

Swedbank Mortgage

YEAR-END REPORT 2015

2 FEBRUARY 2016

Full-year 2015 compared with full-year 2014

- **Operating profit** amounted to SEK 9 024m (7 345)
- **Net interest income** increased to SEK 11 233m (8 584)
- **Loans to the public** increased by SEK 36bn to SEK 858bn (822)
- **Profit before impairments** increased to SEK 9 054m (7 382)
- **Credit impairments** amounted to SEK 30m (37)
- **Return on equity** was 19.3 percent (16.9)
- **Covered bonds** totalling a nominal amount of SEK 158bn (92) were issued during the period

Figures in brackets pertain to the same period in 2014 unless otherwise stated.

Swedbank Mortgage full-year report 2015

FULL-YEAR 2015 COMPARED WITH FULL-YEAR 2014

Swedbank Mortgage AB (in Swedish: Swedbank Hypotek AB) is a wholly-owned subsidiary of Swedbank AB (publ) responsible for mortgage lending activities in Sweden. Mortgage lending is mainly through Swedbank's and the savings banks' retail network, one of the largest bank-owned distribution networks in Sweden, as well as through the telephone and internet platform. There is no mortgage lending outside Sweden.

Numbers within brackets refer to the corresponding period in the previous year unless otherwise stated.

PROFIT ANALYSIS

Operating profit for the full year 2015 increased by SEK 1 679m to SEK 9 024m (7 345).

Interest income as well as interest expense decreased against the previous year due to declining interest rates and lower average interest rates on both lending and funding. Interest income for the period amounted to SEK 19 357m (23 382) and interest expense to SEK 8 124m (14 798). Net interest income increased by SEK 2 649m to SEK 11 233m (8 584) driven by increased volumes and margins, both for new lending as well as for the existing mortgage portfolio.

Net gains and losses on financial items amounted to SEK -1 440m (-506). The decrease in net gains and losses are mainly due to the effects from repurchases of covered bonds and increased credit spreads negatively affecting the market value on loans held at fair value. For further information, see note 3.

Other expenses amounted to SEK 779m (749). Other expenses include a large part of the business exchange margin paid to the savings banks and by Swedbank AB partly owned Savings banks. This cost amounted to SEK 775m (748). No mortgage distribution and handling costs are paid to Swedbank AB.

LENDING

Swedbank Mortgage is a Swedish mortgage institution with a leading position on the Swedish market. Its business is long-term mortgage lending and the company has over one million clients.

Swedbank Mortgage grants real estate loans up to a ratio of 85 per cent of the market value. Swedbank Mortgage also lends directly to municipalities or to other lenders with local government guarantees as collateral, as well as to agricultural and forestry businesses under the secondary name Jordbrukskredit.

During the period, loans to the public increased by nominal SEK 39 097m (51 491) to SEK 854 708m (815 611). Lending to households increased by SEK 40 605m (36 236), lending to the agricultural and forestry segment decreased by SEK 1 041m (3 484) and lending to the corporate segment decreased by SEK 2 549m (increased by 11 771).

In total, Swedbank Mortgage's loans to the public amounted to SEK 857 911m (821 547) after provisions, of which the accumulated change in market value accounted for SEK 3 202m (5 936).

The credit quality of the lending remains very good and credit impairments are low. Compared to 2015 net credit impairments decreased by SEK 7m to SEK 30m (37). Provisions amounted to SEK 117m (122). Credit impairments and loans are specified in notes 4 and 5.

FUNDING

Swedbank Mortgage finances its lending by issuing covered bonds on the Swedish and international capital markets. The funding process is simplified through a number of standardised funding programmes, which legally conform to a number of different markets and investors.

During the year there was continued good demand for Swedbank Mortgage's bonds. During 2015 Swedbank Mortgage issued slightly larger volumes of long term bonds compared to previous years and took advantage of the good market situation. Partly to pre finance upcoming maturities but also to match increased lending volumes.

In 2015, Swedbank Mortgage issued 5 international benchmark bonds, two in EUR, two in GBP and one in USD. The total volume converted to SEK amounted to SEK 41bn. Investor interest was generally high and the issuances could be done on good terms.

