements | – | – |
| Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | – | – |
| Current cap on T2 instruments subject to phase-out arrangements | – | – |

[1] Net profit for the year was reduced by the expected dividend of SEK 3,000 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 | 2018 Risk exposure amount | 2018 Capital requirement | 2017 Risk exposure amount | 2017 Capital requirement |
|---|---|---|---|---|
| **Credit risk recognised in accordance with IRB approach** | | | | |
| Exposures to corporates | 5,041 | 403 | 5,458 | 437 |
| Retail exposures | 11,353 | 908 | 11,343 | 907 |
| *of which: exposures to SMEs* | *770* | *61* | *916* | *73* |
| *of which: retail exposures secured by immovable property* | *10,583* | *847* | *10,427* | *834* |
| **Total exposures recognised with IRB approach** | **16,394** | **1,311** | **16,801** | **1,344** |
| **Credit risk recognised with the standardised approach** | | | | |
| Exposure to governments and central banks | 0 | 0 | 0 | 0 |
| Exposures to regional governments or local authorities or agencies | 0 | 0 | 0 | 0 |
| Exposures to institutions [1] | 53 | 4 | 69 | 6 |
| *of which, derivatives according to CRR, Appendix 2* | *53* | *4* | *60* | *5* |
| *of which, repos* | *0* | *0* | *9* | *1* |
| *of which, other* | *0* | *0* | *0* | *0* |
| Exposures to institutions and corporates with a short-term credit rating | 0 | 0 | 0 | 0 |
| Other items | 153 | 12 | 288 | 23 |
| **Total exposures recognised with standardised approach** | **206** | **16** | **357** | **29** |
| **Market risk** | **752** | **60** | **512** | **41** |
| *Of which: currency risk* | *752* | *60* | *512* | *41* |
| **Operational risk** | **3,876** | **310** | **3,486** | **279** |
| **Credit valuation adjustment risk** | **285** | **23** | **266** | **21** |
| **Additional requirements under Article 458 of the CRR** | **67,675** | **5,414** | | |
| **Total risk exposure amount and minimum capital requirements** | **89,188** | **7,134** | **21,422** | **1,714** |
| **Capital requirements for capital conservation buffer** | | **2,230** | | **536** |
| **Capital requirements for countercyclical buffer** | | **1,784** | | **428** |
| **Total capital requirement** | | **11,148** | | **2,678** |

[1] The risk exposure amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 53 million (69).

## AVERAGE RISK WEIGHT FOR CREDIT RISK RECOGNISED USING THE IRB APPROACH

| SEK million | 2018 Exposure before credit-risk hedge | 2018 Exposure after CCF | 2018 Risk exposure amount | 2018 Capital requirement | 2018 Average risk weight, % | 2017 Exposure before credit-risk hedge | 2017 Exposure after CCF | 2017 Risk exposure amount | 2017 Capital requirement | 2017 Average risk weight, % |
|---|---|---|---|---|---|---|---|---|---|---|
| **Credit risk in lending portfolio recognised under the IRB approach** | | | | | | | | | | |
| Exposures to corporates | 22,764 | 22,665 | 5,041 | 403 | 22.2 | 23,563 | 23,455 | 5,458 | 437 | 23.3 |
| Retail exposures | 316,806 | 316,111 | 11,353 | 908 | 3.6 | 288,843 | 287,993 | 11,343 | 907 | 3.9 |
| *of which, single-family dwellings and holiday homes* | *138,361* | *138,359* | *4,724* | *378* | *3.4* | *124,664* | *124,662* | *4,826* | *386* | *3.9* |
| *of which, tenant-owners' rights* | *134,275* | *134,275* | *5,859* | *468* | *4.4* | *119,057* | *119,057* | *5,601* | *448* | *4.7* |
| *of which, tenant-owners' associations* | *44,170* | *43,477* | *769* | *62* | *1.8* | *45,122* | *44,274* | *916* | *73* | *2.1* |
| **Total credit risk under the IRB approach** | **339,570** | **338,776** | **16,394** | **1,311** | **4.8** | **312,406** | **311,438** | **16,801** | **1,344** | **5.4** |

