

Year-end report

January–December 2020



The year in brief



January–December 2020

(January–December 2019)

- Operating profit amounted to SEK 1,797 million (1,713)
- Net interest income totalled SEK 3,154 million (2,835)
- Expenses amounted to SEK 1,190 million (1,055)
- Net credit losses totalled SEK 21 million (12).
- The Common Equity Tier 1 (CET1) capital ratio amounted to 16.3% (17.0)
- All funding programmes continue to have the highest credit ratings from Moody's
- Considerable market turbulence and increased uncertainty regarding socio-economic development as a result of the coronavirus (Covid-19)



Net interest income, SEK million

3,154

Jan–Dec 2020

2,835

Jan–Dec 2019

Lending, SEK billion

398

31 Dec 2020

359

31 Dec 2019

Credit rating

Aaa

31 Dec 2020

Aaa

31 Dec 2019



Operations

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

The Swedish Covered Bond Corporation (SCBC), Corp. Reg. No. 556645-9755, is a wholly-owned subsidiary of SBAB, Corp. Reg. No. 556253-7513. SCBC is a credit market company and is regulated by the Swedish Banking and Financing Business Act (2004:297) and subject to super-

vision 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.

Business development



Overview

SEK million	SCBC				
	2020 Jul-Dec	2020 Jan-Jun	2019 Jul-Dec	2020 Jan-Dec	2019 Jan-Dec
Net interest income	1,653	1,501	1,396	3,154	2,835
Net commission	-30	-43	-25	-73	-63
Net result of financial transactions (Note 3)	-7	-66	-15	-73	8
Total operating income	1,616	1,392	1,356	3,008	2,780
Expenses	-637	-553	-542	-1,190	-1,055
Profit before credit losses	979	839	814	1,818	1,725
Net credit losses (Note 4)	-3	-18	-6	-21	-12
Operating profit	976	821	808	1,797	1,713
Tax	-208	-176	-172	-384	-364
Net profit for the period	768	645	636	1,413	1,349
BALANCE-SHEET ITEMS					
Lending to the public, SEK billion, at close of period (Note 5)	398,029	376,529	358,936	398,029	358,936
– Of which, Lending, Residential mortgages	306,344	295,327	287,618	306,344	287,618
– Of which, Lending, Corp. & ToA	91,685	81,202	71,318	91,685	71,318
Issued debt securities, etc. at close of period	263,863	263,758	246,774	263,863	246,774
KEY METRICS					
CET1 capital ratio, %	16.3	16.7	17.0	16.3	17.0
CREDIT RATING (LONG-TERM FUNDING)					
Moody's	Aaa	Aaa	Aaa	Aaa	Aaa

Trend for January–December 2020 compared with January–December 2019

Despite the prevailing circumstances due to the coronavirus pandemic, no material changes or risks have been noted with regard to SCBC's financial position. The operating profit amounted to SEK 1,797 million (1,713) for the period.

Net interest income

SCBC's net interest income grew to SEK 3,154 million (2,835), mainly due to higher lending volumes and a lower resolution fee. The resolution fee amounted to SEK 122 million (175) for the period. Rising market interest rates and therefore higher interest expense for borrowing in the capital markets negatively affected net interest income.

Net commission expense

The net commission expense was SEK 73 million (expense: 63), and was mainly due to increased expenses linked to funding operations.

Net result of financial transactions

The net result of financial transactions was an expense of SEK 73 million (income: 8), mainly as a result of hedge accounting and lower interest compensation from customers. For more information, please refer to [Note 3](#).

Expenses

SCBC's expenses rose to SEK 1,190 million (1,055), 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. The cost trend is progressing according to plan and tracks the operations' development and investment strategy for long-term competitiveness.

Credit quality and credit losses

The overall credit quality in SCBC's credit portfolio is very good. SCBC only lends against pledged collateral and has no exposure to sectors that are particularly affected as a result of the coronavirus pandemic. SCBC is carefully monitoring developments and making ongoing assessments and analyses of credit risks. In previous economic crises in Sweden, banks' credit losses linked to residential mortgages and housing finance have been low. The Swedish FSA's annual mortgage market survey, with data from 2019, found that, overall, new residential mortgage customers continue to have healthy margins to cover repayment of their mortgages in a deteriorated economic climate. The healthy level of resilience indicates limited risk for mortgages leading to extensive credit losses for the banks.

