

Analysis of climate-related risks and opportunities

Reporting in accordance with the TCFD recommendations



Samhällsbyggnadsbolaget



The countries of the world have agreed on a target to limit global warming to 1.5 degrees. This will demand a rapid transformation in every sector, particularly the property sector, which accounts for a significant share of the world's emissions through energy consumption and building processes. SBB will do its part in this transformation and has long worked to reduce climate impact and prepare for the effects of a changed climate. To fully understand the effects of the transformation and climate change, SBB has prepared a risk inventory in accordance with the TCFD recommendations. The risk inventory has been addressed by the SBB management team and concerns both transition risks, physical risks and a scenario analysis where both the effects of a successful and an unsuccessful climate transformation are examined.

The report was approved by the SBB management team on 27 April 2021.

Governance and responsibility

SBB's Board of Directors has an overall responsibility for the governance of the sustainability issues. SBB's management team is responsible for preparing proposals on policies, targets, and strategies within sustainability, which the Board approves.

Sustainability Committee

The Board of Directors has a Sustainability Committee that is responsible for follow-up and implementation of the work with the sustainability goals. The Sustainability Committee has minuted meetings in connection with the ordinary Board meetings. The CEO bears the utmost responsibility for following up the continuous sustainability work, including fulfilment of sustainability goals.

Sustainability Council

For the operational work on the implementation of Vision 2030, the management team has appointed an internal Sustainability Council with key individuals from various parts of the company including representatives from the management team. The Sustainability Council has minuted meetings every two months and works focused on preparing and following up subtargets and strategies to achieve them.

Environment and quality management system

In 2020, the management team introduced an environmental and quality management system that ensures that the continuous sustainability work is conducted in a structured and uniform way. In the management system, roles and the division of responsibility are described, among other aspects. SBB has a well-functioning property management organization with technical property management experts who are assigned an important role in the implementation of the highly set energy target. Their role includes monitoring the energy performance in the entire property portfolio and investigating the most suitable measures for each property, such as heat pumps, supplemental insulation, LED lighting and improvements to ventilation systems. SBB's agreements with operations providers contractually regulate the follow-up of a number of quality and sustainability aspects, such as energy consumption, ventilation, indoor climate, occurrence of Legionella, etc. SBB's technical management experts regularly follow up compliance to these agreements.



Risk management

Sustainability-related risks are a central part of SBB's sustainability work and are integrated into the ordinary risk management, which is handled by the management team where the CEO bears the utmost responsibility. The Board of Directors is responsible, through the Sustainability Committee, for the company's management and continuity in the handling of these risks. Properties embody large values, which are at risk of being lost if the risks are not managed in a structured manner. Such as damage due to physical risks or transition risks caused by climate changes. For several years, SBB has inventoried the climate-related risks in the property portfolio. Additional commitments were undertaken in 2020 to thoroughly analyse the sustainability risks of each individual property.

SBB's climate journey

2019

- Systematic investment in reduced energy consumption in management.
- Commenced inventory of total energy consumption, Scope 1-2 according to the GHG Protocol.
- General inventory of physical climate risks for the property portfolio.

2020

- Launched Vision 2030 and appointed a Sustainability Committee in the Board of Directors.
- Systematic investment in reduced energy consumption in management.
- Achieved 50 percent timber construction in new production.
- Strategic investments in research and development, such as AI robots for the automatic reading and registration of energy consumption and solar cells with integrated battery storage.
- Inventoried total climate impact in the entire value chain, Scope 1-3 according to the GHG Protocol.
- Conducted in-depth analyses of the climate impact in new construction projects.
- Commenced in-depth analysis of climate-related risks in the property portfolio.
- Participated for the first time in CDP, Vigeo Eiris and MSCI Index.

2021

- Systematic investment in reduced energy consumption in property management.
- Involved in strategic collaboration for the installation of solar cells and charging stations.
- Continued strategic investments in research and development.
- Preparing an action plan to achieve the goals in Vision 2030.
- Participating for the first time in Dow Jones Sustainability Index and GRESB.
- More in-depth analyses of the climate impact in new construction projects and possible improvement measures.
- Reporting of climate-related risks according to TCFD.