# IC Income and expenses

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## IC:1 Net interest income

| SEK million | 2018 | 2017 |
|---|---|---|
| **Interest income** | | |
| Lending to credit institutions | –23 | –13 |
| Lending to the public | 4,696 | 3,934 |
| Derivatives | –178 | –237 |
| **Total** | **4,495** | **3,684** |
| *of which, interest income from financial assets that is not measured at FVTPL* | *4,673* | *3,921* |
| **Interest expense** | | |
| Liabilities to credit institutions | 19 | 13 |
| Issued debt securities | –1,887 | –629 |
| Subordinated debt[1] | –976 | –429 |
| Derivatives | 1,610 | 365 |
| Resolution fee | –192 | –149 |
| **Total** | **–1,426** | **–829** |
| *of which, interest expense from financial liabilities that is not measured at FVTPL* | *–3,036* | *–1,194* |
| **Net interest income** | **3,069** | **2,855** |

[1] The subordinated debt is issued by the Parent Company.

## IC:2 Commission

| SEK million | 2018 | 2017 |
|---|---|---|
| **Commission income** | | |
| Commission on lending | 13 | 7 |
| **Total** | **13** | **7** |
| **Commission expense** | | |
| Commission on securities | –58 | –54 |
| Other commissions[1] | –74 | –16 |
| **Total** | **–132** | **–70** |
| **Net commission** | **–119** | **–63** |

[1] A partnership with a mortgage broker was terminated in Q3 2018 and a non-recurring commisson expense was incurred.

## IC:3 Net result of financial transactions

| SEK million | 2018 | 2017 |
|---|---|---|
| **Gains/losses on interest-bearing financial instruments** | | |
| Change in value of hedged items in hedge accounting | –205 | 621 |
| Realised gain/loss from financial liabilities | –147 | –248 |
| Derivatives in hedge accounting | 193 | –663 |
| Other derivatives | 70 | 168 |
| Loan receivables | 46 | 61 |
| Currency translation effects | 0 | 0 |
| **Total** | **–43** | **–61** |

SCBC mainly uses derivatives to manage interest-rate and currency risk in the company's assets and liabilities. The derivatives are recognised at fair value in the balance sheet.

SCBC'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 General administrative expenses

| SEK million | 2018 | 2017 |
|---|---|---|
| Outsourcing expenses [1] | –895 | –757 |
| Other administrative expenses [2] | –3 | –4 |
| **Total** | **–898** | **–761** |

[1] SCBC employs a CEO and 37 employees (25) who handle the ongoing administration in consultation with the management of the Parent Company. No salary or other remuneration is paid by the company to the CEO or the employees, since the Parent Company is responsible for the ongoing administrative services in accordance with the outsourcing agreement signed between SBAB and SCBC.

[2] Fees and remuneration to the Board have been paid by SBAB and the expense then invoiced for to SCBC. The Board of Directors consists of three Board members. For remuneration to Board members, refer to page 43.

### FEES AND EXPENSES TO AUDITORS

| SEK million | 2018 | 2017 |
|---|---|---|
| Audit assignment | –0.7 | –0.7 |
| Audit tasks in addition to audit assignment | –0.8 | –0.7 |
| **Total** | **–1.5** | **–1.4** |

The AGM on 24 April 2018 appointed Deloitte as SCBC'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 consultancy or 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.