Total credit losses (net) for the period amounted to SEK 21 million (12), of which the majority pertained to credit loss allowances in conjunction with the revision of the forward-looking macroeconomic information applied in the impairment model as a result of the coronavirus pandemic. Confirmed credit losses remained low and totalled SEK 2 million (loss: 1). During the period, provisions for credit stage 1 and 2 loans increased SEK 15 million (increase: 16), while they remained unchanged for credit stage 2 (increase: 5). Provisions for credit stage 3 loans increased SEK 3 million (decrease: 2). Guarantees that could be utilised increased SEK 1 million (increase: 2) over the period as a result of increased provisions. For more information on credit losses and credit quality, please refer to [Note 4](#) and [Note 5](#).

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 mortgages, with lending to consumers the largest segment. At the end of the period, SCBC's lending amounted to SEK 398.0 billion (358.9).

Cover pool data

	SCBC
	31 Dec 2020
Credit portfolio, SEK million	398,029
Total cover pool, SEK million	358,957
LTV as per ASCB definition ¹⁾ , %	54.1%
Nominal OC, %	33.1%

¹⁾ Association of Swedish Covered Bond Issuers

Cover pool

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



Funding

After the favourable market conditions and healthy risk appetite in the beginning of the year, funding for the rest of 2020 was dominated by the coronavirus's effects on stock exchanges, interest rates and credit indices as well as by the mitigation measures taken by governments and central banks. After the WHO declared Covid-19 a pandemic in the beginning of March and conditions in the capital markets deteriorated significantly, central banks and governments quickly rolled out a wide variety of measures and support programmes. The ECB, the Fed and other central banks launched a comprehensive programme of quantitative easing that included, inter alia, new loan facilities and expanded bond purchases. The Fed and the Bank of England also chose to lower their key interest rates 150 and 65 basis points, respectively.

The Swedish central bank initiated several measures to mitigate the economic effects of the coronavirus pandemic and to support the Swedish economy. The Riksbank decided, inter alia, to offer banks access to unlimited amounts of liquidity against collateral and expanded and broadened its programme for bond purchases. The purchase of government securities continued to increase at a heightened pace while the purchase programme also came to encompass municipal, corporate and mortgage bonds. Measures taken by the Riksbank and other central banks were effective and the stock market and credit indices recovered during the second and

third quarters, until the end of the year. Interest rates in most major currency areas during the year fell relatively drastically and, at the end of the year, were at historic lows.

Due to the uncertainty surrounding the development of the coronavirus and its effect on the Swedish and global economies, during the year SCBC noted relatively high volatility in its funding costs. In general, however, investor demand for SCBC's bonds was healthy. The Riksbank's purchase of Swedish covered bonds entailed that covered funding in Sweden for most of the year was at favourable levels compared with those in Europe (converted to SEK for corresponding maturities). In 2020, SCBC's bond financing, excluding SEK where the funding situation and levels were favourable, was supported by the Riksbank.

At 31 December 2020, the total value of issued debt securities outstanding under SCBC's lending programme was SEK 263.9 billion (246.8), distributed as follows: Swedish covered bonds SEK 162.3 billion (129.8) and the Euro Medium Term Covered Note Programme SEK 101.5 billion (117). During the period, issued securities amounted to SEK 62.9 billion (44.7). At the same time, securities amounting to SEK 20.2 billion (22.9) were repurchased, while securities amounting to SEK 22.3 billion (14.0) matured. Alongside changes in premiums/discounts and changes in SEK exchange rates, this resulted in an increase in issued debt securities of SEK 17.1 billion (12.0) in the period.

Liquidity

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

Capital

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 16.3% (17.0) at 31 December 2020. The change was mainly driven by higher lending volumes (EAD). Net profit is included in own funds.

The internally assessed capital requirement amounted to SEK 11.5 billion (12.8) at 31 December 2020. The change was mainly due to the decision by the Swedish FSA to lower the countercyclical capital buffer requirement from 2.5% to 0% as a result of the ongoing coronavirus pandemic.

For more information on SCBC's capital, please refer to [Note 10](#).

Other information



Information due to the coronavirus

The spread of the coronavirus is creating great human suffering all around the world and its progression has substantially disrupted the economy. The extent of the final impact depends on the measures taken by governments, central banks and other agencies, among other actions.

Many governments around the world have allocated substantial resources to health care, but have also taken steps to reduce the risk of companies entering into bankruptcy as a result of the coronavirus. Moreover, the Riksbank, the ECB and central banks around the world have announced support measures to maintain the functionality of the markets and to mitigate the economic effects of the coronavirus pandemic.