Scenario analysis

In order to evaluate strategies for the handling of climate-related risks and opportunities, a scenario analysis has been prepared as input. Based on the analysis, several risks and opportunities have been identified and strategic priorities have been set.

Scenario analysis

<p>Scenario 1: Successful climate transformation (RCP 2.6) Sweden achieves its target of zero net climate impact by 2045. The countries of the world follow the Paris Agreement. Strongly reduced energy intensity in every part of society. New technology enables the broad introduction of a 100 percent renewable and climate-neutral energy supply Political decisions regarding regulations and incentives for reduced greenhouse gases are introduced. 1.5-3 degree temperature increase in Sweden</p> <p>Risks Properties that do not live up to the market’s expectations lose value (such as those properties far from public transport). Higher and more complex requirements in property development, building production, energy consumption, operations, etc. (regulations and market driven). The construction and property sector has large emissions in the value chain that must be minimised. This requires large investments and transformation, higher prices and administration and follow-up. Difficult-to-predict energy prices.</p> <p>Opportunities Competitive advantages in a faster transformation than competitors. More complex property management entails competitive advantages for a competent organization. Increased demand for sustainable properties. Better profitability for renewable energy production.</p> <p>Potential impact on SBB’s earnings Increased costs to live up to new regulations. Need for investments in renewable energy production. Increased value of the project development portfolio, thanks to a higher demand for construction projects with a low climate impact. Higher rental income thanks to increased demand for premises with a low climate impact. Lower valuation of properties in risk areas. Investments in climate adaptation measures.</p>	<p>Scenario 2: Business as usual (RCP 8.5) Emissions continue to increase at the same rate as today. Unchanged or slowly changed behaviour among businesses and consumers. Sweden fails to achieve its target of zero net climate impact by 2045. The countries of the world fail to follow the Paris Agreement. Failed climate policy. 2-4 degree temperature increase in Sweden.</p> <p>Risks Damage to buildings and land due to weather and sea levels (costs and reduced valuations). Risks to tenants in, for example, elderly housing and hospitals in heat waves. Increased energy costs for air conditioning. Lost assets in the event of higher sea levels.</p> <p>Opportunities Reduced energy use from heating. The Nordic market is probably still attractive thanks to an ample supply of water and a cold climate.</p> <p>Potential impact on SBB’s earnings Increased operating costs. Lost and sharply decreased property valuations due to the effects of the climate changes (higher sea levels, extreme weather, neglected climate adaptation). Increased costs for climate adaptation. Increased costs to live up to new regulations. Increased valuations and rental income due to population growth and a greater need for social infrastructure as a result of climate migration to the Nordic countries.</p>
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Identification and valuation of risks

An overview of the most significant climate-related risks is summarised in the table below. It also provides an assessed probability of a certain risk becoming reality and its potential impact on the financial results. Based on this and the dialogues conducted with the company's stakeholders, a strategic prioritization has been made by SBB's management team. The priorities presented in the table represent a total appraisal of the risk's probability, potential impact and SBB's current and historical focus on the issue. The strategic priority may therefore vary from year to year, depending on earlier focus areas.

Summary of risk assessment

Risk category	Risk	Probability	Potential impact	Strategic priority
TRANSITION RISKS				
Policy and legislation	Changed regulations	High	Low	Continuous
	Increased complexity in management	Medium	Low	Continuous
	Reporting practice	Medium	Low	Continuous
	Changed tax legislation	High	Low	Continuous
Business	Property portfolio	Low	High	Continuous
	Rental income	Low	High	High
	Changes in value	Medium	High	High
Investments	Investments and corporate acquisitions	High	Medium	High
	Digitalization strategy	High	Low	Continuous
Market	Brand	Medium	Medium	Continuous
	Dissatisfied tenants	Low	Low	Continuous
Technology	Need to replace technology early	Medium	Low	Continuous
Other	Global macro-economic crisis	High	Medium	High
	Financing	Medium	High	High
PHYSICAL RISKS				
Urgent	Damage to properties	Low	Medium	Continuous
	Global crises (for example refugee crises)	Medium	Low	Continuous
	Health risks to tenants	Low	Medium	Continuous
Chronic	Property valuations	Medium	Medium	Continuous
	Increased operating costs	Low	Medium	Continuous
	Higher costs for investment in climate adaptation	Medium	Medium	Continuous