In the Swedish market Swedbank Mortgage has continuously issued a new FRN loan structure in a slightly larger format. This FRN loan does have the same maturity date as one of the big domestic outstanding benchmark bonds (loan 187). The outstanding volume at year-end for this FRN loan amounted to over SEK 8bn. Swedbank Mortgage also opened a new benchmark bond (loan 189). The outstanding volume in that loan amounted to SEK 5bn. Activity in the domestic market was otherwise calmer during the latter part of the year, probably due to the credit spread uncertainty in the second half of 2015. Of SEK 158bn total funding SEK 109bn was issued in the Swedish market.

As a part of Swedbank Mortgage's liquidity strategy to minimise risk originating in the form of large redemption volumes at the same time, the company actively repurchases large parts of the redeeming volumes, starting about one year before maturity. During 2015 SEK 39bn was repurchased in 3 different benchmark bonds with short remaining maturities.

The average maturity of all outstanding covered bonds is 35 months (35) as per 31 December.

CAPITAL ADEQUACY

The capital requirement amounted to SEK 34 593m (32 523), compared to SEK 4 418m (4 191) not considering the Basel 1 floor. Capital adequacy is specified in note 16.

Swedbank Mortgage's legal capital requirement is based on the Capital Requirement Regulation (CRR), but more specifically restricted by the Basel 1 floor within CRR. The SFSA has made clear that the Basel 1 floor, i.e. 80% of the capital requirements according to Basel 1, will remain for Swedish institutions. Since Swedbank Mortgage's capital requirement according to the Basel 1 floor is higher than the requirements in CRR/CRDIV Pillar 1 and Pillar 2 combined (including a risk-weighted floor on the Swedish mortgage portfolio of 25 per cent, a capital conservation buffer of 2.5 per cent as well as a countercyclical buffer of 1.0 per cent), it is the Basel 1 floor that constitutes the minimum capital requirement for Swedbank Mortgage. The expectation is that the Basel 1 floor will be the minimum requirement for Swedbank Mortgage also when the countercyclical buffer is raised in September 2016 to 1.5 per cent.

International work is underway regarding future capital requirements for banks. Among other things, the Basel Committee is conducting an extensive analysis to improve the comparability of banks' capital ratios. The review covers future standard methods for calculating capital requirements for credit, market, counterparty and operational risks and may propose the introduction of a capital floor based on these standard methods for banks that use internal models. Due to uncertainty about the specifics of the new regulations as well as how and when they will be implemented, it is still too early to draw any conclusions on the potential impact on Swedbank Mortgage.

Swedbank Hypotek's leverage ratio was 4.31 per cent (4.15) on 31 December 2015. The EU commissions' clarification of the definition in October 2014 has been taken into consideration in the ratio for 2015. The supervisory authorities will review the leverage ratio measurement before a possible minimum requirement is enforced in 2018.

RISKS

The primary risks are credit risk, liquidity risk, financial risk and operational risk. Swedbank Mortgage maintains a low-risk profile through a well-diversified credit portfolio and limited financial and operational risks. In addition to what is stated in this interim report, a description of the company's risks is provided in the Annual Report for 2015.

Interest rate risk

An increase in market interest rates by one percentage point as per 31 December 2015 would have reduced the fair value of Swedbank Mortgage's interest-bearing assets and liabilities, including derivatives, by SEK 466m (808), whereas a the corresponding increase in the case of a one percentage point decrease in market interest rates is SEK 474m (820). A one percentage point increase in market interest rates as per 31 December 2015 would have reduced Swedbank Mortgage's net gains and losses on financial items at fair value, excluding cash flow hedge, by SEK 213m (415). This would have a negative effect of SEK 28m on equity. The corresponding amount for Swedbank Mortgage's net gains and losses on financial items at fair value, excluding cash flow hedge, in the case of a one percentage point decrease in market interest rates is an increase of SEK 208m (413). This would have increased equity by SEK 25m.

RATING

Swedbank Mortgage is one of the largest players on the Swedish covered bond market with top rating from both Moody's Investor Service and Standard & Poor's (Aaa/AAA). As a result of Swedbank AB's general and unconditional guarantee to Swedbank Mortgage the credit ratings are linked.