**REMUNERATION TO THE BOARD**

| | 2018 | | |
|---|---|---|---|
| **SEK thousand** | **Period** | **Board of Directors** | **Audit and Compliance Committee** |
| Bo Magnusson, Chairman of the Board [1] | 1 Jan–31 Dec 2018 | 180 | – |
| Jane Lundgren-Ericsson, Board Member [2] | 1 Jan–31 Dec 2018 | 130 | – |
| Klas Danielsson, Board Member | 1 Jan–31 Dec 2018 | – | – |
| **Total Fees & Remuneration 2018** | | **310** | **–** |

| | 2017 | | |
|---|---|---|---|
| **SEK thousand** | **Period** | **Board of Directors** | **Audit and Compliance Committee** |
| Bo Magnusson, Chairman of the Board | 1 Jan–31 Dec 2017 | 180 | – |
| Jacob Grinbaum | 1 Jan–9 Oct 2017 | 98 | – |
| Jane Lundgren-Ericsson, Board Member | 1 Jan–31 Dec 2017 | 33 | – |
| Klas Danielsson, Board Member | 1 Jan–31 Dec 2017 | – | – |
| **Total Fees & Remuneration 2017** | | **311** | **–** |

[1] Bo Magnusson also receives Board fees and fees for work on committees from SBAB of SEK 458 thousand (444) and SEK 74 thousand (79) respectively.

[2] Jane Lundgren-Ericsson also receives Board fees and fees for work on committees from SBAB of SEK 218 thousand (215) and SEK 68 thousand (57) respectively.

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.

## IC:5 | Net credit losses

| SEK million | 2018 | 2017 |
|---|---|---|
| **Lending to the public** | | |
| Confirmed credit losses | –1 | –1 |
| Recoveries of previously confirmed credit losses | – | – |
| Preceding year's provision under IAS39 | – | 7 |
| Change in provision for the year – credit stage 1 | 0 | – |
| Change in provision for the year – credit stage 2 | –5 | – |
| Change in provision for the year – credit stage 3 | –19 | – |
| Guarantees | –1 | 6 |
| **Total** | **–26** | **12** |

The negative change in credit stage 3 was mainly due to the internal movement of credit-impaired loans from SBAB due to the transition to IFRS 9. For further information about definitions and assumptions for judgements and calculations of credit risk and the various credit stages under IFRS 9, refer to Note G 1.

# TX Tax

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## TX:1 Tax

| SEK million | 2018 | 2017 |
|---|---|---|
| Current tax | –446 | –451 |
| Deferred tax on changes in temporary differences | 8 | 15 |
| **Total** | **–438** | **–436** |
| **The effective tax rate differs from the nominal tax rate in Sweden as below** | | |
| Profit before tax | 1,979 | 1,984 |
| Nominal tax rate in Sweden 22% | –435 | –436 |
| Recalculation of deferred tax regarding changed tax rate | 0 | – |
| Tax for prior years and other | –3 | 0 |
| **Total tax** | **–438** | **–436** |
| Effective tax rate, % | 22.2 | 22.0 |

## TX:2 Deferred tax

| SEK million | 2018 | 2017 |
|---|---|---|
| *Deferred tax assets (+)/tax liabilities (-) for temporary differences in:* | | |
| Stock of financial instruments | –12 | –20 |
| Hedging instruments | –124 | –19 |
| **Total** | **–136** | **–39** |
| *Change in deferred tax* | | |
| Deferred tax in the income statement | 8 | 15 |
| Deferred tax attributable to items recognised directly against other comprehensive income | –105 | 136 |
| **Total** | **–97** | **151** |
| *Deferred tax distributed by expected maturity date, carrying amount* | | |
| More than 1 year | –136 | –39 |
| **Total** | **–136** | **–39** |

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 by SEK 3 million.

# A Assets

pp. 44–46

## A:1 Lending to credit institutions

| SEK million | 2018 | 2017 |
|---|---|---|
| Lending in SEK | – | 150 |
| Lending in foreign currency | 0 | – |
| **Total** | **0** | **150** |
| *of which, repos* | *–* | *150* |

Interest-bearing securities that SCBC 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 SCBC. In the event that the counterparty is unable to meet its repurchase obligation, SCBC is entitled to keep the security. The fair value of collateral received was SEK – million (150), of which – (–) was pledged or sold.

