The Swedish Covered Bond Corporation (SCBC)

YEAR-END REPORT

January–December 2019

1 2

SCBC

Covered Bonds of SBAB

The year in brief

January–December 2019 (January–December 2018)

- Operating profit amounted to SEK 1,713 million (1,979)
- Net interest income totalled SEK 2,835 million (3,069)
- Expenses amounted to SEK 1,055 million (902)
- Credit losses totalled SEK 12 million (26)
- The Common Equity Tier 1 (CET1) capital ratio amounted to 17.0% (17.1)
- All funding programmes continue to have the highest credit ratings from Moody's

Operating profit

SEK 1,713 million

(SEK 1,979 million)

Net interest income

SEK 2,835 million

(SEK 3,069 million)

CET1 capital ratio

17.0%

(17.1%)

Lending to the public

SEK 358.9 billion

(SEK 339.4 billion)

Operations

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

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

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

Financial performance

Overview of earnings

	SCBC	
	2019	2018
SEK million	Jan–Dec	Jan–Dec
Net interest income	2,835	3,069
Net commission expense	–63	–119
Net result of financial transactions (Note 2)	8	–43
Other operating income	0	0
Total operating income	**2,780**	**2,907**
Expenses	–1,055	–902
Profit before credit losses	**1,725**	**2,005**
Net credit losses (Note 3)	–12	–26
Operating profit	**1,713**	**1,979**
Tax	–364	–438
Net profit for the period	**1,349**	**1,541**
Balance-sheet items		
Lending to the public, SEK billion, at close of period	358.9	339.4
Key metrics		
CET1 capital ratio, %, at close of period	17.0	17.1
Rating, long-term funding		
Moody's	Aaa	Aaa

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

SCBC's operating profit declined to SEK 1,713 million (1,979), primarily due to lower net interest income and higher expenses.

Net interest income

SCBC's net interest income decreased to SEK 2,835 million (3,069), mainly driven by increased costs for market funding as a result of rising market interest rates. Higher lending volumes positively impacted the item. The resolution fee, which is recognised in net interest income, totalled SEK 175 million (192) for the period.

Net commission expense

The net commission expense amounted to SEK 63 million (expense: 119). The change was mainly attributable to a non-recurring commission expense in the comparative period to a former business partner for mediating mortgages in conjunction with winding up the partnership.

Net result of financial transactions

The net result of financial transactions increased to SEK 8 million (expense: 43), primarily as a result of the difference in value changes in hedging instruments and hedged items.

Expenses

SCBC's expenses rose to SEK 1,055 million (902), and mainly comprised fees to SBAB for administrative services in line with the applicable outsourcing agreements. At Group level, the increase in costs was mainly driven by an increased number of employees and thus higher personnel costs and an increase in IT expenses. The cost trend is progressing according to plan and tracks the operations' development and investment strategy for long-term competitiveness.

Credit losses

Net credit losses totalled SEK 12 million (26). The difference between the periods was mainly attributable to the internal movement of credit impaired loans from SBAB to SCBC in the comparative period due to the transition to IFRS 9. The credit impaired loans are not included in the assets that qualify for inclusion in the cover pool for the issuance of covered bonds. Confirmed credit losses totalled SEK 0 million (1). For more information, please refer to notes 3 and 4.

Lending

SCBC does not conduct any new lending itself but instead acquires loans from SBAB Bank, on an ongoing basis or as necessary. The aim of securing these loans is to include the loans, in part or in full, in the assets that comprise collateral for holders of SCBC's covered bonds. SCBC's lending portfolio comprises loans for residential purpose, with lending to private individuals the largest segment. At the end of the period, SCBC's lending amounted to SEK 358.9 billion (339.4).

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

Funding

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

Covered bonds are the SBAB Group's principal source of funding, and at 31 December 2019, the total value of issued debt securities outstanding under SCBC's lending programme was SEK 246.8 billion (234.8), distributed as follows: Swedish covered bonds SEK 129.8 billion (126.1); and the EMTCN Programme SEK 117 billion (108.7).

During the period, SEK 44.7 billion (60.6) in securities was issued. At the same time, securities amounting to SEK 22.9 billion (13.8) were repurchased, while securities amounting to SEK 14.0 billion (19.2) matured. Alongside changes in premiums/discounts and changes in SEK exchange rates, this resulted in an increase in issued debt securities of SEK 12.0 billion (30.6) in the period.