On 17 June 2015, Moody's upgraded Swedbank Mortgage's rating to Aa3. The upgrade was due to Swedbank's strong profitability and high credit quality as well as long term strategy and strong brand. On 2 December 2015 Standard & Poor's upgraded Swedbank Mortgage's credit rating to AA-. The upgrade was due to the continuity in Swedbank Group's governance, stable profitability and higher level of efficiency.

Swedbank Mortgage Rating

	Moody's		Standard & Poor's	
	Rating	Outlook	Rating	Outlook
Covered Bonds	Aaa	N/A	AAA	Stable
Long-term funding	Aa3	Stable	AA-	Negative
Short-term funding	P-1	N/A	A-1	N/A

EVENTS AFTER 31 DECEMBER 2015

No important events have occurred.



Financial summary

SEKm	2015	2014	2013	2012	2011
	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec
Loans to the public	857 910	821 547	768 840	743 931	716 695
Net interest income	11 233	8 584	7 280	5 734	4 080
Operating profit	9 024	7 345	6 191	5 502	3 773
Credit impairments	30	37	30	70	56
Equity	36 570	33 269	34 455	33 131	33 660



Income statement condensed

SEKm	Note	2015	2014	2015	2014
		Jul-Dec	Jul-Dec	Full-year	Full-year
Interest income		9 260	11 321	19 357	23 382
Interest expense		-3 445	-6 600	-8 124	-14 798
Net interest income		5 815	4 721	11 233	8 584
Commission income		35	36	70	72
Commission expenses		-19	-15	-32	-25
Net commissions		16	21	38	47
Net gains and losses on financial items	3	-650	-355	-1 440	-506
Other income		2	6	7	10
Total income		5 183	4 393	9 838	8 135
Other expenses		377	390	779	749
Staff costs		2	4	5	4
Total expenses		379	394	784	753
Profit before impairments		4 804	3 999	9 054	7 382
Credit impairments	4	18	14	30	37
Operating profit		4 786	3 985	9 024	7 345
Tax		1 062	879	2 000	1 618
Profit for the period		3 724	3 106	7 024	5 727

Statement of comprehensive income condensed

SEKm	2015	2014	2015	2014
	Jul-Dec	Jul-Dec	Full-year	Full-year
Profit for the period	3 724	3 106	7 024	5 727
Items that may be reclassified to the income statement				
Cash flow hedges:				
Gains and losses arising during the period	51	413	619	303
Reclassification adjustments to income statement, net interest income	68	9	77	11
Reclassification adjustments to income statement, net gains and losses on financial items	-59	0	-59	
Income tax relating to components of other comprehensive income	-13	-93	-140	-69
Total comprehensive income for the period	3 771	3 435	7 521	5 972

Total change in value on derivatives included in cash flow hedges amounted to SEK 2 680m during the period, of which SEK -3 317m is transferred to the income statement.

Balance sheet condensed

SEKm	Note	2015 31 Dec	2014 31 Dec
Assets			
Loans to credit institutions	15	69 864	47 626
Loans to the public	5	857 910	821 547
Value change of interest hedged item in portfolio hedge		1 009	1 291
Derivatives	6	29 189	33 265
Other assets	7	3 242	4 125
Total assets		961 214	907 854
Liabilities and equity			
Liabilities			
Amounts owed to credit institutions	8	335 590	322 387
Debt securities in issue	10	556 663	520 089
Derivatives	6	11 569	10 751
Other liabilities	9	15 754	16 290
Subordinated liabilities	11	4 000	4 000
Total liabilities		923 575	873 517
Untaxed reserves	12	1 068	1 068
Equity		36 570	33 269
Total liabilities and equity		961 214	907 854