## A:2 Lending to the public

| SEK million | 2018 | 2017 |
|---|---|---|
| **Opening balance** | **312,254** | **244,445** |
| Transferred to/from Group companies | 58,992 | 89,847 |
| Amortisation, write-offs, redemption, etc. | –31,852 | –22,051 |
| Change in provision for expected credit losses [1] | –24 | –42 |
| **Closing balance** | **339,370** | **312,199** |

[1] For further information, refer to Note IC:5

| Distribution of lending, including provisions, SEK million | 2018 | 2017 |
|---|---|---|
| Lending, Residential mortgages | 272,543 | 243,613 |
| Lending, Corporate Clients & Tenant-Owners' Associations | 66,827 | 68,586 |
| **Total** | **339,370** | **312,199** |

**LENDING TO THE PUBLIC BY CREDIT STAGE — COMPARED WITH OPENING BALANCE**

| SEK million | 31 Dec 2018 | 1 Jan 2018 |
|---|---|---|
| **Credit stage 1** | | |
| Gross lending | 319,834 | 291,854 |
| Provision | –24 | –24 |
| **Total** | **319,810** | **291,830** |
| **Credit stage 2** | | |
| Gross lending | 19,425 | 20,411 |
| Provision | –64 | –59 |
| **Total** | **19,361** | **20,352** |
| **Credit stage 3** | | |
| Gross lending | 220 | 74 |
| Provision | –21 | –2 |
| **Total** | **199** | **72** |
| **Total gross lending** | **339,479** | **312,339** |
| **Total provisions** | **–109** | **–85** |
| **Total** | **339,370** | **312,254** |

For further information about definitions and assumptions for judgements and calculations of credit risk and the various credit stages under IFRS 9, refer to Note G 1.

## A:3 Derivatives

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| SEK million | Assets measured at fair value | Liabilities measured at fair value | Nominal amount | Assets measured at fair value | Liabilities measured at fair value | Nominal amount |
| **Derivatives in fair-value hedging** | | | | | | |
| Interest-rate-related | 1,392 | 260 | 161,997 | 1,263 | 412 | 142,751 |
| Currency-related | 11 | – | 547 | 37 | 57 | 1,699 |
| **Total** | **1,403** | **260** | **162,544** | **1,300** | **469** | **144,450** |
| **Derivatives in cash-flow hedges** | | | | | | |
| Interest-rate-related | 914 | – | 81,083 | 388 | 86 | 49,904 |
| Currency-related | 4,323 | 323 | 79,199 | 2,032 | 3 | 50,462 |
| **Total** | **5,237** | **323** | **160,282** | **2,420** | **89** | **100,366** |
| **Other derivatives** | | | | | | |
| Interest-rate-related | 60 | 12 | 1,415 | 95 | 16 | 19,515 |
| Currency-related | 71 | – | 542 | 47 | – | 542 |
| **Total** | **131** | **12** | **1,957** | **142** | **16** | **20,057** |

**DERIVATIVES ALLOCATED BY REMAINING MATURITY, CARRYING AMOUNTS**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| SEK million | Fair value | Nominal amount | Fair value | Nominal amount |
| Maximum 3 months | 33 | 14,300 | 21 | 11,950 |
| 3–12 months | 62 | 29,975 | 106 | 40,525 |
| 1–5 years | 3,883 | 172,812 | 2,465 | 155,548 |
| Longer than five years | 2,198 | 107,696 | 696 | 56,850 |
| **Total** | **6,176** | **324,783** | **3,288** | **264,873** |

## A:4 | Other assets

| SEK million | 2018 | 2017 |
|---|---|---|
| Tax assets | – | – |
| Interest receivables | 35 | 30 |
| **Total** | **35** | **30** |
| *Other assets distributed by remaining maturity, carrying amount* | | |
| Maximum 1 year | 35 | 30 |
| **Total** | **35** | **30** |

## A:5 | Prepaid expenses and accrued income

| SEK million | 2018 | 2017 |
|---|---|---|
| Accrued interest income | 76 | 81 |
| Other accrued income | 27 | 38 |
| **Total** | **103** | **119** |
| *Prepaid expenses and accrued income distributed by remaining maturity, carrying amount* | | |
| Maximum 1 year | 94 | 107 |
| More than 1 year | 9 | 12 |
| **Total** | **103** | **119** |