Capital adequacy and liquidity risk

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

SCBC's total capital ratio and CET1 capital ratio amounted to 17.0% (17.1) at 31 December 2019. Net profit for the year is included in own funds. A Group contribution of SEK 539 million was distributed to the Parent Company SBAB, which had an impact after tax of SEK 424 million on retained earnings for SCBC.

The internally assessed capital requirement amounted to SEK 12,839 billion at 31 December 2019.

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

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.

Other information

Group contribution

In December, a decision was taken to distribute a Group contribution of SEK 539 million from SCBC to the Parent Company SBAB, which corresponded to 40% of net profit for the year. At the same time, a decision was taken to distribute a Group contribution of SEK 25 million to Booli Search Technologies AB.

Updates pertaining to the MREL

With the aim of meeting the minimum requirement for own funds and eligible liabilities (MREL) announced by the Swedish National Debt Office, in December 2019, SCBC issued an internal Group debt instrument (senior non-preferred notes) of SEK 6,000 million to the Parent Company SBAB.

Other

Green covered bond

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

Extraordinary General Meeting of Shareholders and extra dividend

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

Board changes

On 13 May 2019, Bo Magnusson stepped down from his roles as Chairman of SBAB and SCBC, as a result of being nominated to the Board of Swedbank AB (publ).

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

Events after the end of the period

No significant events occurred after the end of the period.

Auditors' review report

This report has been reviewed by the company's auditor in accordance with the International Standard on Review Engagements (ISRE) 2410. The review report is on page 21.

Risks and uncertainties

The Swedish economy is susceptible to global economic developments and to conditions in the international financial markets. The economic trend in Sweden is the primary risk factor for SCBC's future earnings capacity, and the quality of our assets is mainly exposed to credit risk in the Swedish housing market. The management of interest-rate and currency risks entails some exposure to price risks. Household demand for housing posted a stable trend, underpinned by low interest rates and healthy income levels, despite turbulent housing prices since the end of 2017 and difficulties being experienced by certain housing developers in 2018 with selling their newly produced units. A housing market with soaring prices over an extended period, in parallel with rising household debt, has resulted in the Swedish economy becoming sensitive to rapid changes in interest rates and house prices. The outlook indicates rising interest rates, albeit at a slow rate. This is, in its turn, expected to act as a damper on the price trend for housing. The risks linked to these factors could be amplified if many households have high levels of debt in relation to their disposable incomes. The extensive regulatory changes in the residential mortgage market comprise a further uncertainty factor. Moreover, political decisions, for example changed tax rules, could have major consequences on households' solvency and property values. Recently, new competitors have appeared in the residential mortgage market. In time, increasing competition in the mortgage market could affect the market and mortgage margins. Increased competition arises, inter alia, from the Mortgage Business Act (2016:1024), which allows residential mortgages to be provided by companies other than banks and which are thus not encompassed by the rules for capital requirements that apply to banks. Such regulatory differences risk creating unfair competition in the market.

Read more about risks and risk management in SCBC's 2018 Annual Report on page 8

Condensed income statement

SEK million	2019 Jul–Dec	2019 Jan–Jun	2018 Jul-Dec	2019 Jan–Dec	2018 Jan–Dec
Interest income	2,613	2,528	2,255	5,141	4,495
Interest expense	–1,217	–1,089	–773	–2,306	–1,426
Net interest income	**1,396**	**1,439**	**1,482**	**2,835**	**3,069**
Commission income	10	6	6	16	13
Commission expense	–35	–44	–89	–79	–132
Net expense from financial transactions (Note 2)	–15	23	–24	8	–43
Other operating income	0	0	0	0	0
Total operating income	**1,356**	**1,424**	**1,375**	**2,780**	**2,907**
General administrative expenses	–534	–511	–465	–1,045	–898
Other operating expenses	–8	–2	–3	–10	–4
Total expenses before loan losses	**–542**	**–513**	**–468**	**–1,055**	**–902**
Profit before loan losses	**814**	**911**	**907**	**1,725**	**2,005**
Net loan losses (Note 3)	–6	–6	0	–12	–26
Operating profit	**808**	**905**	**907**	**1,713**	**1,979**
Tax on operating profit for the period/year	–172	–192	–202	–364	–438
Net profit for the period/year	**636**	**713**	**705**	**1,349**	**1,541**