In-depth risk analysis and risk management

The strategy to manage climate-related risks and opportunities is summarised in general in point form below:

- Investments in technology for zero emissions and renewable energy.
- Timber construction for reduced emissions in new production and the storage of carbon.
- Investments in existing properties to reduce emissions and operating costs and to avoid emissions and use of natural resources in demolition and new production.
- Divestment or climate-adaptation of properties in areas identified as risk areas.
- Investment in properties in low-risk areas and cities with future industries.
- Robust governance of sustainability work.
- Staffing with the right expertise and experience to drive the climate transformation.

An in-depth risk analysis is presented below.

In-depth risk analysis, assessment of financial impact and risk management

Assessment of risk and potential financial impact	Risk management
TRANSITION RISKS	
Changed regulations National and international legislation will probably change in a way that affects SBB's operations. SBB's largest sources of emissions: energy consumption in operations and emissions in building production will probably be exposed to changed regulations. It is likely that these emission sources will be subject to new regulations and taxes.	Strategic priority: Continuous Sharply reduced emissions already now and securing the supply of renewable electricity at a fixed price by owning solar and wind power installations. SBB will be on the leading edge in driving the development and adapting operations so that the changed regulations become a competitive advantage over slower actors. Analysis of emission levels and potential impact of different fees and taxes on carbon dioxide
Increased complexity in management Changed regulations, more unstable weather, changed demand, etc. will make management more complex with more parameters and wishes to consider for the managers.	Strategic priority: Continuous Strong and flexible management organization with many opportunities for further development for the employees and regular further development.
Reporting practice Stakeholders expect information on how SBB is performing and preparing for changed prerequisites.	Strategic priority: Continuous SBB has built up structures and an organization for robust and continuous reporting of ESG-related issues.
Changed tax legislation As the political ambitions in the climate field grow, taxes will probably be used to a greater extent as an incentive against emission-intensive operations. Property owners have the possibility of replacing the type of energy and heating systems; energy suppliers are more exposed to these risks.	Strategic priority: Continuous Energy-efficiency enhancement, replacement of energy type, green leases, environmentally labelled energy, own installations for solar and wind power.
Property portfolio The value of SBB's property portfolio can be impacted by several factors that are directly or indirectly linked to the climate changes and social changes that affect demographics.	Strategic priority: Continuous SBB owns properties throughout the Nordic region with long-term tenants. The average length of leases is nine years. 75 percent of all properties are in metropolitan regions with stable population growth. A marginal part (<0.5 percent) of the property

portfolio is in risk areas for higher sea levels. SBB is continuously renewing its risk analyses to ensure a low-risk exposure.