Statement of changes in equity condensed

31 Dec 2014	Restricted equity		Non-restricted equity		
SEKm	Share capital	Statutory reserve	Fair value fund	Retained earnings	Total equity
Opening balance 1 January, 2014	11 500	3 100	-617	20 474	34 455
Group contribution provided				-7 382	-7 382
Tax reduction due to Group distributions				1 624	1 624
Dividends				-4 000	-4 000
Shareholder's contribution				2 600	2 600
Total comprehensive income for the year			244	5 727	5 972
Closing balance 31 December 2014	11 500	3 100	-373	19 042	33 269

of which conditional shareholders' contributions

31 Dec 2015	Restricted equity		Non-restricted equity		
SEKm	Share capital	Statutory reserve	Fair value fund	Retained earnings	Total equity
Opening balance 1 January, 2015	11 500	3 100	-373	19 042	33 269
Group contribution provided				-6 300	-6 300
Tax reduction due to Group distributions				1 386	1 386
Shareholder's contribution				695	695
Total comprehensive income for the year			497	7 024	7 520
Closing balance 31 December 2015	11 500	3 100	124	21 847	36 570

of which conditional shareholders' contributions

Cash flow statement condensed

SEKm	2015 Full-year	2014 Full-year
Operating profit	9 024	7 345
Adjustments for non-cash items in operating activities		
Taxes paid	-7 099	4 185
Increase/decrease in loans to the public	-6	-463
Increase/decrease in amounts owed to credit institutions	-39 097	-51 491
Increase/decrease in other assets	13 202	48 629
Increase/decrease in other liabilities	40	69
	-2 264	828
Cash flow from operating activities	-26 201	9 102
Issuance of interest-bearing securities	157 878	95 749
Redemption of interest-bearing securities	-107 404	-123 886
Shareholder's contribution	695	2 600
Increase/decrease in other funding	-1 648	1 115
Group contributions paid	-1 082	-4 100
Dividend paid	0	-4 000
Cash flow from financing activities	48 439	-32 522
Cash flow for the period	22 238	-23 420
Cash and cash equivalents at the beginning of the period	47 626	71 046
Cash flow for the period	22 238	-23 420
Cash and cash equivalents at end of the period	69 864	47 626
Liquid funds with banks and equivalent institutions	69 864	47 626
Loans to credit institutions¹⁾	69 864	47 626

¹⁾Cash accounts in Swedbank AB, see note 15.

Key ratios

SEKm	2015 31 Dec	2014 31 Dec
Profit		
Investment margin, % ¹⁾	1,20	0,97
Return on equity, % ²⁾	19,3	16,9
Earnings per share, SEK	305,4	249,0
Capital		
Number of shares in issue at beginning/end of period, million	23	23
Equity per share, SEK	1 588	1 446
Credit quality		
Loan loss ratio, %	0,00	0,00
Provision ratio for impaired loans, % ³⁾	48	42
Share of impaired loans, net, loans to the public %	0,03	0,03

¹⁾ Calculated as an average over 12 months.

²⁾ Net profit for the year in relation to average equity calculated over 13 months.

³⁾ Including portfolio provisions for loans that individually are assessed as impaired.



Notes

All amounts in the notes are in millions of Swedish kronor (SEKm) and at book value unless indicated otherwise. Figures in parentheses refer to the previous year.

Note 1 Accounting policies

The interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. The report is also compliant with the Annual Accounts Act for Credit Institutions and Securities Companies, the directives of the Financial Supervisory Authority, and recommendation RFR 2 of the Financial Reporting Council.

The accounting policies applied in the interim report conform to those applied in the Annual Report for 2014, which was prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpretations thereof. There have been no significant changes to Swedbank Mortgage's accounting policies set out in the Annual Report for 2015

Note 2 Business segments

SEKm	2015 Full-year				2014 Full-year			
	Private	Corporate	Agricultural & Forestry	Total	Private	Corporate	Agricultural & Forestry	Total
Net interest income	8 800	1 574	860	11 233	6 106	1 142	617	7 865
Net commissions	29	6	3	38	35	8	3	46
Total income	8 828	1 580	862	11 271	6 141	1 150	621	7 912
Total cost	541	133	102	776	611	46	90	748
Profit before impairments	8 288	1 448	760	10 496	5 531	1 104	529	7 164
Credit impairments	20	-4	14	30	26	-5	16	37
Operating profit	8 268	1 451	746	10 465	5 505	1 108	513	7 127
Loans to the public	657 612	140 113	60 186	857 910	618 926	143 283	59 338	821 547

