Swedbank Mortgage AB
Annual report 2016

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About Swedbank Mortgage AB

Swedbank Mortgage is a Swedish mortgage company with a leading position on the Swedish housing market. The business focuses on long-term funding of mortgage loans and the company has over one million customers.

About Swedbank Mortgage AB

Swedbank Mortgage AB (publ) ("Swedbank Mortgage"), corporate identification number 556003-3283, is a wholly owned subsidiary of Swedbank AB (publ) 502017-7753 ("Swedbank"), and is responsible for mortgage lending in Sweden. With over one million customers, Swedbank Mortgage has a leading position on the Swedish market. Mortgage sales are mainly through Swedbank's and the Swedish savings banks' retail network, one of the largest bank-owned retail networks in Sweden as well as through the bank's and the savings banks' digital channels.

There is no lending outside Sweden.

Swedbank Mortgage's operations are integrated in Swedbank, which creates economies of scale with the bank's other operations. To offer customers a complete solution of home buying services, the Swedbank Group uses a number of partners in addition to its own brand, Swedbank Fastighetsbyrå.

Swedbank Mortgage finances properties and individual tenant-owned apartments, up to 85 per cent of their estimated market value. The company also lends directly to municipalities or other borrowers with municipal guarantees as collateral as well as to the forestry and agricultural sector.

Swedbank Mortgage's strategy to digitise the mortgage process and use channel-independent pricing has resulted in the fact that mortgage rates can now be reset in the Internet Bank. Customers can get their individual rate based on the same pricing model used by Swedbank's branches and the Telephone Bank.
Customers have been positive to the change.

Market

Markets were affected by the US presidential election in the fourth quarter 2016. The election of Donald Trump, who is planning extensive tax reductions and infrastructure investments during his term, together with the Federal Reserve raising its key interest rate in December, contributed to global long-term rate hikes, including the Swedish one, during the autumn.

The Swedish economy continues doing well. GDP rose by 3.4 per cent on an annualised basis. Exports and household consumption were the main reasons for the increase. Business cycle data such as the Purchasing Managers' Index and the National Institute for Economic Research's Economic Tendency Survey indicate that economic growth in Sweden increased further in the fourth quarter 2016. The inflation rate (Consumer Price Index with a fixed rate) was 1.9 per cent in December, the highest since December 2010. Higher housing costs and rising energy prices contributed most to the upswing. In Sweden, the Riksbank lowered the interest rate from -0.35 per cent to -0.50 per cent during the year.

On 1 June 2016, the Swedish Financial Supervisory Authority's (SFSA) amortisation requirement for new mortgages came into force. This resulted in house prices rising at a slower pace. Since Swedbank, already in 2015, introduced new guidelines similar to the SFSA requirement to ensure continued high quality in the mortgage portfolio, the new requirement has not significantly affected Swedbank Mortgage's lending.

On January 1 2017, the EU Mortgage Credit directive entered into force in Sweden. Its aim is to strengthen consumer protection regarding mortgages. The law encompasses regulations on marketing, information, mortgage loan offerings, the right to a reflection period and advisory services. In Sweden the law requires all mortgage advisors to be licenced. The financial sector has introduced a common mortgage licence.

Lending to tenant-owner associations and commercial properties together form the major part of Swedish Mortgage commercial lending. A sharp rise in the population causing a demand for housing coupled with low interest rates relative to the low returns opportunities contributed to continued strong performance in the real estate market in 2016.

Within the forestry and agricultural sector, prices remained stable during 2016, with some regional differences. Prices increased in the south of Sweden, and decreased somewhat in the rest of the country. The pulp and paper industry is undergoing an investment phase due to continued adaption to increased demand for packaging and sanitary products. In the agricultural sector, profitability varies between the various production segments. Pork and beef producers posted good performance, whilst dairy and crop producers' profitability was squeezed.

Financial overview

Swedbank Mortgage's operating profit was SEK 10 950m for 2016, compared to SEK 9 024m in 2015.

Net interest income increased by SEK 1 404m to SEK 12 637m (11 233). Increased lending volumes and expanding lending margins contributed to the increase. The increased lending volumes is partially related to

Swedbank's takeover in October of mortgages from SBAB as a final step in the acquisition of Sparbanken Öresund.

Net gains and losses on financial items was SEK -656m (-1 440). This is mainly due to buybacks of own bonds.

Other expenses amounted to SEK 1 076m (779). Other expenses include a large part of the business exchange margin paid to the savings banks and partly owned banks. This expense amounted to SEK 1 067m (775). No such fees are paid to Swedbank. The credit quality on lending remains very good and credit losses are low. Compared to 2015 the credit losses decreased by SEK 10m to SEK 20m (30).