# L Liabilities

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## L:1 | Liabilities to credit institutions

| SEK million | 2018 | 2017 |
|---|---|---|
| Liabilities in SEK | – | 955 |
| Liabilities in foreign currencies | 1 | – |
| **Total** | **1** | **955** |
| *of which, repos* | *–* | *929* |

## L:2 | Issued debt securities, etc.

| SEK million | 2018 | 2017 |
|---|---|---|
| **Bond loans** | | |
| Bond loans in SEK | | |
| *– at amortised cost* | *42,467* | *58,353* |
| *– in fair-value hedging* | *107,889* | *90,988* |
| Bonds loans in foreign currency | | |
| *– at amortised cost* | *83,864* | *53,136* |
| *– in fair-value hedging* | *554* | *1,676* |
| **Total issued debt securities** | **234,774** | **204,153** |
| *of which, covered bonds* | *234,774* | *204,153* |

See also the Funding section, page 7.

## L:3 | Other liabilities

| SEK million | 2018 | 2017 |
|---|---|---|
| Liabilities to employees | 17 | 12 |
| Other | 74 | 43 |
| **Total** | **91** | **55** |
| *Other liabilities outstanding allocated by remaining maturity, carrying amounts* | | |
| Maximum 1 year | 91 | 55 |
| **Total** | **91** | **55** |

## L:4 | Accrued expenses and deferred income

| SEK million | 2018 | 2017 |
|---|---|---|
| Accrued interest expense | 1,590 | 1,376 |
| Other accrued expenses | 32 | 54 |
| **Total** | **1,622** | **1,430** |
| *Accrued expenses and deferred income distributed by remaining maturity, carrying amounts* | | |
| Maximum 1 year | 1,622 | 1,430 |
| **Total** | **1,622** | **1,430** |

## L:5 | Subordinated debt to the Parent Company

| SEK million | 2018 | 2017 |
|---|---|---|
| Subordinated debt to the Parent Company | 90,414 | 92,593 |
| **Total** | **90,414** | **92,593** |

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

# EQ Equity

pp. 47

## EQ:1 | Equity

The share capital amounted to SEK 50,000,000. At 31 December 2018, the number of shares was 500,000 (500,000), each with a quotient value of SEK 100. All shares are held by the Parent Company, SBAB Bank AB (publ), Corp. Reg. No. 556253-7513. Unrestricted equity in SCBC amounts to SEK 15,704 million (16,735).

Dividends are proposed by the Board in accordance with provisions in the Companies Act and are resolved by the Annual General Meeting, refer to Note G 3.

Further information on changes in equity is provided on page 18.

**STATEMENT OF CHANGES IN THE FAIR VALUE RESERVE**

| SEK million | 2018 | 2017 |
|---|---|---|
| **Cash-flow hedges, opening balance** | **70** | **552** |
| Unrealised change in value over the year | 3,063 | 1,072 |
| Reclassified to profit or loss during the year | –2,570 | –1,690 |
| Tax attributable to the change | –105 | 136 |
| **Cash-flow hedges, closing balance** | **458** | **70** |
| **Total** | **458** | **70** |

# AC Assets pledged for own liabilities

pp. 47

## AC:1 | Assets pledged for own liabilities

| SEK million | 2018 | 2017 |
|---|---|---|
| Loan receivables | 301,956 | 282,026 |
| Repos | – | – |
| **Total** | **301,956** | **282,026** |

Of the total lending portfolio, see Note A 1 and Note A 2, the values reported above represent the carrying amount for the cover pool for covered bonds, which amounted to 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.

Further information on loan receivables and repos is given in Note G 1.

