YEAR-END REPORT

1 January–31 December 2018
The Swedish Covered Bond Corporation (SCBC)

1 2

SCBC
Covered Bonds of SBAB

THE YEAR IN BRIEF

January–December 2018 (January–December 2017)

- Operating profit amounted to SEK 1,979 million (1,982)
- Net interest income rose to SEK 3,069 million (2,855)
- Expenses amounted to SEK 902 million (761)
- Credit losses totalled SEK 26 million (recoveries: 12)
- The Common Equity Tier 1 (CET1) capital ratio was 17.1% (78.0) For more information, please refer to page 4
- All funding programmes continue to have the highest credit ratings from Moody's

Operating profit,

SEK 1,979 million

(SEK 1,982 million)

Net interest income

SEK 3,069 million

(SEK 2,855 million)

CET1 capital ratio

17.1%

(78.0%)

Lending to the public

SEK 339.4 billion

(SEK 312.2 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

SEK million	2018 Jan–Dec	2017 Jan–Dec
Net interest income	3,069	2,855
Net commission expense	–119	–63
Net expense from financial transactions (Note 2)	–43	–61
Other operating income	0	0
Total operating income	**2,907**	**2,731**
Expenses	–902	–761
Profit before credit losses	**2,005**	**1,970**
Net credit losses (Note 3)	–26	12
Operating profit	**1,979**	**1,982**
Tax	–438	–436
Net profit for the period	**1,541**	**1,546**
Balance-sheet items		
Lending to the public, SEK billion, at close of period	339.4	312.2
Key metrics		
CET1 capital ratio, %, at close of period	17.1	78.0
Rating, long-term funding		
Moody's	Aaa	Aaa

Trend for January–December 2018 compared with January–December 2017

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

Net interest and commissions

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.

Net result of financial transactions

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.

Expenses

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.

Credit losses

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, please refer to Note 3.

Lending

SCBC does not conduct any new lending itself but instead acquires loans from SBAB Bank, on an on-going basis or as necessary. The aim of securing these loans is to include 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 339.4 billion (312.2).

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 three funding programmes: a Swedish covered bond programme without a preset limit; a EUR 16 billion Euro Medium Term Covered Note Programme (EMTCN programme); and an AUD 4 billion Australian Covered Bonds Issuance 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 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 EMTCN 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.

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 2018. 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 3018, 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 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.

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

OTHER INFORMATION

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. In Q4, consumer confidence was weakly negative.

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.

Effects of IFRS 9 at 1 January 2018

Upon the transition to IFRS 9, the net of reserves and provisions for expected credit losses in the Group decreased SEK 51 million. The overall effect increased equity (before tax) by a corresponding amount at 1 January 2018. For more information, please refer to Note 10.

Events after the end of the period

Extraordinary General Meeting

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

Green covered bond

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

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.

CONDENSED INCOME STATEMENT

SEK million	2018 Jul–Dec	2018 Jan–Jun	2017 Jul–Dec	2018 Jan–Dec	2017 Jan–Dec
Interest income	2,255	2,240	1,831	4,495	3,684
Interest expense	−773	−653	−408	−1,426	−829
Net interest income	**1,482**	**1,587**	**1,423**	**3,069**	**2,855**
Commission income	6	7	0	13	7
Commission expense	−89	−43	−34	−132	−70
Net expense from financial transactions (Note 2)	−24	−19	−46	−43	−61
Other operating income	0	0	0	0	0
Total operating income	**1,375**	**1,532**	**1,343**	**2,907**	**2,731**
General administrative expenses	−465	−433	−387	−898	−761
Other operating expenses	−3	−1	1	−4	0
Total expenses before loan losses	**−468**	**−434**	**−386**	**−902**	**−761**
Profit before loan losses	**907**	**1,098**	**957**	**2,005**	**1,970**
Net loan losses (Note 3)	0	−26	−2	−26	12
Operating profit	**907**	**1,072**	**959**	**1,979**	**1,982**
Tax on operating profit for the period/year	−202	−236	−211	−438	−436
Net profit for the period/year	**705**	**836**	**748**	**1,541**	**1,546**