Provisions were SEK 93m (117). Specification of losses and lending can be found in notes 4a and 12.

Market shares

Swedish mortgage market growth remained high, with an annual increase of 7.6 per cent (8.3). Swedbank's share of net market growth amounted to 8.4 per cent (6.6) for the full year 2016 and the total market share was 24.8 per cent (24.7).

Lending

Swedbank Mortgage's credit portfolio is of good quality with very low credit impairments and few customers with existing or anticipated payment problems.

Loans to the public increased by SEK 62bn to SEK 920bn (858). Lending to households was SEK 711bn (657) and lending to the forestry and agricultural sector was SEK 53bn (52). Lending to the corporate sector was SEK 156bn (149).

The average loan-to-value ratio for Swedbank Mortgage's mortgages was 54 per cent (56) as of 31 December 2016. The average loan-to-value ratio for new mortgages in Swedbank Mortgage was 66 per cent (67).

Credit quality

Credit quality remains good. Impaired loans decreased by SEK 8m in 2016 to SEK 200m and correspond to 0.02 per cent of total lending. The average provision ratio for impaired loans was 0.02 per cent. In addition, there were portfolio provisions for impaired loans that have not yet been identified, which means a total provision ratio of 42 per cent. The share of mortgages in Sweden past due more than 60 days amounted to 0 per cent of the portfolio (0.04). Credit impairments in 2016 remained low and amounted to SEK 20m (30).

Mortgage customer solvency remains good and the risk of credit impairments low. Swedbank Mortgage's low risk profile is the result of a restrictive credit view, geographically diversified lending to many customers and close monitoring of the company's credit customers at local level.

Loans assessed to have a heightened risk are being carefully monitored. The credit portfolio continuously undergoes stress tests, which show robust solvency among the company's mortgage customers and a loan-to-value ratio that indicates a low risk for credit impairments.
A low loan-to-value ratio among Swedbank Mortgage's customers, combined with a continued stable real estate market, meant that customers who had incurred payment problems had usually been able to sell their properties without any credit impairments.

Funding

Swedbank Mortgage finances its lending by, among other things, 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. However, there were a couple of periods when the market did less well. This was mainly due to political events such as the Brexit referendum in June and the US presidential election in November.

In 2016, Swedbank Mortgage issued one international benchmark bond worth EUR 1.25bn. The total volume recalculated to SEK amounted to SEK 11.7bn. Investor interest was high and the issuance could be done on very good terms.

In the Swedish market Swedbank Mortgage has continuously issued Floating Rate Notes (FRN) structures in a slightly larger format totalling SEK 7.8bn. These FRN loans have the same maturity date as two of the big domestic outstanding benchmark bonds (loans 187 and 180). The outstanding volumes at year-end for these FRN loans amounted to over SEK 13bn. Swedbank Mortgage also started a new benchmark loan (loan 190). The outstanding volume in that loan amounted to SEK 39bn on 31 December 2016. Of total new funding during 2016 of SEK 120bn (153), SEK 101bn (101) was issued on the Swedish market.

As part of Swedbank Mortgage's liquidity strategy to minimise risk originating in the form of large maturity volumes at the same time, the company actively repurchases large parts of the maturity volumes, starting about one year before maturity. During 2016 SEK 37bn (35) was repurchased in three different benchmark loans with short remaining maturities.

The average maturity of all outstanding covered bonds is 36 months (36) as of 31 December 2016.

Rating

Swedbank Mortgage is one of the largest players on the Swedish covered bond market with top rating (Aaa/AAA) from both Moody's Investor Service and Standard & Poor's (S&P). Both Swedbank and Swedbank Mortgage have a rating of Aa3 from Moody's and AA- from S&P. There were no rating changes during 2016.

Swedbank Mortgage rating 2016	Moody's		S&P	
	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

Outlook

Results are sensitive to interest rates, the market's assessment of credit risk and the cost of converting financing in foreign currencies to Swedish kronor.
These factors can affect both net interest income and net gains and losses on financial items.

Important events after the period

No important events have occurred.

Corporate governance report

The shareholders ultimately make the decisions about the governance of Swedbank Mortgage. At the annual general meeting the shareholders select the Board of directors and auditors. The Board is responsible to the shareholders for the organisation and management of Swedbank Mortgage and selects a CEO to run the company's ongoing operations.

The auditors review the financial reporting, among other things, and submit an auditor's report. The Board of Directors is ultimately responsible for ensuring that internal control as regards financial reporting (ICFR) complies with external regulations. These regulations contain requirements on information disclosure, on how internal control should be organized and are designed to provide reasonable certainty of the reliability of the financial reporting.