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

Condensed statement of comprehensive income

SEK million	2019 Jul–Dec	2019 Jan–Jun	2018 Jul-Dec	2019 Jan–Dec	2018 Jan–Dec
Net profit for the period	**636**	**713**	**705**	**1,349**	**1,541**
Components that will be reclassified to profit or loss					
Changes related to cash-flow hedges	–507	2,253	467	1,746	493
Tax attributable to components that will be reclassified to profit or loss	108	–482	–99	–374	–105
Other comprehensive income/loss, net of tax	**–399**	**1,771**	**368**	**1,372**	**388**
Total comprehensive income for the period	**237**	**2,484**	**1,073**	**2,721**	**1,929**

Condensed balance sheet

SEK million	31 Dec 2019	31 Dec 2018
ASSETS		
Lending to credit institutions	0	0
Lending to the public (Note 4)	358,936	339,370
Value changes of interest-rate-risk hedged items in macro hedges	–178	108
Derivatives (Note 5)	11,137	6,771
Other assets	218	35
Prepaid expenses and accrued income	106	103
TOTAL ASSETS	**370,219**	**346,387**
LIABILITIES AND EQUITY		
Liabilities		
Liabilities to credit institutions	3	1
Debt securities issued, etc.	246,774	234,774
Derivatives (Note 5)	472	595
Other liabilities	564	91
Accrued expenses and deferred income	1,680	1,622
Deferred tax liabilities	514	136
Subordinated debt to the Parent Company (Note 8)	102,180	90,414
Total liabilities	**352,187**	**327,633**
Equity		
Restricted equity		
Share capital	50	50
Total restricted equity	**50**	**50**
Unrestricted equity		
Shareholder contribution	9,550	9,550
Fair value reserve	1,830	458
Retained earnings	5,253	7,155
Net profit for the year	1,349	1,541
Total unrestricted equity	**17,982**	**18,704**
Total equity	**18,032**	**18,754**
TOTAL LIABILITIES AND EQUITY	**370,219**	**346,387**

Condensed statement of changes in equity

	Restricted equity	Unrestricted equity				
mnkr	Share capital	Fair value reserve	Shareholder contribution	Retained earnings	Net profit for the year	Total equity
Opening balance 1 January 2019	**50**	**458**	**9,550**	**8,696**	**–**	**18,754**
Dividend paid	–	–	3,000	–	–	–3,000
Group contribution, after tax	–	–	–443	–	–	–443
Other comprehensive income, net of tax	–	1,372	–	–	–	1,372
Net profit for the period	–	–	–	–	1,349	1,349
Comprehensive income för the period	**–**	**1,372**	**–**	**–**	**1,349**	**2,721**
Closing balance 31 December 2019	**50**	**1,830**	**9,550**	**5,253**	**1,349**	**18,032**
Opening balance 1 Jan 2018	**50**	**70**	**9,550**	**7 ,155**	**–**	**16,825**
Other comprehensive income, net of tax	–	388	–	–	–	388
Net profit for the year	–	–	–	–	1,541	1,541
Comprehensive income for the year	**–**	**388**	**–**	**–**	**1,541**	**1,929**
Closing balance, 31 Dec 2018	**50**	**458**	**9,550**	**7,155**	**1,541**	**18,754**

Condensed cash-flow statement

SEK million	2019 Jan–Dec	2018 Jan–Dec
Opening cash and cash equivalents	**0**	**150**
OPERATING ACTIVITIES		
Interest and commissions paid/received	2,786	3,174
Outflows to suppliers and employees	–1,055	–902
Taxes paid/refunded	–486	–429
Change in assets and liabilities of operating activities	–10,012	187
Cash flow from (used in) operating activities	**–8,767**	**2,030**
INVESTING ACTIVITIES		
Cash flow from investing activities	**–**	**–**
FINANCING ACTIVITIES		
Dividend paid	–3,000	–
Change in subordinated debt	11,767	–2,180
Cash flow from financing activities	**8,767**	**–2,180**
Increase/decrease in cash and cash equivalents	**0**	**–150**
Closing cash and cash equivalents	**0**	**0**