During the summer and autumn, the Swedish economy recovered around half of the decline and shrank around 3% during 2020 due to the coronavirus pandemic. Unemployment has also increased markedly. The housing market, however, has shown strong resilience in the face of the pandemic. For a short period, sales and prices declined, but for the full year overall sales resembled a typical year and a broad uptick was noted in prices in all parts of the country and for all forms of housing.

For more information about the effects of the coronavirus pandemic on the SBAB Group, please refer to SBAB's interim report for January–December 2020.

SCBC's financial position

SCBC's earnings trend and lending growth remained healthy in 2020. Despite the prevailing circumstances due to the coronavirus pandemic, no noteworthy changes or risks have been noted with regard to SCBC's financial position.

The company's balance sheet is strong, and the capital and liquidity buffers are assessed as robust. The functionality of the financial markets is assessed as good and funding operations continue to work satisfactorily. No material changes have been noted in terms of credit risk in the lending portfolio.

Amortisation relief

The Swedish FSA has announced that banks will have the possibility of offering all new and existing mortgagors an exemption from the amortisation requirements due to the considerable downturn in Sweden's economy in the wake of the coronavirus. It is up to the banks to decide whether an individual household may be granted an amortisation exemption based on an assessment of its specific situation and payment ability. The exemption applies for amortisation payments until 31 August 2021. SCBC's assessment is that the amortisation reliefs granted to date will not affect credit risk in the near future and, in consequence, not affect the need for provisions, but will instead mitigate the increased credit risk that has temporarily arisen for the customers. Customers that applied for amortisation relief due to loss of income due to the coronavirus pandemic are managed by SBAB's insolvency department, who determine if the amortisation relief is to be classified as a forbearance measure according to current accounting standards and the CRR. All customers granted amortisation relief according to the Swedish FSA's guidelines are still considered creditworthy.

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. 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 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.

For further information about risks and risk management, please refer to SCBC's 2019 Annual Report.

Annual General Meeting

SCBC held its Annual General Meeting on 28 April 2020. The AGM resolved to elect the following Board members: Jan Sinclair (Chairman), Jane Lundgren-Ericsson and Klas Danielsson.

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 can be found at the end of this report.

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Condensed income statement

SEK million	SCBC				
	2020	2020	2019	2020	2019
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Dec	Jan-Dec
Interest income	2,791	2,759	2,613	5,550	5,141
Interest expense	-1,138	-1,258	-1,217	-2,396	-2,306
Net interest income	1,653	1,501	1,396	3,154	2,835
Commission income	9	11	10	20	16
Commission expense	-39	-54	-35	-93	-79
Net expense from financial transactions (Note 3)	-7	-66	-15	-73	8
Other operating income	0	0	0	0	0
Total operating income	1,616	1,392	1,356	3,008	2,780
General administrative expenses	-631	-548	-534	-1,179	-1,045
Other operating expenses	-6	-5	-8	-11	-10
Total expenses before loan losses	637	-553	-542	-1,190	-1,055
Profit before loan losses	979	839	814	1,818	1,725
Net loan losses (Note 4)	-3	-18	-6	-21	-12
Operating profit	976	821	808	1,797	1,713
Tax on operating profit for the period/year	-208	-176	-172	-384	-364
Net profit for the period/year	768	645	636	1,413	1,349

For the period, interest income on financial assets measured at amortised cost, calculated using the effective-interest method, amounted to SEK 2,841 million (2,583).

Condensed statement of comprehensive income

SEK million	SCBC				
	2020	2020	2019	2020	2019
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Dec	Jan-Dec
Net profit for the period	768	645	636	1,413	1,349
<i>Components that will be reclassified to profit or loss</i>					
Changes related to cash-flow hedges	-463	927	-507	464	1,746
Tax attributable to components that will be reclassified to profit or loss	121	-198	108	-77	-374
Other comprehensive income/loss, net of tax	-342	729	-399	387	1,372
Total comprehensive income for the period	426	1,374	237	1,800	2,721