Checks associated with financial reporting are performed on several levels and include processes to analyse and monitor the business operations in order to ensure reasonable reliability of the financial reporting and to follow up any discrepancies. Group-level regulations exist for companies within the Swedbank Group for internal accounting principles, planning and monitoring processes, as well as reporting routines. The accounting department performs checks mainly through reconciliations between sub ledgers and the general ledger and ensures that assets, liabilities and business transactions are correctly recorded. Swedbank also has a central valuation group to ensure accurate valuation of assets and liabilities in Swedbank Mortgage. Accounting result reports are presented monthly to the CEO of Swedbank Mortgage. In addition, the Board commissions the compliance and risk organisations and internal audit to evaluate and review how governance, risk management, and internal control are organised and complied with.

Key financial highlights 2012-2016

SEKm	2016	2015	2014	2013	2012
Profit					
Net interest margin, %[1]	1.29	1.20	0.97	0.87	0.72
Average total assets	984 625	932 305	863 882	838 161	799 071
Return on equity, %[2]	21.8	19.3	16.9	13.0	11.7
Average equity	39 165	36 416	33 889	35 172	34 797
Earnings per share, SEK	371.3	305.4	249.0	209.9	178.3
Capital					
Capital base[3]	45 789	41 109	38 302	35 599	33 994
Total capital adequacy ratio, % [3]	77.5	73.9	73.1	73.5	66.3
Tier 1 capital ratio, Basel 3, %, [3]	70.7	66.7	65.5	73.5	66.3
Number of shares at start/end of period, million	23	23	23	23	23
Equity per share, SEK	1 799.40	1 587.61	1 446.48	1 534.26	1 476.74
Credit quality					
Credit impairment ratio, %	0.00	0.00	0.00	0.00	0.01
Total provision ratio for impaired loans, %[4]	41.7	48.5	41.7	72.7	76.1
Share of impaired loans, %	0.02	0.03	0.03	0.02	0.02
Other					
Number of employees	6	3	5	5	3

[1] Net interest income, in relation to average (calculated on month-end figures) total assets.
[2] Net profit for the year in relation to average equity.
[3] See note 5
[4] Carrying amount of total provisions in relation to impaired loans, gross

For more information on definitions of key ratios, refer to page 40.

Calculation	2016
Credit impairments	20
Loans to the public	919 572
Loan loss ratio, %	0.00
Impaired loans, gross [5]	222
Total provisions [5]	93
Total provision ratio for impaired loans, %	41.7
Loans to the public	919 572
Carrying amount Impaired loans [5]	200
Share of impaired loans, net, re. loans to the public, %	0.02

[5] See note 4a

Five-year summary

Income statement SEKm	2016	2015	2014	2013	2012
Interest income	17 473	19 357	23 382	25 464	29 036
Interest expenses	-4 836	-8 124	-14 798	-18 183	-23 302
Net interest income	**12 637**	**11 233**	**8 584**	**7 281**	**5 734**
Net commission income	63	38	47	47	58
Other operating income	-650	-1 433	-496	-428	419
Total income	**12 050**	**9 838**	**8 135**	**6 900**	**6 211**
Other operating expenses	-1 080	-784	-753	-678	-639
Profit before impairments	**10 970**	**9 054**	**7 382**	**6 221**	**5 572**
Net credit impairments	20	30	37	30	70
Operating profit	**10 950**	**9 024**	**7 345**	**6 191**	**5 502**
Tax expense	-2 410	-2 000	-1 618	-1 364	-1 402
Profit for the year	**8 540**	**7 024**	**5 727**	**4 827**	**4 100**

Balance sheet SEKm	2016	2015	2014	2013	2012
Assets					
Loans to credit institutions	56 835	69 864	47 626	71 046	60 783
Loans to the public	919 572	857 910	821 547	768 840	743 931
Other assets	30 893	33 440	38 681	21 712	29 467
Total assets	**1 007 300**	**961 214**	**907 854**	**861 598**	**834 181**
Liabilities and equity					
Liabilities					
Amount owed to credit institutions	374 741	335 590	322 387	273 579	224 843
Debt securities in issue	563 201	556 663	520 089	520 021	533 223
Other liabilities	23 971	28 391	28 109	32 530	42 150
Subordinated liabilities	4 000	4 000	4 000		
Total liabilities	**965 913**	**924 644**	**874 585**	**826 310**	**800 216**
Equity	**41 387**	**36 570**	**33 269**	**35 288**	**33 965**
Total liabilities and equity	**1 007 300**	**961 214**	**907 854**	**861 598**	**834 181**