Reconciliation of segment accounting and financial report

SEKm	2015 Full-year			2014 Full-year		
	Total income	Total expenses	Operating profit	Total income	Total expenses	Operating profit
Total segments	11 271	776	10 465	7 912	748	7 127
Return on legal equity	490		490	719		719
Net gains and losses on financial items	-1 440		-1 440	-506		-506
Other income	497		497	10		10
Other expenses		8	8		5	5
Total financial report	9 838	784	9 024	8 135	753	7 345

Results and balances in the Private segment relate to consumer loans to finance residential housing. The corresponding items for Corporate relate to loans to municipal housing companies and tenant-owner associations with underlying collateral in multifamily housing. The Agriculture and Forestry segment comprises loans to finance forest and agricultural properties. Items in operating profit that are not included in the segments consist of changes in the value of financial instruments, the return on legal equity and other undistributed minor items. Return on legal equity comprises interest income on assets funded by equity.

Note 3 Net gains/losses on financial items at fair value

SEKm	2015 Jul-Dec	2014 Jul-Dec	2015 Full-year	2014 Full-year
Valuation category, fair value through profit or loss				
Trading and derivatives				
Interest-bearing instruments	486	-138	825	-1 021
Other				
Lending to public ?????	-814	18	-1 622	960
Total fair value through profit or loss	-328	-120	-797	-61
Hedge accounting				
Inefficiency in hedge accounting at fair value	-47	35	-34	-7
of which hedging instruments	-969	2 844	-4 173	7 473
of which hedged items	922	-2 809	4 139	-7 480
Total hedge accounting	-47	35	-34	-7
Financial liabilities valued at amortised cost	-360	-373	-774	-608
Loans and receivables at amortised cost	114	103	194	170
Change in exchange rates	-29	0	-29	0
Total	-650	-355	-1 440	-506

Note 4 Credit impairments

SEKm	2015 Jul-Dec	2014 Jul-Dec	2015 Full-year	2014 Full-year
Provisions for loans that are assessed as impaired				
Provisions	11	12	11	12
Reversal of previous provisions			-1	-5
Provision for homogenous groups of impaired loans, net	-2	-24	-4	-31
Total	9	-12	6	-24
Portfolio provisions for loans individually assessed as not impaired	-5	-1	-8	1
Write-offs				
Established losses	20	31	42	74
Utilisation of previous provisions	-3	-1	-4	-9
Recoveries	-3	-3	-6	-5
Total	14	27	32	60
Credit impairments	18	14	30	37

Note 5 Loans

SEKm	2015 31 Dec	2014 31 Dec
Lending		
Carrying amount before provisions	927 891	869 295
Provisions for loans that individually are assessed as impaired	-33	-31
Portfolio provisions for loans that individually are not assessed as impaired	-84	-91
Total provisions	-117	-122
Carrying amount of loans after provisions	927 774	869 173
Impaired loans		
Impaired loans, gross	241	293
Provisions for individually assessed impaired loans	-33	-31
Carrying amount of impaired loans	208	262
Share of impaired loans, gross, loans to the public, %	0,03	0,04
Share of impaired loans, net, loans to the public, %	0,02	0,03
Total provision ratio for impaired loans, % ³⁾	48,5	41,7
Provision ratio for individually identified impaired loans, %	13,8	10,6

³⁾ Including portfolio provisions for loans that individually are assessed as impaired.

31 Dec 2015 SEKm	Private customers	Real estate Manage- ment	Other corporate lending	Munici- palities	Total lending to the public	Credit institutions	Total lending
Loans by borrower category							
Book value before accounting for provisions	724 279	124 831	7 018	1 899	858 027	69 864	927 891
Provisions for loans that individually are assessed as impaired	-30	-2	-1		-33		-33
Portfolio provisions for loans that individually are not assessed as impaired	-73	-11			-84		-84
Book value after accounting for provisions	724 176	124 818	7 017	1 899	857 910	69 864	927 774
Book value of impaired loans	199	9			208		208