Condensed balance sheet

SEK million	SCBC	
	31 Dec 2020	31 Dec 2019
ASSETS		
Lending to credit institutions	1	0
Lending to the public (Note 5)	398,029	358,936
Value changes of interest-rate-risk hedged items in macro hedges	143	-178
Derivatives (Note 6)	9,289	11,137
Other assets	248	218
Prepaid expenses and accrued income	113	106
TOTAL ASSETS	407,823	370,219
LIABILITIES AND EQUITY		
Liabilities		
Liabilities to credit institutions	10,615	3
Debt securities issued, etc.	263,863	246,774
Derivatives (Note 6)	1,690	472
Other liabilities	743	564
Accrued expenses and deferred income	1,568	1,680
Deferred tax liabilities	586	514
Subordinated debt to the Parent Company (Note 9)	109,515	102,180
Total liabilities	388,580	352,187
Equity		
Restricted equity		
Share capital	50	50
Total restricted equity	50	50
Unrestricted equity		
Shareholder contribution	9,550	9,550
Fair value reserve	2,217	1,830
Retained earnings	6,013	5,253
Net profit for the year	1,413	1,349
Total unrestricted equity	19,193	17,982
Total equity	19,243	18,032
TOTAL LIABILITIES AND EQUITY	407,823	370,219

Condensed statement of changes in equity

SEK million	SCBC					
	Restricted equity	Unrestricted equity				Total equity
	Share capital	Fair value reserve	Shareholder contribution	Retained earnings	Net profit for the year	
Opening balance 1 January 2020	50	1,830	9,550	6,602	-	18,032
Dividend paid	-	-	-	-	-	-
Group contribution, after tax	-	-	-	-589	-	-589
Other comprehensive income, net of tax	-	387	-	-	-	387
Net profit for the period	-	-	-	-	1,413	1,413
Comprehensive income för the period	-	387	-	-	1,413	1,800
Closing balance 31 December 2020	50	2,217	9,550	6,013	1,413	19,243
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

Condensed cash-flow statement

SEK million	SCBC	
	2020	2019
	Jan-Dec	Jan-Dec
Opening cash and cash equivalents	0	0
OPERATING ACTIVITIES		
Interest and commissions paid/received	2,932	2,786
Outflows to suppliers and employees	-1,190	-1,055
Taxes paid/refunded	-498	-486
Change in assets and liabilities of operating activities	-8,014	-10,012
Cash flow from (used in) operating activities	-6,770	-8,767
INVESTING ACTIVITIES		
Cash flow from investing activities	-	-
FINANCING ACTIVITIES		
Group contribution paid	-564	-
Dividend paid	-	-3,000
Change in subordinated debt	7,335	11,767
Cash flow from financing activities	6,771	8,767
Increase/decrease in cash and cash equivalents	1	0
Closing cash and cash equivalents	1	0

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

Change in liabilities attributable to financing activities

SEK million	SCBC									
	Opening balance 1 Jan 2020	Cash flow	Non-cash items		Closing balance 31 Dec 2020	Opening balance 1 Jan 2019	Cash flow	Non-cash items		Closing balance 31 Dec 2019
			Fair value	Other				Fair value	Other	
Long-term interest-bearing liabilities	102,180	7,335	-	-	109,515	90,413	11,767	-	-	102,180
Total	102,180	7,335	-	-	109,515	90,413	11,767	-	-	102,180

Note 1 Accounting policies

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

Introduction of new and changed accounting standards 2020

Accounting principles and calculation methods are unchanged compared with the annual report for 2019. The financial statements in summary are produced on the basis of an assumption about the company's survival. The financial reports in summary was approved by the board for publication on 10 february 2020.

Introduction of new and changed accounting standards after 2020

In August 2020, the IASB issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 with regard to changes in reference rates. The rules deal with accounting for the modifications required in connection with the change of reference interest rates. The changes also entail relief in the hedge accounting in connection with the change of reference interest rates, which means, among other things, that changes made to hedging relationships and hedging documentation due to the change are allowed, without the hedging relationship having to be terminated. The amendments will apply from 1 January 2021 with early application allowed but have not yet been adopted by the EU. The change is not considered to have any significant effect on the financial statements.

Other

All other accounting policies and calculation methods are unchanged in comparison with the Annual Report 2019. These consolidated condensed financial statements have been prepared on a going concern basis. On 10 February 2020, the Board of Directors approved the consolidated condensed financial statements for publication.