Income statement

SEKm	Note	2016	2015
Interest income		17 473	19 357
Interest income, including negative yield on financial assets		**17 473**	**19 357**
Interest expenses		-4 996	-8 124
Negative yield on financial liabilities		160	
Interest expenses, including negative yield on financial liabilities		**-4 836**	**-8 124**
Net interest income	7	**12 637**	**11 233**
Commission income		68	70
Commission expenses		-5	-32
Net commission income	8	**63**	**38**
Net gains and losses on financial items at fair value	9	-656	-1 440
Other operating income		6	7
Total income		**12 050**	**9 838**
Other expenses	11	1 076	779
Staff expenses	10	4	5
Total expenses		**1 080**	**784**
Profit before impairments		**10 970**	**9 054**
Credit impairments	12	20	30
Operating profit		**10 950**	**9 024**
Tax	13	2 410	2 000
Profit for the period		**8 540**	**7 024**
Earnings per share, before and after dilution, SEK	14	371.30	305.39

Statement of comprehensive income

SEKm	Not	2016	2015
Profit for the year - income statement		**8 540**	**7 024**
Items that may be reclassified to the income statement			
Cash flow hedges:			
Gains/losses for the period		120	619
Reclassification adjustments to the income statement, net interest income		16	77
Reclassification adjustments to the income statement, net gains/losses on financial items			-59
Tax relating to components of other comprehensive income	15	-30	-140
Total comprehensive income for the year, attributable to shareholders of Swedbank Mortgage		**8 646**	**7 521**

Balance sheet

SEKm	Note	2016	2015
Assets			
Loans to credit institutions		56 835	69 864
Loans to the public	16	919 572	857 910
Value change of interest hedged items in portfolio hedge		1 483	1 009
Shares and participating interest	17	1	1
Derivatives	18	27 982	29 189
Current tax assets			843
Other assets	19	74	652
Prepaid expenses and accrued income	20	1 353	1 746
Total assets		**1 007 300**	**961 214**
Liabilities and equity			
Liabilities			
Amounts ow ed to credit institutions		374 741	335 590
Debt securities in issue	21	563 201	556 663
Derivatives	18	7 382	11 569
Other liabilities and provisions	22	8 860	7 545
Accrued expenses and prepaid income	23	6 661	8 209
Subordinated liabilities		4 000	4 000
Total liabilities		**964 845**	**923 576**
Untaxed reserves		**1 068**	**1 068**
Equity	24		
Share capital		11 500	11 500
Statutory reserve		3 100	3 100
Fair value fund		230	124
Retained earnings		26 557	21 846
Total equity		**41 387**	**36 570**
Total liabilities and equity		**1 007 300**	**961 214**
Pledged assets	25	542 512	517 904
Commitments, nominal amount	25	8 969	9 048

Notes not directly related to the income statement, balance sheet, statement of cash flow or statement of changes in equity

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Statement of changes in equity

SEKm	Restricted equity Share capital	Statutory reserve	Non-restricted equity Fair value fund	Retained earnings	Total equity
Opening balance 1 January 2016	**11 500**	**3 100**	**124**	**21 847**	**36 570**
Group contributions paid				-8 050	-8 050
Tax reduction due to Group contributions paid				1 771	1 771
Shareholders' contribution				2 450	2 450
Total comprehensive income for the year			106	8 540	8 646
of which gains and losses during the year			120		120
of which reported through profit or loss			16		16
of which tax reported through other comprehensive income			-30		-30
Closing balance 31 December 2016	**11 500**	**3 100**	**230**	**26 557**	**41 387**
of which, conditional shareholders' contributions				2 400	2 400
Opening balance 1 January 2015	**11 500**	**3 100**	**-373**	**19 042**	**33 269**
Group contributions paid				-6 300	-6 300
Tax reduction due to Group contributions paid				1 386	1 386
Shareholders' contribution				695	695
Total comprehensive income for the year			497	7 024	7 521
of which gains and losses during the year			619		619
of which reported through profit or loss			-59		-59
of which reported through other comprehensive income, before tax			77		77
of which tax reported through other comprehensive income			-140		-140
Closing balance 31 December 2015	**11 500**	**3 100**	**124**	**21 847**	**36 570**
of which, conditional shareholders' contributions				2 400	2 400

Statement of cash flow

SEKm	2016	2015
Operating activities		
Operating profit	10 950	9 024
Adjustments for non-cash items in operating activities	-2 552	-7 099
Taxes paid [1)]	244	-6
Decrease in loans to the public	-63 168	-39 097
Increase in amounts owed to credit institutions	39 151	13 202
Increase in other assets	578	40
Increase/decrease in other liabilities	78	-2 264
Cash flow from operating activities	**-14 719**	**-26 201**
Financing activities		
Issuance of interest-bearing securities	125 359	157 878
Redemption of interest-bearing securities	-119 817	-107 404
Shareholders contribution	2 450	695
Decrease in other funding	0	-1 648
Group contributions paid	-6 300	-1 082
Cash flow from financing activities	**1 692**	**48 439**
Cash flow for the period	**-13 029**	**22 238**
Cash and cash equivalents at the beginning of the period	**69 864**	**47 626**
Cash flow for the period	-13 029	22 238
Cash and cash equivalents at end of the period	**56 835**	**69 864**

[1)] In order to explain this figure the tax effect on the Group contribution of 1 771 SEKm needs to be considered.