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

CHANGE IN LIABILITIES ATTRIBUTABLE TO FINANCING ACTIVITIES

SEK million	Opening balance 1 Jan 2019	Cash flow	Non-cash items		Closing balance 31 Dec 2019	Opening balance 1 Jan 2018	Cash flow	Non-cash items		Closing balance, 31 Dec 2018
			Fair value	Other				Fair value	Other	
Long-term interest-bearing liabilities	90,413	11,767	–	–	102,180	92,593	–2,180	–	–	90,413
Summa	**90,413**	**11,767**	**–**	**–**	**102,180**	**92,593**	**–2,180**	**–**	**–**	**90,413**

Note 1 | Accounting policies

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

IFRS 16 – Leasing

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

Other

The company has elected to early adopt the amendments in IFRS 9 due to the forthcoming change in reference rates. This change had no impact on the financial statements.

All other accounting policies and calculation methods are unchanged in comparison with the Annual Report 2018. These consolidated condensed financial statements have been prepared on a going concern basis. On 14 February 2020, the Board of Directors approved the consolidated condensed financial statements for publication.

Forthcoming amendments

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

Note 2 | Net result of financial transactions

SEK million	2019 Jul–Dec	2019 Jan–Jun	2018 Jul-Dec	2019 Jan–Dec	2018 Jan–Dec
Gains/losses on interest-bearing financial instruments					
– Change in value of hedged items in hedge accounting	937	–1,784	191	–847	–205
– Realised gain/loss from financial liabilities	–58	–71	–78	–129	–147
– Derivatives in hedge accounting	–930	1,795	–198	865	193
– Other derivatives	22	28	34	50	70
– Loan receivables	14	55	27	69	46
Currency translation effects	0	0	0	0	0
Total	**–15**	**23**	**–24**	**8**	**–43**

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

Note 3 | Net loan losses

SEK million	2019 Jul–Dec	2019 Jan–Jun	2018 Jul-Dec	2019 Jan–Dec	2018 Jan–Dec
Lending to the public					
Confirmed credit losses	0	–1	–1	0	–1
Recoveries of previously confirmed credit losses	0	0	–	–	–
Change in provision for the period — credit stage 1	2	–4	3	–3	0
Change in provision for the period — credit stage 2	–1	1	–2	0	–5
Change in provision for the period — credit stage 3	1	–2	3	–1	–19
Guarantees	–8	–0	–3	–8	–1
Net credit losses for the year/period — lending to the public	**–6**	**–6**	**0**	**–12**	**–26**

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

Note 4 | Lending to the public

SEK million	31 Dec 2019	31 Dec 2018
Opening balance	**339,370**	**312,254**
Transferred to/from Group entities	60,702	58,992
Amortisation, repayments, etc.	−41,133	−31,851
Confirmed credit losses	0	−1
Change in provision for expected credit losses [1]	−3	−24
Closing balance	**358,936**	**339,370**

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

DISTRIBUTION OF LENDING, INCLUDING PROVISIONS

SEK million	31 Dec 2019	31 Dec 2018
Lending, Residential mortgages	287,618	272,543
Lending, Corporate Clients & Tenant-Owners' Associations	71,318	66,827
Total	**358,936**	**339,370**

LENDING TO THE PUBLIC BY CREDIT STAGE

SEK million	31 Dec 2019	31 Dec 2018
Credit stage 1		
Gross carrying amount	339,258	319,834
Provision for expected credit losses	−27	−24
Carrying amount	**339,232**	**319,810**
Credit stage 2		
Gross carrying amount	19,539	19,425
Provision for expected credit losses	−64	−64
Carrying amount	**19,475**	**19,361**
Credit stage 3		
Gross carrying amount	252	220
Provision for expected credit losses	−22	−21
Carrying amount	**230**	**199**
Gross carrying amount (credit stages 1, 2 and 3)	**359,049**	**339,479**
Provision for expected credit losses (credit stages 1, 2 and 3)	**−113**	**−109**
Total	**358,936**	**339,370**