Note 2 Changes in risks

Credit risk in lending operations

No increase in realised credit risk was noted in lending operations during 2020. Despite the prevailing circumstances with the coronavirus pandemic, neither an increased tendency of delayed payments nor turbulence in the housing market leading to falling housing prices has been observed. Due to the increased economic uncertainty because of the pandemic and since no increased realised credit risk has yet been noted, the forward-looking information in the impairment model has been revised where mainly unemployment rates have been adjusted. The forward-looking information has been revised during the first three quarters of 2020 resulting in increased credit loss allowances. Furthermore, SBAB has granted a portion of request for temporary amortisation exemptions, in accordance with Swedish FSA's guidelines, which thus far are assessed to solely manage the temporary increase in liquidity risk that has arisen for customers. Since the last quarter, customers are requested to account for the reason behind the application for amortisation exemption. Customers who report loss of income are managed by SCBC's insolvency team for further assessment regarding increase in credit risk. No deviations have been noted in terms of LTV ratios and debt-to-income ratios for new lending. For more information regarding credit losses and credit loss allowances, see [Note 4](#).

Counterparty credit risk in treasury operations

Limit utilisation for SCBC's derivative counterparties has fallen to SEK 232 million at 31 December 2020, compared with SEK 274 million at 31 December 2019.

Liquidity risk

Liquidity risk in SCBC is managed in cooperation with SBAB. SCBC has an agreement with SBAB regarding a liquidity facility which can be used to finance SCBC's operations. The OC level have increased compared to last year due to allocation of assets to the cover pool. At the end of the year OC amounted to 33,1%.

Market risk

SCBC uses Value at Risk (VaR) to quantify market risk. VaR is a comprehensive portfolio measurement expressing the potential loss that could occur given a certain level of probability and holding period. SCBC's model is a historical model and applies percentiles in historical market data from the past two years. At 31 December 2020, SCBC's VaR amounted to SEK 110 million, compared with SEK 70 million at 31 December 2019. The limit for VaR is set at SEK 700 million.

Operational risk

The Covid-19 pandemic has resulted in a general increase in operational risk in SCBC in connection with, inter alia, absenteeism and continuity for critical deliveries. It should be noted that the Group's business contingency plans were generally applicable during the Covid-19 period, which has reduced continuity risks. In terms of technical debt, the risk picture has reduced slightly due to a deployment of a new vital IT-system.

Business risk

During 2020, SCBC's business risk was affected by changes in macroeconomic conditions. The ongoing corona pandemic has impacted both financial markets and the real economy. In Sweden, as in other countries, a large number of measures have been taken to control the contagion and to mitigate the effects on the economy. Looking at the state of financial markets, the situation has currently stabilised. To date, the impact of the pandemic on the financial position of SCBC and the SBAB group has been very moderate. The long-term consequences are however still unknown. The longer the crisis lasts, the larger it is likely to impact the economy. SCBC, and SBAB as a group, continue to be well positioned to manage a more prolonged financial crisis, in terms of both capital and liquidity. The overall business risk is therefore considered to be moderate. No material changes in the competitive landscape were observed during the year. Moreover, SCBC has not entered, or exited, any new markets or segments.

Concentration risk

SBAB is mainly exposed to credit risk-related concentration risk in the lending business. The risk department continuously monitors and analyzes the lending portfolio's concentration based on, among other things, geography, collateral, segments and product type. In addition, large exposures to individual counterparties are monitored on an ongoing basis.

Note 3 Net result of financial transactions

SEK million	SCBC				
	2020	2020	2019	2020	2019
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Dec	Jan-Dec
Gains/losses on interest-bearing financial instruments					
- Change in value of hedged items in hedge accounting	426	-1,225	937	-799	-847
- Realised gain/loss from financial liabilities	-47	-66	-58	-113	-129
- Derivatives in hedge accounting	-423	1,224	-930	801	865
- Other derivatives	12	-13	22	-1	50
- Loan receivables	25	14	14	39	69
Currency translation effects	0	0	0	0	0
Total	-7	-66	-15	-73	8

SCBC uses derivatives to manage interest rate and currency risks in assets and liabilities. Derivatives are recognised at fair value in the balance sheet. SCBC's risk management and hedge accounting strategies entail that profit variations between periods may arise for individual items in the table above, as a result

of changes in market interest rates, but that they are in general offset by profit variations in other items. Profit variations not neutralised through risk management and hedge accounting are commented on in the income statement overview.