<p>Rental income</p> <p>The rental income can be affected by external factors, such as market prices for properties and rents, crises, bankruptcies, etc. It can also be affected by deficient management that causes vacancies and dissatisfied tenants.</p>	<p>Strategic priority: High</p> <p>Continued high quality management and long leases are continuously a strategic priority. External factors are managed through long contracts with stable tenants. Deficient management is counteracted through continuous work to retain a high level of expertise and motivation in the management. See more about this under the sections on the staff.</p>
<p>Changes in value</p> <p>Valuations can be affected by external factors, such as crises and demographic changes. Changed customer preferences can also have an impact. Strong changes in valuation can have a very negative impact on SBB and extensive importance is therefore assigned to securing the property value.</p>	<p>Strategic priority: High</p> <p>SBB assigns great importance to monitoring the development of society from many different perspectives. This issue is of the highest priority to both the management team and the Board of Directors, which continuously work to understand how the development of society affects SBB's operations and the valuations of the properties.</p>
<p>Investments and corporate acquisitions</p> <p>One of SBB's growth strategies is corporate acquisitions. It always entails risks to acquire new companies and thorough due diligence and analysis prior to acquisitions are of utmost importance. It is also important to be able to integrate the investments to benefit from the potential in the acquisitions.</p>	<p>Strategic priority: High</p> <p>All investments are preceded by a thorough due-diligence process. The investment process itself is characterized by rigorous procedures to ensure that all communication and actions are correct and timely. After finalizing an acquisition, great emphasis is put on the integration of the organisation, processes, and assets.</p>
<p>Digitalization strategy</p> <p>Digitalization is rapidly changing the prerequisites for many companies. Digital technology comes with major opportunities for those who can manage it and extensive risks for those who fail or are too slow. Successful digitalisation can make the difference between efficient management and very efficient management. There is also large added value to safeguard by being able to offer the tenants supplemental services, such as insurance and electricity agreements through an app for the residents.</p>	<p>Strategic priority: Continuous</p> <p>SBB is making a major stake on utilizing digital technology in the operations through collaboration and strategic investments in leading-edge actors. For example, SBB has developed an AI robot for the reading of energy consumption from invoices and all communication with residential tenants takes place digitally through an app for the residents.</p>
<p>Brand</p> <p>High confidence among the customers is central to SBB. Mistakes in the operations and deficient communication can damage trust among customers and other stakeholders. A damaged brand can be devastating in management, land allocations and negotiation with potential tenants.</p>	<p>Strategic priority: Continuous</p> <p>The best way to establish a high level of trust among customers and the public is a well-functioning management that takes care of its obligations to customers, authorities, and internal regulations. It is also important to have an ambitious sustainability work that yields results. This is central in SBB's operations, and the staff continuously receives on-going training. Besides this, SBB has a high level of readiness for rapid and clear communication in case of incidents, such as workplace accidents or defects in properties.</p>
<p>Dissatisfied tenants</p> <p>When tenants are not satisfied, it is a risk both because they risk leaving the premises and also create a bad reputation for the company.</p>	<p>Strategic priority: Continuous</p> <p>A local management that listens and meticulously takes care of its commitments. Measurement of customer satisfaction on a yearly basis.</p>
<p>Need to replace technology early and unsuccessful investments in new technology</p>	<p>Strategic priority: Continuous</p>

Higher requirements on the energy consumption of buildings and follow-up may render the technology in the buildings obsolete. This is especially important to keep in mind in investments and replacements to avoid the risk that the investments become obsolete early. Unsuccessful investments or bad planning can cause the loss of significant economic value.

Technical managers are continuously looking for improvement potential. The best technology is always used in investments and replacements. The technical managers meet several times a year to exchange experiences and keep up to date about the latest technology.

Global macro-economic crisis
 Financial crises that come at regular intervals can have a major impact and are difficult to predict and affect income, expenses, and the valuation of underlying assets. Companies must be prepared to manage these crises.

Strategic priority: High
 Long leases with stable tenants. Low financing costs and long maturities in borrowing. High interest-coverage ratio. Assets with stable values.

Financing
 Apart from equity, the Group's operations are mainly financed through bond loans and through loans from credit institutions. As a result, SBB is exposed to financing and interest rate risks. Financing risk is the risk that SBB may not have access to financing or only have access to refinancing at an increased cost for refinancing, investments, and other payments. Furthermore, certain loan agreements and bonds contain terms that may limit the Group's ability to enter new debt securities. If the Group is unable to obtain capital for refinancing or new borrowing or only at less favourable terms, it may have a material adverse effect on the Group's financial position. Interest rate risk is described as the risk that arises from changes in the interest rates which may adversely impact the Group's interest expense, which is one of the Group's main expense items.