# FI Financial instruments

pp. 47–50

## FI:1 | Classification of financial instruments

**FINANCIAL ASSETS**

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

### FINANCIAL LIABILITIES

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

### FINANCIAL ASSETS

| SEK million | 31 Dec 2017 Financial assets measured at FVTPL: Held for trading | Loan receivables | Total | Total fair value |
|---|---|---|---|---|
| Lending to credit institutions | – | 150 | 150 | 150 |
| Lending to the public | – | 312,199 | 312,199 | 312,789 |
| Value changes of interest-rate-risk hedged items in macro hedges | – | 224 | 224 | – |
| Derivatives | 3,862 | – | 3,862 | 3,862 |
| Other assets | – | 30 | 30 | 30 |
| Prepaid expenses and accrued income | – | 116 | 116 | 116 |
| **Total** | **3,862** | **312,719** | **316,581** | **316,947** |

### FINANCIAL LIABILITIES

| SEK million | 31 Dec 2017 Financial liabilities measured at FVTPL | Financial liabilities measured at amortised cost | Total | Total fair value |
|---|---|---|---|---|
| Liabilities to credit institutions | – | 955 | 955 | 955 |
| Issued debt securities, etc. | – | 204,153 | 204,153 | 204,846 |
| Derivatives | 574 | – | 574 | 574 |
| Other liabilities | – | 21 | 21 | 21 |
| Accrued expenses and deferred income | – | 1,430 | 1,430 | 1,430 |
| Subordinated debt to the Parent Company | – | 92,593 | 92,593 | 92,593 |
| **Total** | **574** | **299,152** | **299,726** | **300,419** |

**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, including subordinated debt to the Parent Company, have been assessed as equal to their fair values. For Lending to the public, where no observable credit margin data is available at the time of measurement, the credit margin on the most recent stipulated date of expiry is applied to set the discount rate, Level 3. Issued debt securities are measured at the company's current borrowing interest rate, Level 2.

## FI:2 | Fair value disclosures

| | 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 |
| **Assets** | | | | | | | | |
| Derivatives | – | 6,771 | – | 6,771 | – | 3,862 | – | 3,862 |
| **Total** | **–** | **6771** | **–** | **6,771** | **–** | **3,862** | **–** | **3,862** |
| **Liabilities** | | | | | | | | |
| Derivatives | – | 595 | – | 595 | – | 574 | – | 574 |
| **Total** | **–** | **595** | **–** | **595** | **–** | **574** | **–** | **574** |

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 and 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. This measurement method is currently not used on any asset or liability.

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

This group includes all non-quoted derivatives.

**Measurement based in part on unobservable market data (Level 3)**
Measurement whereby a material input in 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.**

| | 2018 | | | | |
|---|---|---|---|---|---|
| SEK million | Amounts reported in the balance sheet | Financial instruments | Provided (+)/ Received (-) collateral – securities | Provided (+)/ Received (-) cash collateral | Net amount |
| **Assets** | | | | | |
| Derivatives | 6,771 | –595 | – | – | 6,176 |
| Repos | – | – | – | – | – |
| **Liabilities** | | | | | |
| Derivatives | -595 | 595 | – | – | 0 |
| Repos | – | – | – | – | – |
| **Total** | **6,176** | **0** | **–** | **–** | **6,176** |

| | 2017 | | | | |
|---|---|---|---|---|---|
| SEK million | Amounts reported in the balance sheet | Financial instruments | Provided (+)/ Received (-) collateral – securities | Provided (+)/ Received (-) cash collateral | Net amount |
| **Assets** | | | | | |
| Derivatives | 3,862 | –574 | – | –23 | 3,265 |
| Repos | 150 | –150 | – | – | – |
| **Liabilities** | | | | | |
| Derivatives | –574 | 574 | – | – | – |
| Repos | –929 | 150 | 774 | – | –5 |
| **Total** | **2,509** | **–** | **774** | **–23** | **3,260** |

To limit the potential counterparty credit risk associated with derivative transactions involving non-standardised derivatives that are not cleared by clearing organisations approved by the Swedish FSA (in accordance with FFFS 2007:1), a framework agreement is to be entered into with the counterparty. Where appropriate, such framework agreements, which are known as ISDA Master Agreements or similar agreements, have been supplemented with associated collateral agreements, known as a Credit Support Annex (CSA). A CSA must always be established for counterparties entering into derivative contracts with SCBC.