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

SEK million	2018 Jul–Dec	2018 Jan–Jun	2017 Jul–Dec	2018 Jan–Dec	2017 Jan–Dec
Net profit for the period/year	**705**	**836**	**748**	**1,541**	**1,546**
Components that will be reclassified to profit or loss					
Changes related to cash-flow hedges	467	26	4	493	−618
Tax attributable to components that will be reclassified to profit or loss	−99	−6	−1	−105	136
Other comprehensive income, net of tax	**368**	**20**	**3**	**388**	**−482**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR	**1,073**	**856**	**751**	**1,929**	**1,064**

CONDENSED BALANCE SHEET

SEK million	31 Dec 2018	31 Dec 2017
ASSETS		
Lending to credit institutions	0	150
Lending to the public (Note 4)	339,370	312,199
Value changes of interest-rate-risk hedged items in macro hedges	108	224
Derivatives (Note 5)	6,771	3,862
Other assets	35	30
Prepaid expenses and accrued income	103	119
TOTAL ASSETS	**346,387**	**316,584**
LIABILITIES AND EQUITY		
Liabilities		
Liabilities to credit institutions	1	955
Debt securities issued, etc.	234,774	204,153
Derivatives (Note 5)	595	574
Other liabilities	91	55
Accrued expenses and deferred income	1,622	1,430
Deferred tax liabilities	136	39
Subordinated debt to the Parent Company (Note 8)	90,414	92,593
Total liabilities	**327,633**	**299,799**
Equity		
Restricted equity		
Share capital	50	50
Total restricted equity	**50**	**50**
Unrestricted equity		
Shareholder contribution	9,550	9,550
Fair value reserve	458	70
Retained earnings	7,155	5,569
Net profit for the year	1,541	1,546
Total unrestricted equity	**18,704**	**16,735**
Total equity	**18,754**	**16,785**
TOTAL LIABILITIES AND EQUITY	**346,387**	**316,584**

CONDENSED STATEMENT OF CHANGES IN EQUITY

SEK million	RESTRICTED EQUITY Share capital	UNRESTRICTED EQUITY Fair value reserve	Shareholder contribution	Retained earnings	Net profit for the year	Total equity
OPENING BALANCE, 1 JANUARY 2018[1)]	**50**	**70**	**9,550**	**7,155**	**–**	**16,825**
Comprehensive income for the period	–	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**
Comprehensive income for the year	–	–482	–	–	1,546	1,664
CLOSING BALANCE, 31 DECEMBER 2017	**50**	**70**	**9,550**	**5,569**	**1,546**	**16,785**

[1)] Opening balance has been restated in accordance with IFRS 9, refer to Note 10.

CONDENSED CASH-FLOW STATEMENT

SEK million	2018 Jan–Dec	2017 Jan–Dec
Opening cash and cash equivalents	**150**	**102**
OPERATING ACTIVITIES		
Interest and commissions paid/received	3,174	2,600
Outflows to suppliers and employees	–902	–761
Taxes paid/refunded	–429	–64
Change in assets and liabilities of operating activities	187	–39,198
Cash flow from operating activities	**2,030**	**–37 423**
INVESTING ACTIVITIES		
Cash flow from investing activities	**–**	**–**
FINANCING ACTIVITIES		
Change in subordinated debt	–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**

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 2018	Cash flow	NON-CASH ITEMS Fair value	Other	Closing balance 31 Dec 2018	Opening balance, 1 Jan 2017	Cash flow	NON-CASH ITEMS Fair value	Other	Closing balance, 31 Dec 2017
Long-term interest-bearing liabilities	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**

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 9 – Financial Instruments
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments in its entirety and encompasses classification and measurement, and impairment and hedge accounting. A separate project under the IASB is ongoing with regard to macro hedge accounting. SCBC applies the mandatory sections pertaining to classification and measurement and impairment from 1 January 2018. Under IFRS 9, classification is based on both the entity's business model and the contractual cash flow characteristics. This classification, in turn, determines the measurement. The impairment model under IFRS 9 is based on expected credit losses as opposed to the previous model, which is instead based on incurred credit loss events. The aim of the new model is to capture and recognise expected credit losses at an earlier stage. For hedge accounting, the carve-out version of IAS 39 is applied, as adopted by the EU. For further information regarding the company's accounting policies regarding IFRS 9, please refer to Note 1, page 18-19, of the 2017 Annual Report. The rules have been applied through the adjustment of the balance sheets of the Company at the date of initial application of the standard, January 1, 2018, refer to Note 10. The comparative figures have not been restated. No requirements apply for restatement of comparative periods.