31 Dec 2014 SEKm	Private customers	Real estate Manage- ment	Other corporate lending	Munici- palities	Total lending to the public	Credit institutions	Total lending
Loans by borrower category							
Book value before accounting for provisions	685 284	125 887	8 639	1 859	821 669	47 626	869 295
Provisions for loans that individually are assessed as impaired	-28	-2	-1		-31		-31
Portfolio provisions for loans that individually are not assessed as impaired	-78	-13			-91		-91
Book value after accounting for provisions	685 178	125 872	8 638	1 859	821 547	47 626	869 173
Book value of impaired loans	226	36			262		262

Note 6 Derivative instruments

SEKm	2015 31 Dec			2014 31 Dec		
	Interest	Currency	Total	Interest	Currency	Total
Derivatives with positive book values	16 762	12 427	29 189	22 336	10 929	33 265
of which in hedge accounting	15 977	1 560	17 537	20 725	2 958	23 683
Derivatives with negative book values	5 266	6 304	11 569	6 829	3 922	10 751
of which in hedge accounting	1 901	4 333	6 234	1 876	3 118	4 994
Notional amount	602 407	193 981	796 388	545 869	164 488	710 357

Swedbank Mortgage trades derivatives to hedge positions with regard to the value of interest rates and currencies.

Note 7 Other assets

SEKm	2015 31 Dec	2014 31 Dec
Prepaid expenses and accrued income	1 746	2 489
Security settlement claims	599	605
Current tax assets	843	852
Deferred tax assets	0	105
Other	54	74
Total	3 242	4 125

Note 8 Amounts owed to credit institutions

SEKm	2015 31 Dec	2014 31 Dec
Valuation category, other financial liabilities		
Swedish banks	335 590	322 387
Total	335 590	322 387

Note 9 Other liabilities

SEKm	2015 31 Dec	2014 31 Dec
Security settlement liabilities	582	730
Tax liabilities	599	
Deferred tax liabilities	35	
Group contribution to parent company	6 300	7 382
Accrued expenses and deferred income	8 209	8 088
Other liabilities	29	90
Total	15 754	16 290

Note 10 Debt securities in issue

SEKm	2015 31 Dec	2014 31 Dec
Valuation category, other financial liabilities		
Commercial papers		1 648
Bond loans	532 214	460 272
Change in value due to hedge accounting	12 830	23 808
Total	545 044	485 728
Valuation category, fair value through profit or loss		
Bond loans	11 619	34 361
Total	11 619	34 361
Total	556 663	520 089

Note 11 Subordinated liabilities

SEKm	2015 31 Dec	2014 31 Dec
Subordinated loans	4 000	4 000
Total	4 000	4 000

Note 12 Untaxed reserves

SEKm	2015 31 Dec	2014 31 Dec
Opening balance	1 068	1 068
Provision to tax allocation reserve		
Closing balance	1 068	1 068

Note 13 Financial instruments

SEKm	2015 31 Dec			2014 31 Dec		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Financial assets covered by IAS 39						
Loans to credit institutions	69 864	69 864		47 626	47 626	
Loans to the public	863 590	857 910	5 680	830 164	821 547	8 617
Shares and participating interest	1	1		1	1	
Derivatives	29 189	29 189		33 265	33 265	
Other financial assets	3 407	3 407		5 310	5 310	
Total Financial Assets	966 050	960 371	5 680	916 366	907 749	8 617
Non-financial assets				105	105	
Total Assets	966 050	960 371	5 680	916 471	907 854	8 617
Liabilities						
Financial liabilities covered by IAS 39						
Amounts owed to credit institutions	336 465	335 590	875	322 493	322 387	106
Debt securities in issue	563 216	556 663	6 553	526 350	520 089	6 261
Subordinated liabilities	4 527	4 000	527	4 006	4 000	6
Derivatives	11 569	11 569		10 751	10 751	
Other financial liabilities	14 965	14 965		16 289	16 289	
Total Financial Liabilities	930 741	922 787	7 955	879 889	873 516	6 373
Non-financial liabilities	35	35				
Total Liabilities	930 776	922 822	7 955	879 889	873 516	6 373

31 Dec 2015 SEKm	Instruments with quoted market prices in active markets (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets				
Loans to the public		194 856		194 856
Shares and participating interests			1	1
Derivatives		29 189		29 189
Total		224 045	1	224 046
Liabilities				
Amounts owed to credit institutions				
Debt securities in issue	3 521	8 098		11 619
Derivatives		11 569		11 569
Total	3 521	19 667		23 188

The table above indicates valuation levelling categories for financial instruments measured at fair value. These levels are divided into three groups based on the degree of observability of data in the valuation.