Note 4 Net loan losses

SEK million	SCBC				
	2020	2020	2019	2020	2019
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Dec	Jan-Dec
Lending to the public					
Confirmed credit losses	-1	-1	0	-2	0
Recoveries of previously confirmed credit losses	0	-	-	0	0
Change in provision for the period – credit stage 1	1	-16	2	-15	-3
Change in provision for the period – credit stage 2	5	-5	-1	0	0
Change in provision for the period – credit stage 3	-5	2	1	-3	-1
Guarantees	-3	2	-8	-1	-8
Net credit losses for the period – lending to the public	-3	-18	-6	-21	-12

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 2019 Annual Report, note G 1 (Accounting policies).

Note 5 Lending to the public

SEK million	SCBC	
	31 Dec 2020	31 Dec 2019
Opening balance	358,936	339,370
Transferred to/from Group entities	79,286	60,702
Amortisation, repayments, etc.	-40,173	-41,133
Confirmed credit losses	-2	0
Change in provision for expected credit losses ¹⁾	-18	-3
Closing balance	398,029	358,936

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

Distribution of lending, including provisions

SEK million	SCBC	
	31 Dec 2020	31 Dec 2019
Lending, Residential mortgages	306,344	287,618
Lending, Corporate Clients & Tenant-Owners' Associations	91,685	71,318
Total	398,029	358,936

Lending to the public by credit stage

SEK million	SCBC	
	31 Dec 2020	31 Dec 2019
Credit stage 1		
Gross carrying amount	380,031	339,258
Provision for expected credit losses	-42	-27
Carrying amount	379,989	339,232
Credit stage 2		
Gross carrying amount	17,911	19,539
Provision for expected credit losses	-64	-64
Carrying amount	17,847	19,475
Credit stage 3		
Gross carrying amount	218	252
Provision for expected credit losses	-25	-22
Carrying amount	193	230
Gross carrying amount (credit stages 1, 2 and 3)	398,160	359,049
Provision for expected credit losses (credit stages 1, 2 and 3)	-131	-113
Total	398,029	358,936

Note 6 Derivatives

SEK million	SCBC					
	31 Dec 2020			31 Dec 2019		
	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount
Interest-rate-related	6,591	378	348,349	5,100	309	316,823
Currency-related	2,698	1,312	77,979	6,037	163	85,627
Total	9,289	1,690	426,328	11,137	472	402,450

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

Note 7 Classification of financial instruments

Financial assets

SEK million	SCBC				
	31 Dec 2020				
	Financial assets measured at FVTPL		Financial assets measured at amortised cost	Total	Total fair value
Derivatives (held for trading)	Other (obligatory) classification				
Lending to credit institutions	-	-	1	1	1
Lending to the public	-	-	398,029	398,029	398,492
Value changes of interest-rate-risk hedged items in macro hedges	-	-	143	143	-
Derivatives	9,264	25	-	9,289	9,289
Other assets	-	-	16	16	16
Prepaid expenses and accrued income	-	-	113	113	113
Total	9,264	25	398,302	407,591	407,911

Financial liabilities

SEK million	SCBC				
	31 Dec 2020				
	Financial liabilities measured at FVTPL		Financial liabilities measured at amortised cost	Total	Total fair value
Derivatives (held for trading)	Held for trading				
Liabilities to credit institutions	-	-	10,615	10,615	10,615
Issued debt securities, etc.	-	-	263,863	263,863	268,302
Derivatives	1,663	27	-	1,690	1,690
Other liabilities	-	-	744	744	744
Accrued expenses and deferred income	-	-	1,568	1,568	1,568
Subordinated debt to the Parent Company	-	-	109,515	109,515	109,515
Total	1,663	27	386,305	387,995	392,434

Not 7 Classification of financial instruments, Cont.

Financial assets

SCBC						
31 Dec 2019						
SEK million	Financial assets measured at FVTPL		Financial assets measured at amortised cost	Total	Total fair value	
	Derivatives (held for trading)	Other (obligatory) classification				
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

SCBC						
31 Dec 2019						
SEK million	Financial liabilities measured at FVTPL		Financial liabilities measured at amortised cost	Total	Total fair value	
	Derivatives (held for trading)	Held for trading				
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	

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 2019. In the total fair value column above, information is also provided on the fair value of financial instruments that are recognised at amortised cost in the balance sheet. The carrying amounts for current receivables and liabilities, including subordinated debt to the Parent Company, have

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

Note 8 Fair Value Disclosures

SEK million	SCBC							
	31 Dec 2020				31 Dec 2019			
	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	-	9,289	-	9,289	-	11,137	-	11,137
Total	-	9,289	-	9,289	-	11,137	-	11,137
Liabilities								
Derivatives	-	1,690	-	1,690	-	472	-	472
Total	-	1,690	-	1,690	-	472	-	472

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided provided in Note 1 (Accounting Policies) in SCBC's Annual Report 2019. 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 2019 or 2020.