Strategic priority: High
 The financing risk is managed through targets in the finance policy striving to have good diversification in terms of the loans' maturity structure, forms of borrowing and lenders, and to have good advance planning for refinancing and a well-balanced liquidity reserve.

The objective is to achieve a BBB+ rating in the short term and A- rating in the long term. Key figures for achieving BBB+ have been achieved. SBB is also on the leading edge of green and social sustainability, which broadens the financing possibilities.

PHYSICAL RISKS

Damage to properties
 Damage to properties arises at regular intervals and is continuously repaired by management. However, with climate change, there are also risks of more frequent damage and other kinds of damage caused, for example, by extreme weather. This may lead to increased management costs.

Strategic priority: Continuous
 High quality in all new production for building materials, technical installations, moisture expertise, etc. Climate adaptation of properties that are in risk zones, such as drainage and flood protection.

Global crises (e.g. refugee crises)
 A changed climate can give rise to both sudden and persistent streams of refugees as a result of drought or flooding, for example. Many refugees may conceivably arrive in the Nordic countries. This will demand social infrastructure and thereby greater need for SBB's premises.

Strategic priority: Continuous
 Preparedness and sensitivity to the tenants' needs and expected effects of changes in the surrounding world.

Health risks to tenants
 Being in improperly built or mismanaged premises entails health risks. Dangerous building materials, damp, noise, flickering lights, air pollution and Legionella are some examples of health hazards in premises. If they were to occur in any of SBB's premises, it would entail a risk of damages, lost trust, reduced rental income and costs for corrective measures.

Strategic priority: Continuous
 Environmental certification. Management procedures that ensure compliance with authority requirements and other requirements on healthy premises. Local management that listens.

Property valuations
 The value of the property depends on both internal and external factors. Internal factors include how well the management is done and how much is invested in the properties. External factors include demand for premises, population growth, employment rate and the global economy. Lower valuations can affect the financing opportunities, the value of the share and rent levels.

Strategic priority: Continuous
 A property portfolio in regions with a strong economy and population growth. Investments in properties, such as successive renovations, heating systems, window replacements, solar cells, etc. Property development and project development with extensive value added.

Increased operating costs
Strategic priority: Continuous

The operating costs may increase because of climate change demanding, for example, air conditioning and more frequent maintenance. They may also increase because of new regulations and other requirements intended to slow climate change or reduce its effects.

Technical managers are continuously looking for improvement potential. The best technology is always used in investments and replacements. The technical managers meet several times a year to exchange experiences and keep up to date about the latest technology.

Higher costs for investment in climate adaptation

The effects of climate change will need to be met with climate adaptation in the form of flood protection, drainage and technical installations in buildings, among other things. Some cities will be affected more than others.

Strategic priority: Continuous

SBB has already begun work to climate adapt properties in the most vulnerable locations. An analysis of climate-related risks at the property level is conducted annually to correctly prioritize actions.

Economic impact analysis

The risks deemed to have a major strategic priority are:

- Rental income
- Changes in value
- Investments and corporate acquisitions
- Global macro-economic crisis
- Financing

There are other risks that may at first seem to be more tangible, such as rule changes, new taxes on carbon dioxide emissions and other transition risks. An important reason that the risks have not been valued as more serious is that they are deemed to affect other actors worst. The property sector is one step closer to the end customer in the value chain. For example, taxes on carbon dioxide emissions that may lead to radically increased costs for district heating suppliers that have a high percentage of fossil energy. For SBB, it is relatively easy to protect it from these costs by installing new heating systems that use renewable energy, such as heat pumps combined with renewable electricity production. SBB has already begun to transition and has built up an organization to address these risks. At the same time, SBB is securing the supply of renewable electricity at a fixed price by itself expanding and owning installations for solar and wind power.