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. The introduction will not have any material effect on SCBC's financial reporting. The standard became effective as of 1 January 2018.

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.

All other accounting policies and calculation methods are unchanged in comparison with the Annual Report 2017. These consolidated condensed financial statements have been prepared on a going concern basis. On 15 February 2019, 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	2018 Jul–Dec	2018 Jan–Jun	2017 Jul–Dec	2018 Jan–Dec	2017 Jan–Dec
Gains/losses on interest-bearing financial instruments					
– Change in value of hedged items in hedge accounting	191	–396	74	–205	621
– Realised gain/loss from financial liabilities	–78	–69	–93	–147	–248
– Derivatives in hedge accounting	–198	391	–103	193	–663
– Other derivatives	34	36	39	70	168
– Loan receivables	27	19	37	46	61
Currency translation effects	0	0	0	0	0
Total	**–24**	**–19**	**–46**	**–43**	**–61**

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	2018 Jul–Dec	2018 Jan–Jun	2017[1] Jul–Dec	2018 Jan–Dec	2017[1] Jan–Dec
Lending to the public					
Confirmed credit losses	–1	0	–1	–1	–1
Recoveries of previously confirmed credit losses	–	–	–	–	–
Preceding year's provision under IAS39	–	–	–4	–	7
Change in provision for the period — credit stage 1	3	–3	–	0	–
Change in provision for the period — credit stage 2	–2	–3	–	–5	–
Change in provision for the period — credit stage 3	3	–22	–	–19	–
Guarantees	–3	2	7	–1	6
Net credit losses for the year/period — lending to the public	**0**	**–26**	**2**	**–26**	**12**

[1] Jämförelsetalen 2017 är redovisade enligt IAS 39.

The negative change in credit stage 3 is primarily attributable to an intra-group transfer from SBAB of credit-impaired loans due to 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 SCBC's 2017 Annual Report, Note 1, pages 18–19.

NOTE 4 Lending to the public

Group, SEK million	31 Dec 2018	31 Dec 2017
Opening balance [1)]	312,254	244,445
Transferred to/from Group entities	58,992	89,847
Amortisation, write-offs, redemption, etc.	−31,852	−22,051
Change in provision for expected credit losses [2)]	−24	−42
Closing balance	**339,370**	**312,199**

[1)] For further information about the effects of transition to IFRS 9, please refer to Note 12.
[2)] 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 2018	31 Dec 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	31 Dec 2018	1 Jan 2018
Credit stage 1		
Gross carrying amount	319,834	291,854
Provision for expected credit losses	−24	−24
Carrying amount	**319,810**	**291,830**
Credit stage 2		
Gross carrying amount	19,425	20,411
Provision for expected credit losses	−64	−59
Carrying amount	**19,361**	**20,352**
Credit stage 3		
Gross carrying amount	220	74
Provision for expected credit losses	−21	−2
Carrying amount	**199**	**72**
Gross carrying amount (credit stages 1, 2 and 3)	**339,479**	**312,339**
Provision for expected credit losses (credit stages 1, 2 and 3)	**−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 SCBC's 2017 Annual Report, Note 1, pages 18–19.

NOTE 5 Derivatives

SEK million	31 Dec 2018 Assets measured at fair value	31 Dec 2018 Liabilities measured at fair value	31 Dec 2018 Total nominal amount	31 Dec 2017 Assets measured at fair value	31 Dec 2017 Liabilities measured at fair value	31 Dec 2017 Total nominal amount
Interest-rate-related	2,367	272	244,495	1,746	514	212,170
Currency-related	4,404	323	80,288	2,116	60	52,703
Total	**6,771**	**595**	**324,783**	**3,862**	**574**	**264,873**

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

NOTE 6 Classification of financial instruments

Financial assets

	31 Dec 2018				
	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	–	–	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

	31 Dec 2018				
	Financial liabilities measured at FVTPL				
SEK million	Derivatives (held for trading)	Held for trading	Financial liabilities measured at amortised cost	Total	Total fair value
Liabilities to credit institutions	–	–	1	1	1
Issued debt securities, etc.	–	–	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**