Quoted market prices (Level 1)

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

Measurement based on observable market data (Level 2)

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

Measurement based in part on market unobservable data (Level 3)

Measurement whereby a material component of the model is based on estimates or assumptions that do not originate directly from the market. This method is currently not used on any asset or liability.

Note 9 Subordinated debt to the Parent Company

SEK million	SCBC	
	31 Dec 2020	31 Dec 2019
Subordinated debt to the Parent Company	109,515	102,180
- Of which Internal Group MREL instrument	6,000	6,000
Summa	109,515	102,180

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), 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 10 Capital adequacy, own funds and capital requirements

Amendments to the Banking Package

The EU Official Journal has on 7 June 2019 published amendments to the Capital Requirements Regulation, the Capital Requirements Directive and the Bank Recovery & Resolution Directive (the 'Banking Package') which entered into force on 27 June 2019. The Banking Package includes changes to capital requirements and changes in the loss-absorbing and recapitalisation capacity of credit institutions. Most of the changes will enter into force on 28 June 2021. Amendments in Swedish law due to the Capital Adequacy Directive entered into force on 29 December 2020.

Due to the corona pandemic, the EU made amendments to the CRR with effect from 27 June 2020. SCBC was affected by an earlier introduction of a reduction of the capital requirement for loans to small and medium-sized enterprises (SME factor). For SCBC the changes has a limited effect on the capital requirement.

Buffer requirements

During the first quarter 2020 the Swedish FSA decided to lower the countercyclical capital buffer requirement for banks from 2.5 percent to 0 percent, due to the current corona pandemic. On 24 November 2020, the Swedish FSA decided to keep the countercyclical capital buffer requirement for banks unchanged at 0 percent.

Capital adequacy

SEK million	SCBC	
	31 Dec 2020	31 Dec 2019
CET1 capital	17,003	16,168
Tier 1 capital	17,003	16,168
Total capital	17,008	16,173
Risk exposure amount	104,080	94,966
CET1 capital ratio, %	16.3	17.0
Excess ¹⁾ of CET1 capital	12,319	11,894
Tier 1 capital ratio, %	16.3	17.0
Excess ¹⁾ of Tier 1 capital	10,758	10,470
Total capital ratio, %	16.3	17.0
Excess ¹⁾ of total capital	8,681	8,575

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

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

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

Own funds

SEK million	SCBC	
	31 Dec 2020	31 Dec 2019
CET1 capital instruments: Instruments and reserves		
Capital instruments and the related share premium accounts	9,600	9,600
Retained earnings	6,013	5,253
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	2,217	1,830
Independently verified year-end profits net of any foreseeable charge or dividend ¹⁾	1,413	1,349
CET1 capital before regulatory adjustments	19,243	18,032
CET1 capital: Regulatory adjustments		
Additional value adjustments (negative amount)	-11	-12
Fair value reserves related to gains or losses on cash-flow hedges	-2,217	-1,830
Negative amounts resulting from the calculation of expected loss amounts	-12	-22
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	0
Total regulatory adjustments to CET1 capital	-2,240	-1,864
CET1 capital	17,003	16,168
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)	17,003	16,168
Tier 2 capital: Instruments and provisions		
Credit risk adjustments	5	5
Tier 2 capital before regulatory adjustments	5	5
Tier 2 capital: Regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	-	-
Tier 2 capital	5	5
Total capital (Total capital=Tier 1 capital + Tier 2 capital)	17,008	16,173
Total risk-weighted assets	104,080	94,966

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

SEK million	SCBC	
	31 Dec 2020	31 Dec 2019
Capital ratio and buffers		
CET1 capital (as a percentage of total risk-weighted exposure amount), %	16.3	17.0
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	16.3	17.0
Total capital (as a percentage of total risk-weighted exposure amount), %	16.3	17.0
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), %	7.0	9.5
– 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, %	0.0	2.5
– of which, systemic risk buffer requirement, %	–	–
– of which, G-SII buffer and O-SII buffer, %	–	–
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts, %)	8.3	9.0
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) The results have been verified by Deloitte AB pursuant to Article 26, Point 2a of the Capital Requirements Regulation.

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

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

616 million under Pillar 1, since 31 March 2019.