If possible, fair value of the financial instruments is established from quoted market prices in active markets (Level 1). Where quoted market prices can't be established, generally accepted valuation techniques using observable data are used (Level 2). These techniques may require certain assumptions (Level 3) and the scope of these depend on the complexity of the instrument and the availability of market data. This group includes shares in tenant-owner associations. They have been valued at acquisition cost, since a more reliable fair value is not considered to be available.

Note 13 Financial instruments, cont.

31 Dec 2014	Instruments with quoted market prices in active markets (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
SEKm				
Assets				
Loans to the public		275 358		275 358
Shares and participating interests			1	1
Derivatives		33 265		33 265
Total	0	308 623	1	308 624
Liabilities				
Amounts owed to credit institutions				
Debt securities in issue	23 237	11 123		34 360
Derivatives		10 751		10 751
Total	23 237	21 874	0	45 111

Changes in Level 3	2015 31 Dec		2014 31 Dec	
SEKm	Assets	Liabilities	Assets	Liabilities
Opening balance	1	0	3	2 875
Gains or losses				-1
Acquisitions				
Sales of assets			-2	
Maturities				-2 874
Transferred from Level 3 to Level 2				
Closing balance	1	0	1	0

Note 14 Contingent liabilities, assets pledged and commitments

SEKm	2015 31 Dec	2014 31 Dec
Assets pledged for own liabilities		
Loans pledged for securities in issue ¹⁾	819 786	780 213
Securities pledged for other liabilities		
Contingent liabilities		
Commitments, nominal amount	9 048	9 507
Assets pledged	828 834	789 720

¹⁾ Consists of collateral for covered bonds. Collateral refers to the customer's nominal debt including accrued interest.

Note 15 Related parties

SEKm	2015 31 Dec	2014 31 Dec
Assets		
Loans to credit institutions	69 864	47 626
Derivatives	29 116	33 175
Other assets	37	
Total	99 017	80 801
Liabilities		
Amounts owed to credit institutions	335 354	322 347
Debt securities in issue	9 992	10 774
Derivatives	10 983	10 751
Other liabilities	6 499	7 906
Subordinated liabilities	4 000	4 000
Total	362 828	355 778
Income statement		
Interest income	69	378
Interest expenses	3 291	-776
Other expenses	-13	-13
Total	3 347	-411

The table above specifies transaction with other companies in the Swedbank Group.

Note 16 Capital adequacy

Capital adequacy analysis

The capital adequacy regulation is the legislator's requirement of how much capital, designated as the capital base, a bank must have in relation to the size of the risks it faces. For Swedbank Mortgage, the CRR capital adequacy rules mean that the minimum capital requirement for credit risks, with the approval of the Financial Supervisory Authority, will be based on an internal risk classification according to an Internal Ratings-based Approach ("IRB") developed by Swedbank. For a small portion of assets, the capital requirement for credit risks is calculated according to the standardised approach. The capital requirement for operational risk is calculated according to the standardised approach with the approval of the Financial Supervisory Authority.

Swedbank has developed and documented its own methods and processes to evaluate the Groups capital required to cover its risks. Swedbank Mortgage is a

part of this evaluation. The capital need is systematically assessed from the total level of risks Swedbank Mortgage could become exposed to. The assessments covers risks that Swedbank Mortgage is exposed to in entirety, even risks that are not included when calculating the capital adequacy.