Counterparty risk is reconciled on a daily basis for all counterparties. Reconciliation is performed on a daily basis or on a weekly basis if a CSA has been entered into. 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. 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.

# The Board of Directors' signatures

The Board and the CEO certify that the annual accounts were prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and in accordance with generally accepted accounting practices for credit market companies, and provide a true and fair view of the company's position and earnings. In accordance with Chapter 6, Section 2, Item 2 of the Annual Accounts Act for Credit Institutions and Securities Companies, the Board considers the company's equity to be sufficient in relation to the scope and risks of the operations.

The administration report provides an accurate overview of the operations, financial position and performance of the company, and describes the significant risks and uncertainties faced by the company.

Solna, 19 March 2019

Bo Magnusson
*Chairman of the Board*

Jane Lundgren-Ericsson
*Board Member*

Klas Danielsson
*Board Member*

Mikael Inglander
*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 Swedish Covered Bond Corporation (publ) (SCBC) corporate identity number 556645-9755

## Report on the annual accounts

**Opinions**

We have audited the annual accounts of Swedish Covered Bond Corporation (publ) (SCBC) for the financial year 2018–01–01 – 2018–12–31 except for the corporate governance statement on pages 10–14. The annual accounts of the company are included on pages 4–9 and 15–51 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 the company as of 31 December 2017 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. Our opinions do not cover the corporate governance statement on pages 10–14. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the company.

Our opinions in this report on the annual accounts are consistent with the content of the additional report that has been submitted to the company's Board of Directors 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 company 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 of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual 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 SCBC'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 339 370 million, with loan loss provisions of 109 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.

SCBC 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 193 million, and in Other comprehensive income of SEK 493 million.

Given the complexity in the regulation 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 effectiveness.
- 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**
SCBC 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 SCBC's internal controls over financial reporting are depending 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 SCBC 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 SCBC 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 SCBC 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.

**Other information than the annual accounts**
This document also contains other information than the annual accounts and is found on page 1–3. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual 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, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual 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 that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. 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 that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company'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.

**Auditor's responsibility**
Our objectives are to obtain reasonable assurance about whether the annual 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.

A further description of our responsibilities for the audit of the annual accounts is located at the Swedish Inspectorate of Auditors website: 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, 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, we have also audited the administration of the Board of Directors and the Managing Director of Swedish Covered Bond Corporation (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 company 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 type of operations, size and risks place on the size of the company'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 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 is located at the Swedish Inspectorate of Auditors website: 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 10–14 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 are in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Deloitte AB was appointed auditor of Swedish Covered Bond Corporation (publ) by the general meeting of the shareholders on the 24th of April 2018 and has been the company's auditor since 28th pf April 2016.

Stockholm March 19, 2019
Deloitte AB

*Signature on Swedish original*

Patrick Honeth
*Authorised Public Accountant*

# Five-year overview

## INCOME-STATEMENT ITEMS

| SEK million | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Interest income | 4,495 | 3,684 | 3,825 | 4,197 | 5,739 |
| Interest expense | –1,426 | –829 | –1,322 | –1,917 | –3,964 |
| **Net interest income** | **3,069** | **2,855** | **2,503** | **2,280** | **1,775** |
| Other operating income[1] | –162 | –124 | –211 | –122 | 89 |
| **Total operating income** | **2,907** | **2,731** | **2,292** | **2,158** | **1,864** |
| Operating expenses | –902 | –761 | –720 | –627 | –826 |
| **Total operating expenses** | **–902** | **–761** | **–720** | **–627** | **–826** |
| Profit before credit losses | 2,005 | 1,970 | 1,572 | 1,531 | 1,038 |
| Net credit losses | –26 | 12 | –9 | 12 | 26 |
| **Operating profit** | **1,979** | **1,982** | **1,563** | **1,543** | **1,064** |