Comment on statement of cash flow

The statement of cash flow shows deposits and payments during the year as well as cash at the beginning and end of the year. The statement of cash flow is reported using the indirect method and is based on operating income for the period and changes in the balance sheet. Operating income is adjusted for changes not included in cash flow from operating activities. Cash flows are reported separately for deposits and payments from operating activities, investing activities and financing activities.

Operating activities

Cash flow from operating activities is based on operating profit for the year. Adjustments are made for income tax paid and items not included in cash flow from operating activities. Changes in assets and liabilities in operating activities consist of items that are part of regular business activities, such as loans to and funding from the public and credit institutions, and that are not attributable to investing and financing activities. The profit generated cash flow includes interest deposits of SEK 17 113m (18 614) and interest payments, including capitalised interest, of SEK 6 361m (8 045).

Financing activities

The issue and repayment of bond loans with maturities exceeding one year are reported gross.

Cash and cash equivalents

Cash and cash equivalents consist of balances on current accounts, included in the balance sheet item Loans to credit institutions.

Specification of adjustment of non-cash items SEKm	2016	2015
Unrealised translation differences, bonds in issue	4 348	-22 061
Prepaid expenses and accrued income	393	744
Accrued expenses and prepaid income	-1 548	122
Change in value of loans to the public and credit institutions	1 057	3 015
Change in value of funding and derivatives	-6 914	11 846
Other items	112	-765
Total	**-2 552**	**-7 099**

Notes

All amounts in the Notes are in millions of Swedish kronor (SEKm) and at carrying amount unless indicated otherwise. Figures in brackets refer to the previous year.

1 Corporate information

The financial statements and the annual report for Swedbank Mortgage (publ) for the financial year 2016 were approved for issuance by the Board of Directors and the CEO on 22 February 2017. Swedbank Mortgage, which maintains its registered office in Stockholm, Sweden, is a wholly owned subsidiary of Swedbank (publ). Swedbank Mortgage's operations are described in the Board of Directors' report. The financial statements and annual report will be adopted by the Company's Annual General Meeting.

2 Accounting policies

BASIS OF ACCOUNTING

The financial reports and the consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and interpretations of them. The standards are issued by the International Accounting Standards Board (IASB) and the interpretations by the IFRS Interpretations Committee. The standards and interpretations become mandatory for Swedbank Mortgage's financial statements concurrently with their approval by the EU. Complete financial reports refer to:

- balance sheet as at the end of the period,
- statement of comprehensive income for the period,
- statement of changes in equity for the period,
- cash flow statement for the period, and
- notes, comprising a summary of significant accounting policies and other explanatory information.

The financial statements are also prepared according to the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the regulations and general advice of the SFSA, FFFS 2008:25 and recommendation RFR 2 Reporting for legal entities issued by the Swedish Financial Reporting Board. Swedbank Mortgage's annual report is therefore based on IFRS guidelines as far as compliant with ÅRKL, RFR2 and Finansinspektionen regulatory code. The financial statements are based on the historical cost basis.
Subsequent measurements are based on the valuation category assigned to the financial instrument. The carrying amounts of financial assets and liabilities subject to hedge accounting at fair value have been adjusted for changes in fair value attributable to the hedged risk.

The financial statements are presented in Swedish kronor and all figures are rounded to millions of kronor (SEKm) unless otherwise indicated.

CHANGES IN ACCOUNTING POLICIES

The following adoption of accounting pronouncements and changes are applied in the 2016 financial reports.

Annual improvements 2010-2012 and 2012-2014

On 1 January 2016, the group adopted amendments to several IFRS standards, resulting from the 2010-2012 and 2012-2014 improvements. The annual improvements amend the current standards for presentation, recognition or measurement and other editorial corrections.

Amendments to IAS 1: Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements were issued in December 2014 as part of an initiative to improve the presentation and disclosures in financial reports. The amendments clarify that materiality is applicable to the entire financial statements and that the inclusion of immaterial information reduces the effectiveness of disclosures. The amendments will be applicable for annual periods beginning on or after 1 January 2016 and were endorsed by the EU on 19 December 2015.

The above changes have not had any material impact on the Company's financial position, results, cash flows or disclosures.