The note contains the information made public according to the Swedish Financial Supervisory Authority Regulation FFFS 2014:12, chap. 8. Additional periodic information according to Regulation (EU) No 575/2013 of the European Parliament and of the Council on supervisory requirements for credit institutions and Implementing Regulation (EU) No 1423/2013 of the European Commission can be found on Swedbank's website: <http://www.swedbank.com/investor-relations/risk-and-capital-adequacy/risk-report/index.htm>

Capital adequacy SEKm	Basel 3 2015 31 Dec	Basel 3 2014 31 Dec
Shareholders' equity according to the balance sheet	36 570	33 269
Share of capital of accrual reserve	833	833
Value changes in own financial liabilities	87	90
Cash flow hedges	-124	373
Additional value adjustments ¹⁾	-11	0
Deferred tax assets	0	0
Net provisions for reported IRB credit exposures	-246	-263
Common Equity Tier 1 capital	37 109	34 302
Total Tier 1 capital	37 109	34 302
Tier 2 instruments	4 000	4 000
Total Tier 2 capital	4 000	4 000
Total capital base	41 109	38 302
Minimum capital requirement for credit risks, standardised approach	426	212
Minimum capital requirement for credit risks, IRB	3 175	3 302
Minimum capital requirement for operational risks	850	678
Minimum Capital requirement ²⁾	4 451	4 191
Surplus of capital	36 658	34 110
Risk exposure amount credit risks	45 011	43 924
Risk exposure amount operational risks ³⁾	10 622	8 469
Risk exposure amount	55 633	52 393
Common Equity Tier 1 ratio, %	66,7	65,5
Tier 1 capital ratio, %	66,7	65,5
Total capital adequacy ratio, %	73,9	73,1

¹⁾ Adjustment due to the implementation of EBA's technical standards on prudent valuation. The objective of these standards is to determine prudent values of fair valued positions.

²⁾ Total minimum capital requirement under Pillar 1, i.e 8% of total risk exposure amount

³⁾ According to standardised approach, retail banking

Note 16 Capital adequacy, cont.

	Basel 3 2015 31 Dec			Basel 3 2014 31 Dec		
	Risk exposu- re amount	Average risk wieght, %	Own funds require- ment	Risk exposu- re amount	Average risk wieght, %	Own funds require- ment
Capital requirement for credit risks						
Institutional exposures				49	62	2
Corporate exposures	32 847	25	660	36 008	25	734
Retail exposures	813 461	4	2 509	769 943	4	2 564
Non-credit obligations	115	63	6	59	30	1
Total credit risks according to IRB approach	846 423	5	3 175	806 059	5	3 302
Total credit risks according to standard method	127 217	4	426	104 946	3	212
Total	973 640	5	3 601	911 005	5	3 514

Capital buffer requirement ⁴⁾ , %	2015 31 Dec	2014 31 Dec
Institution specific CET 1 requirement	8,0	7,0
of which CET 1 requirement	4,5	4,5
of which capital conservation buffer	2,5	2,5
of which countercyclical capital buffer	1,0	
CET 1 capital available to meet Institution specific CET1 capital requirement ⁵⁾	60,7	59,5

⁴⁾ Buffer requirement according to Swedish implementation of CRD IV

⁵⁾ CET1 capital ratio as reported, less minimum requirement of 4.5% (excluding buffer requirements) and less any CET1 items used to meet the Tier 1 and total capital requirements

Capital adequacy Basel 1 floor	2015 31 Dec	2014 31 Dec
Capital requirement Basel 1 floor	34 593	32 523
Own funds Basel 3 adjusted according to rules for Basel 1 floor	41 356	38 565
Surplus of capital according to Basel 1 floor	6 763	6 042

Signatures of the Board of Directors and the President

The Board of Directors and the President certify that the year-end report for 2015 provides a fair and accurate overview of the operations, financial position and results of Swedbank Mortgage, and that it describes the significant risks and uncertainties faced by Swedbank Mortgage.

Stockholm, 2 February 2016

Leif Karlsson
Chair

Magdalena Frostling
President

Gunilla Domeij Hallros

Erika Karlsson

Johan Smedman

Eva de Falck

Review report

Introduction

We have reviewed the interim report for Swedbank Hypotek AB (publ) for the period January 1 – December 31, 2015. The Board of Directors and the President are responsible for the preparation and presentation of this interim report in accordance with 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 Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and 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, in all material respects, in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm, 1 February 2016

Deloitte AB

Patrick Honeth
Authorised Public Accountant