## BALANCE-SHEET ITEMS

| SEK million | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Lending portfolio | 339,370 | 312,199 | 244,445 | 215,774 | 217,579 |
| Deferred tax assets | 0 | 0 | – | 0 | 17 |
| Other assets | 7,017 | 4,385 | 5,516 | 7,537 | 10,853 |
| **Total assets** | **346,387** | **316,584** | **249,961** | **223,311** | **228,449** |
| Issued debt securities, etc. | 234,774 | 204,153 | 175,933 | 187,280 | 174,986 |
| Other liabilities | 2,309 | 3,014 | 2,994 | 6,791 | 9,437 |
| Deferred tax liabilities | 136 | 39 | 190 | 131 | – |
| Subordinated debt to the Parent Company | 90,414 | 92,593 | 55,123 | 14,920 | 31,181 |
| Equity | 18,754 | 16,785 | 15,721 | 14,189 | 12,845 |
| **Total liabilities and equity** | **346,387** | **316,584** | **249,961** | **223,311** | **228,449** |

## KEY METRICS

| % | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Net interest margin | 0.93 | 1.01 | 1.06 | 1.01 | 0.78 |
| Loan loss ratio | –0.01 | 0.00 | -0.00 | 0.01 | 0.01 |
| C/I ratio | 31 | 28 | 31 | 29 | 44 |
| Return on assets | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 |
| Return on equity | 8.8 | 9.7 | 8.2 | 8.9 | 6.8 |
| CET1 capital ratio without transitional rules | 17.1 | 78.0 | 82.4 | 86.1 | 72.3 |
| Tier 1 capital ratio without transitional rules | 17.1 | 78.0 | 82.4 | 86.1 | 72.3 |
| Total capital ratio without transitional rules | 17.1 | 78.0 | 82.4 | 86.1 | 72.3 |
| Total capital ratio with transitional rules | 17.1 | 9.7 | 11.4 | 12.1 | 11.2 |
| Equity ratio | 5.4 | 5.3 | 6.3 | 6.4 | 5.6 |
| Consolidation ratio | 5.5 | 5.3 | 6.4 | 6.4 | 5.6 |
| Number of employees | 38 | 26 | 9 | 10 | 5 |

[1] The item includes net commission, the net result of financial transactions and other operating income.

# 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).

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

## 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 | 2018 | 2017 |
|---|---|---|
| Credit losses | –26 | 12 |
| Lending to the public | 339,370 | 312,199 |
| **Credit loss ratio, %** | **–0.01** | **0.00** |

## Return on equity

**Definition:** Profit after tax in relation to average (calculated using the opening and closing balances) equity, adjusted for value changes in financial assets recognised in equity.

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

| SEK million | 2018 | 2017 |
|---|---|---|
| Profit after tax | 1,541 | 1,546 |
| Average equity | 17,506 | 15,942 |
| **Return on equity, %** | **8.8** | **9.7** |

## 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 SCBC's profitability.

| mnkr | 2018 | 2017 |
|---|---|---|
| Net interest income | 3,069 | 2,855 |
| Average total assets | 331,486 | 283,273 |
| **Net interest margin, %** | **0.93** | **1.01** |

## 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 SCBC's cost-efficiency.

| SEK million | 2018 | 2017 |
|---|---|---|
| Total operating expenses | –898 | –761 |
| Total operating income | 2,907 | 2,731 |
| **C/I ratio, %** | **31** | **28** |

## Definitions of other key performance indicators

| | |
|---|---|
| **Number of employees** | Number of employees |
| **Return on assets** | Profit after tax, in relation to average total assets |
| **CET1 capital ratio** | CET1 capital in relation to risk-weighted assets |
| **Total capital ratio** | Own funds in relation to risk-weighted assets |
| **Tier 1 capital ratio** | Tier 1 capital in relation to risk-weighted assets |
| **Equity ratio** | Equity in relation to total assets at year end |
| **Konsolideringsgrad** | Equity and deferred tax in relation to total assets at year end |

SCBC
Covered Bonds of SBAB