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

Note 5 | Derivatives

SEK million	31 Dec 2019 Assets measured at fair value	Liabilities measured at fair value	Total nominal amount	31 Dec 2018 Assets measured at fair value	Liabilities measured at fair value	Total nominal amount
Interest-rate-related	5,100	309	316,823	2,367	272	244,495
Currency-related	6,037	163	85,627	4,404	323	80,288
Total	**11,137**	**472**	**402,450**	**6,771**	**595**	**324,783**

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

Note 6 | Classification of financial instruments

FINANCIAL ASSETS

	31 Dec 2019				
	Financial assets measured at FVTPL				
SEK million	Derivatives (held for trading)	Other (obligatory) classification	Financial assets measured at amortised cost	Total	Total fair value
Lending to credit institutions	–	–	0	0	0
Lending to the public	–	–	358,936	358,936	359,478
Value changes of interest-rate-risk hedged items in macro hedges	–	–	–178	–178	–
Derivatives	11,008	129	–	11,137	11,137
Other assets	–	–	22	22	22
Prepaid expenses and accrued income	–	–	104	104	104
Total	**11,008**	**129**	**358,884**	**370,021**	**370,741**

FINANCIAL LIABILITIES

	31 Dec 2019				
	Financial liabilities measured at FVTPL				
SEK million	Derivatives (held for trading)	Held for trading	Financial liabilities measured at amortised cost	Total	Total fair value
Liabilities to credit institutions	–	–	3	3	3
Issued debt securities, etc.	–	–	246,774	246,774	250,416
Derivatives	464	8	–	472	472
Other liabilities	–	–	–565	565	565
Accrued expenses and deferred income	–	–	1,680	1,680	1,680
Subordinated debt to the Parent Company	–	–	102,180	102,180	102,180
Total	**464**	**8**	**351.202**	**351,674**	**355,316**

Cont. NOTE 6 Classification of financial instruments

FINANCIAL ASSETS

SEK million	31 Dec 2018: Financial assets measured at FVTPL – Derivatives (held for trading)	Financial assets measured at FVTPL – 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
Other assets	–	–	35	35	35
Prepaid expenses and accrued income	–	–	101	101	101
Total	**6,640**	**131**	**339,614**	**346,385**	**346,926**

FINANCIAL LIABILITIES

SEK million	31 Dec 2018: Financial liabilities measured at FVTPL – Derivatives (held for trading)	Financial liabilities measured at FVTPL – 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
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**	**326,842**	**327,437**	**329,416**

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

Note 7 | Fair Value Disclosures

SEK million	31 Dec 2019 Quoted market prices (Level 1)	31 Dec 2019 Other observable market data (Level 2)	31 Dec 2019 Unobservable market data (Level 3)	31 Dec 2019 Total	31 Dec 2018 Quoted market prices (Level 1)	31 Dec 2018 Other observable market data (Level 2)	31 Dec 2018 Unobservable market data (Level 3)	31 Dec 2018 Total
Assets								
Derivatives	–	11,137	–	11,137	–	6,771	–	6,771
Total	**–**	**11,137**	**–**	**11,137**	**–**	**6,771**	**–**	**6,771**
Liabilities								
Derivatives	–	472	–	472	–	595	–	595
Total	**–**	**472**	**–**	**472**	**–**	**595**	**–**	**595**

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note G 1 (Accounting Policies) in SCBC's Annual Report 2018. In the table, financial assets and liabilities recognised at fair value in the balance sheet are divided on the basis of the measurement levels used below. No transfers were made between levels in 2018 and 2019.

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

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

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

Note 8 | Subordinated debt to the Parent Company

SEK million	31 Dec 2019	31 Dec 2018
Subordinated debt to the Parent Company	102,810	90,414
– Of which: internal Group MREL instrument	*6,000*	–
Total	**102,810**	**90,414**

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.

Internal Group MREL instrument
Of the subordinated debt to the Parent Company SBAB Bank AB (publ), which amounts to SEK 102,180 million, SEK 6,000 million comprises an internal Group debt instrument (senior non-preferred notes) that was issued by SCBC to the Parent Company in December 2019 for the purpose of meeting the minimum requirement for own funds and eligible liabilities (MREL) announced by the Swedish National Debt Office in SCBC. The internal Group MREL instrument is subordinate to other subordinated debt to the Parent Company.