Other IFRS changes

Other than those above, no new or amended IFRS standards or interpretations have been applied or have had an impact on the Company's position, results, cash flows or disclosures.

SIGNIFICANT ACCOUNTING POLICIES

Presentation of financial statements (IAS 1)

Financial statements provide a structured representation of a company's financial position and financial results. The purpose is to provide information on the company's financial position, financial results and cash flows useful in connection with financial decisions. The financial statements also indicate the results of management's administration of the resources entrusted to them. Complete financial statements consist of a balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes. Swedbank Mortgage presents the statement of comprehensive income in the form of two statements. A separate income statement contains all revenue and expense items in profit provided that a special IFRS does not require or allow otherwise. Other revenue and expense items are recognised in other comprehensive income. The statement of comprehensive income contains the profit recognised in the income statement as well as the components included in other comprehensive income.

Assets and liabilities in foreign currency (IAS 21)

The financial statements are presented in SEK, which is also the company's functional currency and presentation currency. Functional currency refers to the main currency used in an entity's cash flows. Transactions in a currency other than the functional currency (foreign currency) are initially recorded at the exchange rate prevailing at the transaction day. Monetary assets and liabilities in foreign currency and non-monetary assets in foreign currency measured at fair value are translated at the rates prevailing at the closing day. All gains and losses on the translation of financial assets and financial liablilities are recognised in the income statement in Net gains and losses on financial items at fair value as changes in exchange rates.

Financial instruments (IAS 32, IAS 39)

The large part of Swedbank Mortgage's balance sheet items refers to financial instruments. A financial instrument is any form of agreement which gives rise to a financial asset in one company and a financial liability or equity instrument in another. Cash is an example of a financial asset, while financial liabilities might include an agreement to pay or receive cash or other financial assets. Financial instruments are classified on relevant parts of the balance sheet depending on the nature of the instrument and the counterparty. If the financial instrument does not have a specific counterparty or is listed on a market, the instrument is classified on the balance sheet under various types of securities. Financial liabilities where the creditor has a lower priority than others are classified on the balance sheet as Subordinated liabilities. A derivative is a financial instrument that is distinguished by the fact that its value changes, for example, due to exchange rates, interest rates or share prices, it requires little or no initial net investment and it is settled on a future date. Derivatives are reported separately on the balance sheet, either as assets or liabilities depending on whether the contract has a positive or negative fair value. Contractually accrued interest regarding financial instruments, other than derivatives, are recognised separately on the balance sheet as prepaid or accrued income or expenses. Financial assets are recognised on the balance sheet on the trade day when an acquisition agreement has been entered into, with the exception of loans and receivables, which are recognised on the settlement day. Financial assets are derecognised when the right to obtain the cash flows from a financial instrument has expired or essentially been transferred to another party. Financial liabilities are removed from the balance sheet when the obligation in the agreement has been discharged, cancelled or expired.

Offsetting

Financial assets and financial liabilities are offset and recognised net in the balance sheet if there is a legal right of set-off both in the normal course of business and in the event of bankruptcy, and if the intent is to settle the items with a net amount or simultaneously realise the asset and settle the liability.

Negative yield

According to the IFRS Interpretations Committee, negative yield on financial assets does not meet the definition of revenue according to IAS 18, Revenue and should therefore not be presented as part of interest income. Accordingly, the same view applies to negative yield on financial liabilities. During 2016, the negative yield amounts recognised within interest expense, have become material to Swedbank Mortgage. Any negative yield amounts have not been recognised in Interest income. Therefore the Company has changed the presentation of the income statement to present separate line item for negative yield on financial liabilities within Net interest income. Amounts for 2015 have not been restated as they were not considered material.

Financial instruments, recognition (IAS 39)

Swedbank Mortgage financial instruments are divided into the following valuation categories:

- financial instruments at fair value through profit or loss,
- loans and receivables,
- other financial liabilities.

Certain individual holdings of insignificant value have been classified in the valuation category available-for-sale. All financial instruments are initially recognised at fair value. The best evidence of fair value at initial recognition is the transaction price. For financial instruments that are not subsequently measured at fair value through profit or loss, supplementary entries are also made for additions or deductions of direct transaction expenses to acquire or issue the financial instrument. Subsequent measurement of financial instruments depends on the valuation category to which the financial instrument is attributed. Notes to items in the balance sheet with financial instruments indicate how the carrying amount is divided between valuation categories.