Rental income

In the long term, a property's rental income is affected by supply and demand in the market. The Group's rental income is affected by the letting ratio, contracted rental levels and the ability of tenants to pay their rent. Reduced letting ratios or rental levels will, regardless of reason, affect the Group's revenue negatively. The risk of large fluctuations in the letting ratio and loss of rental income increases with the number of large tenants for a property company. The risk is that large tenants will not renew or extend their rental agreements at the end of the lease, which in the long run may lead to a reduction in rental income and a reduction in the letting ratio. SBB is also dependent on the tenants paying their rents on time. Revenue and cash flow can be adversely affected if the tenants stop paying, or in any other way do not fulfil their obligations.

Financial implications: SEK 256m (loss of 5% of the rental income)

Time horizon for these: 9 years (average length, lease)

Costs to address the risks: SEK 128m (SBB has minimized the risks by signing long, stable leases linked to inflation. A riskier strategy with shorter leases can provide higher income in the short term. The figure SEK 128m is an estimate of how much higher SBB's rental income could be given a higher risk-taking and shorter lease.)

Risk management:

SBB's strategy is the long-term ownership, management and development of residentials in Sweden and community service properties in the Nordic region, i.e. a market with stable and strong underlying driving forces. The property portfolio is characterised by a high letting ratio and, for the community service properties, long leases. The leases for community service properties are linked to

inflation and the rent levels for residential also follow inflation well. In this way, it is ensured that the rent levels in the long leases also follow the development of the economy. Residential are located in Swedish growth municipalities close to town centres and access to good transportation links and where demand for residential is high. The community service properties include properties that are used by tenants that are directly or indirectly tax financed with long leases. The average contract length for community service properties was 9 years as of 31 December 2020. The letting ratio was 93.6 percent. SBB's rental policy contains requirements for managing rental risk. On the assessed credit risk, certain leases are supplemented by a guarantee, deposit or bank guarantee. All rents are payable in advance. In the case of residential, a credit report is required to check any payment remarks and the income level of the potential tenant. In addition, an affordability test is carried out to ensure that the potential tenant's financial situation allows for the payment of the rent while meeting the demands of the Consumer Agency on a reasonable standard of living.

Changes in value

The Group's properties are reported at market value in the Group's consolidated balance sheet and changes in value are reported in the income statement. Changes in value are affected partly by property-specific factors such as rental levels, letting ratios and operating costs, and partly by macroeconomic factors such as the general economic situation, growth, unemployment levels, the rate of growth of new builds, population growth, inflation and interest rates. If the value of properties decreases, there can be a number of consequences including breach of bank loan covenants, which in turn can lead to the bank being entitled to call the loan early. A significant reduction in the market value of the properties could also have a negative impact on the ability to divest these properties without incurring losses, which in turn could have a material adverse effect on the Group's financial position and results.

Financial implications: SEK 1,670m (Pertains to climate-related risks for lost property valuation; the figure refers to total property value in municipalities with significant physical climate risks. Mainly risks of higher sea levels and flooding of rivers. However, it is highly unlikely that the entire value would be lost due to extreme events; it is more likely that costs arise to prevent or repair damage.)

Time horizon for these: 30 years (time until the global average temperature increase amounts to 2 degrees in the worst climate scenario, RCP 8.5)

Costs to address the risks: SEK 24m (Total compensation: CEO, management team and Board, which work to minimize the risks and make direction decisions regarding geographic spread)

Risk management

SBB's property portfolio has a good geographical spread with residential in Sweden and community service properties in the Nordics. 75 percent of the property portfolio is in the metropolitan regions. In Sweden, SBB owns, manages and develops residential in high growth municipalities where there is high demand for residential near city centres and there is access to good transport links. The community service properties include properties that are used by tenants that are directly or indirectly tax financed with long leases linked to inflation.

Investments and corporate acquisitions

One of SBB's growth strategies is corporate acquisitions. It always entails risks to enter new companies as owners and thorough due diligence and analysis prior to acquisitions are of utmost importance. It is also important to be able to integrate the investments to benefit from the potential in the acquisitions.