Note 9 | Internally assessed capital requirement

The internal capital adequacy assessment aims to ensure that SCBC has adequate capital to deal with any financial problems that arise. The internally assessed capital requirement for SCBC amounted to SEK 12,839 million (SEK 11,963 million at 31 December 2018). The internal capital requirement is assessed using SCBC's internal models for economic capital and is not fully comparable to the estimated capital published by the Swedish FSA (Finansinspektionen) due to differences in assumtions and methodologies. SCBC estimates that the Swedish FSA's expected total capital requirement as of 31 December 2019 amounts to SEK 13,525 million, of which SEK 1,179 million comprised capital requirement in Pillar 2. SCBC quantifies the capital requirement for the risks using a model for economic capital within the scope of the internal capital adequacy assessment process (ICAAP). Economic capital is defined as the amount of capital needed to ensure solvency over a one-year period. The internal capital requirement is defined as the higher of economic capital and the regulatory requirements for each type of risk.

		31 Dec 2019		31 Dec 2018	
		Internally assessed capital requirement		Internally assessed capital requirement	
SEK million		Incl. risk-weight floor, SEK million	Incl. risk-weight floor, %	Incl. risk-weight floor, SEK million	Incl. risk-weight floor, %
Pillar 1	Credit risk & CVA risk	1,417	1.5	1,350	1.5
	Market risk	58	0.1	60	0.1
	Operational risk	335	0.4	310	0.3
	Risk-weight floor[1]	5,739	6.0	5,414	6.1
	Surcharge, corporate exposures [2]	49	0.0	–	–
	Total Pillar 1	**7,598**	**8.0**	**7,134**	**8.0**
Pillar 2	Credit risk [3]	–	–	–	–
	Market risk	65	0.1	384	0.4
	Operational risk	–	–	–	–
	Concentration risk	428	0.4	431	0.5
	Sovereign risk	–	–	–	–
	Pension risk	–	–	–	–
	Total Pillar 2	**493**	**0.5**	**815**	
Buffers	Capital conservation buffer	2,374	2.5	2,230	2.5
	Capital planning buffer	–	–	–	–
	Countercyclical buffer	2,374	2.5	1,784	2.0
	Total Buffers	**4,748**	**5.0**	**4,014**	**4.5**
Total		**12,839**	**13.5**	**11,963**	**13.4**
Total own funds		**16,173**		**15,253**	

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

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

[3] Since the additional capital requirement for the risk-weight floor exceeds the additional capital requirement according to economic capital, only the risk-weight floor is included in the internal capital requirement with consideration for the risk-weight floor.

Note 10 | Capital adequacy, own funds and capital requirements

CAPITAL ADEQUACY[1)]

SEK million	31 Dec 2019	31 Dec 2018
CET1 capital	16,168	15,250
Tier 1 capital	16,168	15,250
Total capital	16,173	15,253
Risk exposure amount	94,966	89,188
CET1 capital ratio, %	17.0	17.1
Excess [2)] of CET1 capital	11,894	11,237
Tier 1 capital ratio, %	17.0	17.1
Excess [2)] of Tier 1 capital	10,470	9,899
Total capital ratio, %	17.0	17.1
Excess [2)] of total capital	8,575	8,118

[1)] From the end of 2018, the risk-weight floor for residential mortgages has affected risk exposure amount, excess capital and capital ratios.
[2)] Excess capital has been calculated based on minimum requirements (without buffer requirements).

Definitions

CET1 capital ratio	CET1 capital in relation to risk-weighted assets
Total capital ratio	Own funds in relation to risk-weighted assets
Tier 1 capital ratio	Tier 1 capital in relation to risk-weighted assets