Valuation category, fair value through profit or loss

Financial instruments at fair value through profit or loss comprise instruments held for trading and all derivatives, excluding those designated for hedge accounting. In the notes to the balance sheet, these financial instruments are classified at fair value through profit or loss, trading. This category also includes other financial instruments that upon initial recognition have irrevocably been designated as at fair value, the so-called fair value option. The option to irrevocably measure financial instruments at fair value is used in the company's individual portfolios of loans and securities in issue, when the instruments, together with derivatives, essentially eliminate the portfolio's aggregate interest rate risk.

Typically these financial instruments have a fixed contractual interest rate. The fair value option is used to eliminate the accounting volatility that would otherwise arise because of the different measurement principles that are normally used for derivatives compared with other financial instruments. In the notes to the balance sheet, these financial instruments are classified at fair value through profit or loss, other. The fair value of financial instruments is determined based on quoted prices on active markets. When such market prices are not available, generally accepted valuation models such as discounted future cash flows are used.

The valuation models are based on observable market data, such as quoted prices on active markets for similar instruments or quoted prices for identical instruments on inactive markets. Differences that arise at initial recognition between the transaction price and the fair value according to a valuation model, so called day 1-profits or losses, are recognised in the income statement only when the valuation model entirely has been based on observable market data. In all other cases the difference is amortised during the financial instrument's remaining maturity. For loans measured at fair value where observable market data on the credit margin are not available at the time of measurement, the credit margin for the most recent transaction with the same counterparty is used.

Changes in value are recognised through profit or loss in net gains and losses on financial items at fair value. Changes in value owing to changes in exchange rates are recognised as changes in exchange rates in the same profit or loss item. Changes in the value of financial liabilities owing to changes in the Company's credit worthiness are also recognised separately when they arise. Decreases in value attributable to debtor insolvency are attributed to credit impairments.

Valuation category, loans and receivables

Loans to credit institutions and the public, categorised as loans and receivables, are recognised on the balance sheet on the settlement day. These loans are measured at amortised cost as long as there is no objective evidence indicating that a loan or group of loans is impaired. Loans are initially recognised at cost, which consists of the loan amount paid out less fees received and any costs that constitute an integral part of the return. The interest rate that produces the loan's cost as a result of the calculation of the present value of future payments is considered the effective interest rate. The loan's amortised cost is calculated by discounting the remaining future payments by the effective interest rate. Interest income includes interest payments received and the change in the loan's amortised cost during the period, which produces a consistent return.

On the closing day, it is determined whether there is objective evidence to indicate an impairment need for a loan or group of loans. If, after the loan is initially recognised, one or more events have occurred that negatively impact the estimated future cash flows, and the impact can be estimated reliably, impairment is made. The impairment is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows, discounted by the loan's original effective interest rate. The company determines first whether there is objective evidence for impairment of each individual loan. Loans for which such evidence is lacking are included in portfolios with similar credit risk characteristics. These portfolios are subsequently measured for impairment on a collective basis, in the event that objective evidence of impairment exists. Any impairment is calculated for the portfolio as a whole. Homogenous groups of loans with limited value and similar credit risk that have been individually identified as having objective evidence of impairment are measured individually based on the loss risk in the portfolio as a whole. If the impairment decreases in subsequent periods, previously recognised impairment losses are reversed.

However, loans are never recognised at a value higher than what the amortised cost would have been if the write-down had not occurred. Loan impairments are recognised in profit or loss as credit impairments. Credit impairments include provisions for individually impaired loans, portfolio provisions and write-offs of impaired loans. Write-offs are recognised as credit impairments when the amount of loss is ultimately determined and represent the amount before the utilisation of any previous provisions. Provisions utilised in connection with write-offs are recognised on a separate line within credit impairments. Repayments of write-offs and recovery of provisions are recognised within credit impairments. The carrying amount of loans is the amortised cost less write-offs and provisions. Individual provisions and portfolio provisions are recognised in a separate provision account in the balance sheet, while write-offs reduce the amount of outstanding loans. Impaired loans are those for which it is likely that payment will not be received in accordance with the contract terms. A loan is not impaired if there is collateral that covers the principal, unpaid interest and any late fees by a satisfactory margin.

Valuation category, other financial liabilities

Financial liabilities that are not recognised as financial instruments at fair value through profit or loss are initially recognised on the trade day at cost and subsequently at amortised cost. Amortised cost is calculated in the same way as for loans and receivables.

Hedge accounting at fair value

Hedge accounting at fair value is applied in certain cases when the interest rate exposure in a recognised financial asset or financial liability or loan portfolio is hedged with derivatives. Where hedge accounting is applied, the hedged risk in the hedged instrument or the hedged portfolio is also measured at fair value. The value of the hedged risk in the hedged portfolio is recognised on a separate line in the balance sheet as Value change of interest hedged item in portfolio hedge. The item is recognised in connection with Loans to the public. The value of the hedged risk in an individual financial asset or financial liability is recognised on the same line in the balance sheet as the financial instrument. Both the change in the value of the hedging instrument, the derivative, and the change in the value of the hedged risk are recognised through profit or loss in net gains and losses on financial items at fair value. In order to apply hedge accounting, the hedge has been formally identified and documented. The hedge's effectiveness must be measurable in a reliable way and must be proven to remain effective, both prospectively and retrospectively, in offsetting changes in value of the hedged risk.