Financial implications: SEK 728m (5 percent of acquisitions in 2020, the total amount of acquisitions in 2020 was SEK 14,552m)

Time horizon for these: 1 year

Costs to address the risks: SEK 36m (Total compensation: CEO, management team, Board and head office, which work to minimize the risks and conduct thorough analyses prior to acquisitions)

Risk management

Prior to all acquisitions, extensive analyses are done of risks and opportunities. In the event of a closed deal, integration is always of the highest strategic priority, both with regard to organization, documentation and technical systems.

Global macro-economic crisis

Economic crises are difficult to predict, can have a major impact on operations and affect income, expenses and the valuation of underlying assets. Companies must be well prepared to manage these crises. The consequences of a crisis cannot therefore be summarized in one figure; nor is it possible to predict exactly when a crisis will strike. Instead, there must always be preparedness to confront the crisis and an impact analysis must be done where changes in several parameters are analysed. Below is a presentation of how the property valuation is affected in the event of a change in rental value, discount rate and yield requirements. The table provides a simplified illustration as individual parameters cannot be analysed in isolation.

	Change	Value impact
Rental value	+/- 5%	SEK 3,811m / -3,817m
Discount rate	+/- 0.25 %	SEK -2,716m / 2,867m
Yield requirements	+/- 0.25 %	SEK -2,827m / 3,139m

Costs to address the risks: SEK 36m (Total compensation: CEO, management team, Board and Head Office, which work to minimize the risks and conduct thorough analyses and maintain preparedness for risks)

Risk management

Long leases with stable tenants. Low financing cost with long debt maturity, long period of fixed interest, a diversified borrowing and high interest-coverage ratio. Focus on assets with stable values.

Financing

Apart from equity, the Group's operations are mainly financed through bond loans and loans from credit institutions. As a result, SBB is exposed to financing and interest rate risks. Financing risk is the risk that SBB may not have access to financing or only have access to refinancing at an increased cost for refinancing, investments and other payments. Furthermore, certain loan agreements and bonds contain terms that may limit the Group's ability to enter into new debt securities. If the Group is unable to obtain funds for refinancing or new borrowing or only at less favourable terms, it may have a material adverse effect on the Group's financial position. Interest rate risk is described as the risk that arises from changes in the interest rates which may adversely impact the Group's interest expense, which is one of the Group's main expense items. Interest expenses are mainly affected by, apart from the level of interest-bearing liabilities, the level of the current market interest rate, credit institutions' margins and the strategy for fixed interest periods. The Swedish market interest rate is mainly affected by the expected rate of inflation and the Riksbank's repo rate. The interest rate risk can lead to changes in market value and cash flows as well as fluctuations in the Group's earnings.

Financial implications: SEK 729m (doubled average interest rate). SBB's leases are linked to inflation, which means that the rental income will cover the increased costs before interest rates have time to increase.

Time horizon for these: 4.8 years (Average remaining maturity on the loan portfolio)

Costs to address the risks: SEK 36m (Total compensation: CEO, management team, Board and Head Office, which work to minimize the risks and conduct thorough analyses of the current and future financing situation)

Risk management

The financing risk is managed through targets in the finance policy striving to have good diversification in terms of the loans' maturity structure, forms of borrowing and lenders, and to have good advance planning for refinancing and a well-balanced liquidity reserve. As of 31 December 2020, the average remaining maturity of the loan portfolio was 4.8 years. At the same time, available liquidity, including cash and cash equivalents, financial investments, loan commitments and unutilized lines of credit, amounted to SEK 45,846m. The objective of SBB's interest rate risk strategy is to achieve stable cash flows to allow property investments and meet the requirements and expectations of external parties whilst achieving the best possible financial cash flow. The interest rate risk strategy's aim is to maintain a balanced combination of variable and fixed interest rates, taking into account the sensitivity of SBB's total cash flows to changes in the fixed income market over a long-term horizon. The average fixed interest term at the end of the year was 4.5 years and the share of the loan portfolio with fixed interest terms through interest rate derivatives or fixed interest loans was 96 percent.