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

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

OWN FUNDS

SEK million	31 Dec 2019	31 Dec 2018
CET1 capital instruments: Instruments and reserves		
Capital instruments and the related share premium accounts	9,600	9,600
Retained earnings	5,253	7,155
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	1,830	458
Independently verified net profit for the year net of any foreseeable charge or dividend [1]	1,349	–1,459
CET1 capital before regulatory adjustments	**18,032**	**15,754**
CET1 capital: regulatory adjustments		
Additional value adjustments (negative amount)	–12	–7
Fair value reserves related to gains or losses on cash-flow hedges	–1,830	–458
Negative amounts resulting from the calculation of expected loss amounts	–22	–39
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	0
Total regulatory adjustments to CET1 capital	**–1,864**	**–504**
CET1 capital	**16,168**	**15,250**
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)	**16,168**	**15,250**
Tier 2 capital: Instruments and provisions		
Credit risk adjustments	5	3
Tier 2 capital before regulatory adjustments	**5**	**3**
Tier 2 capital: Regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	**–**	**–**
Tier 2 capital	**5**	**3**
Total capital (Total capital=Tier 1 capital + Tier 2 capital)	**16,173**	**15,253**
Total risk-weighted assets	**94,966**	**89,188**
Capital ratio and buffers		
CET1 capital (as a percentage of total risk-weighted exposure amount), %	17.0	17.1
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	17.0	17.1
Total capital (as a percentage of total risk-weighted exposure amount), %	17.0	17.1
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, %	9.5	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 capital buffer requirement, %	*2.5*	*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, %)	9.0	9.1

[1] Year-end profit and loss have been verified by Deloitte AB pursuant to Article 26, Point 2a of the Capital Requirements Regulation. Profit and loss were not effected by a foreseeable dividend at year end. A group contribution amounted to SEK 539 million was provided to the parent company (SBAB), and has effected the retained earnings with SEK 424 million after tax reduction.

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

At the start of 2019, SBAB's Board decided to apply Article 3 of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) for corporate exposures to small and medium-sized enterprises. The aim is to compensate for the current procylical effect that exists in the bank's internal models for credit risk, which has resulted in PD declining in line with the favourable economic climate. As a result, the bank has since 31 March 2019 introduced a REA surcharge of SEK 616 million under Pillar 1.

RISK EXPOSURE AMOUNT & CAPITAL REQUIREMENTS

	31 Dec 2019		31 Dec 2018	
SEK million	**Risk exposure amount**	**Capital requirement**	**Risk exposure amount**	**Capital requirement**
Credit risk recognised in accordance with IRB approach				
Exposures to corporates	5,940	475	5,041	403
Retail exposures	11,274	902	11,353	908
Of which: exposures to SMEs	*764*	*61*	*770*	*61*
Of which: retail exposures secured by immovable property	*10,510*	*841*	*10,583*	*847*
Total exposures recognised with IRB approach	**17,214**	**1,377**	**16,394**	**1,311**
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]	85	7	53	4
Of which: derivatives according to CRR, Appendix 2	*64*	*5*	*53*	*4*
Of which, repos	*22*	*2*	*0*	*0*
Of which other	*0*	*0*	*0*	*0*
Exposures to institutions and corporates with a short-term credit rating	0	0	0	0
Other items	32	4	153	12
Total exposures recognised with standardised approach	**117**	**11**	**206**	**16**
Market risk	**729**	**58**	**752**	**60**
Of which: position risk	–	–	–	–
Of which: currency risk	*729*	*729*	*752*	*60*
Operational risk	**4,186**	**335**	**3,876**	**310**
Credit valuation adjustment risk	**368**	**29**	**285**	**23**
Additional requirements under Article 458 of the CRR	**71,736**	**5,739**	**67,675**	**5,414**
Additional requirements under Article 3 of the CRR	**616**	**49**	**–**	**–**
Total risk exposure amount and minimum capital requirement	**94,966**	**7,598**	**89,188**	**7,134**
Capital requirements for capital conservation buffer		**2,374**		**2,230**
Capital requirements for countercyclical buffer		**2,374**		**1,784**
Total capital requirement		**12,346**		**11,148**

[1] The risk exposure amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 85 million (53).

The CEO affirms that this year-end 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, 14 February 2020

Signature on Swedish original

Mikael Inglander
CEO

Contact

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

The information was submitted for publication on 14 February 2020 at 12:00 (CET).

Financial calender

Interim Report Jan-Jun 2020	17 July 2020
Year-end Report 2020	11 February 2021

Auditors' review report

Introduction
We have reviewed the year-end report for The Swedish Covered Bond Corporation (publ) for the period 1 January – 31 December 2019. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the interim report for the Group is not prepared, in all material aspects, in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm February 14, 2020

Deloitte AB

Signature on Swedish original

Patrick Honeth
Authorised Public Accountant