Cont. NOTE 6 Classification of financial instruments

Financial assets

SEK million	Assets measured at FVTPL (held for trading)	Loan receivables	Total	Total fair value
	31 Dec 2017			
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	Liabilities measured at FVTPL	Other financial liabilities	Total	Total fair value
	31 Dec 2017			
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 1 Accounting Policies in the 2017 Annual Report. 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 2018 Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
Assets				
Derivatives	–	6,771	–	6,771
Total	**–**	**6,771**	**–**	**6,771**
Liabilities				
Derivatives	–	595	–	595
Total	**–**	**595**	**–**	**595**

SEK million	31 Dec 2017 Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
Assets				
Derivatives	–	3,862	–	3,862
Total	**–**	**3,862**	**–**	**3,862**
Liabilities				
Derivatives	–	574	–	574
Total	**–**	**574**	**–**	**574**

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note 1 of the Accounting Policies in the 2017 Annual Report. 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 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 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 2018	31 Dec 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.

NOTE 9 Capital adequacy, own funds and capital requirements

CAPITAL ADEQUACY[1)]

SEK million	31 Dec 2018	31 Dec 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 CET1 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 [2)] of total capital	8,118	14,996

1) The risk-weight floor has effected risk exposure amount, excess capital and capital ratios.

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

Decided movement of the risk-weight floor for residential mortgages
The Swedish FSA has introduced 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 change entered in to force from 31 December 2018 and is valid for two years. The change means the capital requirement is set as a requirement in Pillar 1. The credit institutions to be 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.

The following calculation is made as if the risk-weight floor still would be applicable in Pillar 2.

Pillar 1 if the risk-weight floor for residential mortgages remaines in Pillar 2[1)]

	31 Dec 2018
Risk exposure amount, SEK million	21,513
CET1 capital ratio, %	70.9
Tier 1 capital ratio, %	70.9
Total capital ratio, %	70.9

1) The table above shows the capital ratio before the shift of risk-weight floor from Pillar 2 to Pillar 1. The information given in the table is just for comparison.

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 9 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 2018**	**31 Dec 2017**
CET1 capital instruments: 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 assets	**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 capital 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

1) The net profit has been reduced with a dividend of SEK 3.000 million.

Cont. **NOTE 9** Capital adequacy, own funds and capital requirements

RISK EXPOSURE AMOUNT & CAPITAL REQUIREMENTS, SEK million	**31 Dec 2018** Risk exposure amount	**31 Dec 2018** Capital requirement	**31 Dec 2017** Risk exposure amount	**31 Dec 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: position risk	–	–	–	–
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 stricter prudential requirments based on CRR art. 458	**67,675**	**5,414**	–	–
Total risk exposure amount and minimum capital requirement	**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).

NOTE 10 Effect of changes in accounting policies

Restatement of the balance sheet as of 31 December 2017 on transition to IFRS 9 as of 1 January 2018.

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
Debt securities issued, 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 period	1,546	–	1,546
Total unrestricted equity	**16,735**	**40**	**16,775**
Total equity	**16,785**	**40**	**16,825**
SUMMA SKULDER OCH EGET KAPITAL	**316,584**	**51**	**316,635**

Cont. NOTE 10 Effect of changes in accounting policies

Changes in the classification of financial assets at 31 December 2017 on the transition to IFRS 9 on 1 January 2018.

	2018		
SEK million	**Financial assets measured at FVTPL**	**Financial assets measured at amortised cost**	**Total**
	Held for trading		
Closing balance 31 December 2017	**–**	**–**	**316,581**
Reclassification			
Reclassified from financial assets at FVTPL	3,862	–	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	**3,862**	**312,770**	**316,632**

Financial calendar

Interim report January-June 2019	17 July 2019
Year-end report 2019	14 February 2020

Contact

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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, 15 February 2019

Signature on Swedish original

Mikael Inglander
CEO

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

The information was submitted for publication on 15 February 2019 at 12:00 p.m. (CET).

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 2018. The Board of Directors and the CEO are responsible for the preparation and presentation of this year-end 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 year-end 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 of 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 year-end report is not, in all material respects, in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 15 February, 2019
Deloitte AB

Signature on Swedish original

Patrick Honeth
Authorised Public Accountant