In May 2020, SCBC started to apply a new definition of default according to guidelines submitted by European banking authority (EBA) aimed to harmonize calculations for credit risk between banks. At the transition to the new definition of default in May the share of defaulted exposures was reduced and the impact on REA was very limited which was in line with the bank's expectations.

Risk exposure amounts and capital requirements

mnkr	SCBC			
	31 Dec 2020		31 Dec 2019	
	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
Credit risk recognised in accordance with IRB approach				
Exposures to corporates	8,838	707	5,940	475
Retail exposures	11,240	899	11,274	902
– of which, exposures to SMEs	856	68	764	61
– of which, retail exposures secured by immovable property	10,384	831	10,510	841
Total exposures recognised with IRB approach	20,078	1,606	17,214	1,377
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⁾	123	10	85	7
– of which, derivatives according to CRR, Appendix 2	114	9	64	5
– of which, repos	9	1	21	2
– of which, other	–	–	0	0
Exposures to institutions and corporates with a short-term credit rating	0	0	0	0
Other items	169	14	32	4
Total exposures recognised with standardised approach	292	24	117	11
Market risk	556	44	729	58
– of which, position risk	–	–	–	–
– of which, currency risk	556	44	729	58
Operational risk	4,441	355	4,186	335
Credit valuation adjustment risk	441	35	368	29
Additional requirements under Article 458 of the CRR	77,656	6,213	71,736	5,739
Additional requirements under Article 3 of the CRR	616	49	616	49
Total risk exposure amount and minimum capital requirement	104,080	8,326	94,966	7,598
Capital requirements for capital conservation buffer		2,602		2,374
Capital requirements for countercyclical buffer		0		2,374
Total capital requirement		10,928		12,346

¹⁾ The risk exposure amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 123 million (85).

Note 11 Internally assessed capital requirement

The internal capital adequacy assessment aims to ensure that SCBC has adequate capital to deal with any financial problems that arise. The internally assessed capital requirement for SCBC amounted to SEK 11,508 million (SEK 12,839 million on 31 December 2019). The internal capital requirement is assessed using SCBC's internal models for economic capital.

SCBC quantifies the capital requirement for its risks using a model for economic capital within the scope of the internal capital adequacy assessment process (ICAAP). Economic capital is defined as the amount of capital needed

to ensure solvency over a one year period. The internal capital requirement is defined as the higher of economic capital and the regulatory requirements for each type of risk.

SEK million		SCBC			
		31 Dec 2020		31 Dec 2019	
		Internally assessed capital requirement		Internally assessed capital requirement	
	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	1,665	1.6	1,417	1.5
	Market risk	44	0.0	58	0.1
	Operational risk	355	0.4	335	0.4
	Risk-weight floor ¹⁾	6,213	6.0	5,739	6.0
	Surcharge, corporate exposures ²⁾	49	0.0	49	0.0
	Total Pillar 1	8,326	8.0	7,598	8.0
Pillar 2	Credit risk	-	-	-	-
	Market risk	60	0.1	65	0.1
	Operational risk	-	-	-	-
	Concentration risk	520	0.5	428	0.4
	Sovereign risk	-	-	-	-
	Pension risk	-	-	-	-
Total Pillar 2	580	0.6	493	0.5	
Buffers	Capital conservation buffer	2,602	2.5	2,374	2.5
	Capital planning buffer	-	-	-	-
	Countercyclical buffer	0	0.0	2,374	2.5
	Total Buffers	2,602	2.5	4,748	5.0
Total	11,508	11.1	12,839	13.5	
Total own funds	17,008		16,173		

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

2) Purchase after decision by the Board pursuant to Article 3 of the CRR.

Auditors' review report

Introduction

We have reviewed the year-end report for The Swedish Covered Bond Corporation ("SCBC") (in Swedish: AB Sveriges Säkerställda Obligationer (publ)) for the period 1 January – 31 December 2020. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2410 Review of Interim Financial Information performed by the company's auditors.

A review consists of making inquiries, primarily with persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material aspects, in ac-

cordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm February 10, 2021

Deloitte AB

Signature on Swedish original

Patrick Honeth
Authorised Public Accountant

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 February 10, 2021

Signatures on the Swedish original

Mikael Inglander
CEO

Financial calendar

Annual Report	26 March 2021
Interim Report Jan–Jun 2021	16 July 2021
Year-end Report 2021	3 February 2022

Credit ratings

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



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This information was submitted for publication on 11 February 2021 at 08:00 (CET).

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