Cash flow hedges

Derivative transactions are sometimes entered into to hedge the exposure to variations in future cash flows resulting from changes in interest rates and exchange rates. These hedges can be recognised as cash flow hedges, whereby the effective portion of the change in the value of the derivative, the hedging instrument, is recognised directly in other comprehensive income. Any ineffective portion is recognised through profit or loss in net gains and losses on financial items at fair value. When future cash flows lead to the recognition of a financial asset or a financial liability, any gains or losses on the hedging instrument are eliminated from other comprehensive income and recognised in profit or loss in the same periods that the hedged item affects profit or loss. A precondition to apply hedge accounting is that the hedge has been formally identified and documented. The hedge's effectiveness must be measurable in a reliable way and must be proven to remain very effective, both prospectively and retrospectively, in offsetting changes in value of the hedged risk.

Pensions (IAS 19)

Reported pension costs correspond to the fees paid to separate legal entities that secure pension obligations. All pension plans are recognised as defined contribution plans.

Revenues (IAS 18)

The principles of revenue recognition for financial instruments are described in a separate section, Financial instruments, recognition (IAS 39). Interest income and interest expenses for financial instruments calculated according to the effective interest method are recognised as net interest income. Changes in value in the valuation category financial instruments at fair value through profit or loss as well as all changes in exchange rates between functional and other currencies are recognised in net gains and losses on financial items. Service fees are recognised as income when the services are rendered under Commission income or Other income.

Tax (IAS 12)

Current tax assets and tax liabilities for current and previous periods are measured at the amount expected to be obtained from or paid to tax authorities. Deferred taxes refer to tax on differences between the carrying amount and the tax base, which in the future serves as the basis for current tax. Deferred tax liabilities are tax attributable to taxable temporary differences and must be paid in the future. Deferred tax liabilities are recognised on all taxable temporary differences. Deferred tax assets represent a reduction in future tax attributable to deductible temporary differences, tax loss carry-forwards or other future taxable deductions. Deferred tax assets are tested on each closing day and recognised to the extent it is likely on each closing day that they can be utilised. As a result, a previously unrecognised deferred tax asset is recognised when it is considered likely that a sufficient surplus will be available in the future. Tax rates which have been enacted or substantively enacted as of the reporting date are used in the calculations. All current and deferred taxes are recognised through profit or loss as tax with the exception of tax attributable to items recognised directly in other comprehensive income or equity.

Cash and cash equivalents (IAS 7)

Cash and cash equivalents consist of current accounts with Swedbank.

Operating segments (IFRS 8)

Segment reporting is presented on the basis of management's perspective and relates to the parts of Swedbank Mortgage that are defined as operating segments. Operating segments are identified on the basis of internal reports to the company's chief operating decision maker. Swedbank Mortgage has identified the Chief Executive Officer as its chief operating decision maker, while the internal reports used by the CEO to oversee operations and make decisions on allocating resources serve as the basis of the information presented. The accounting policies for an operating segment consist of the above accounting policies and policies that specifically refer to segment reporting. Swedbank Mortgage has three operating segments that meet the requirements of IFRS 8: Private, Corporate, and Forestry and Agriculture.
Revenue is distributed with the help of customer interest rates, internal interest rates, commission agreements and relevant distribution factors. Interest income and interest expenses are netted, since Swedbank Mortgage's chief operating decision maker uses net interest income to determine the segment's result. Items such as changes in value of financial instruments, return on legal equity and other minor items are not distributed to the operating segments. Among balance sheet items, loans to the public are distributed.

Untaxed reserves and Group contributions

Due to the connection between reporting and taxation, deferred tax liability attributable to untaxed reserves is not recognised separately in the company. The reserves are therefore recognised in their gross amounts in the balance sheet and income statement. Group contributions are recognised as a decrease of nonrestricted equity after tax adjustment.

NEW STANDARDS AND INTERPRETATIONS

The International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC) have issued the following standards, amendments to standards and interpretations that apply in or after 2016. The IASB permits earlier application. For Swedbank Mortgage to apply them it also requires that they have been approved by the EU if the amendments are not consistent with previous IFRS rules. Consequently, Swedbank Mortgage has not applied the following amendments in the 2016 annual report.

Revenue from Contracts with Customers (IFRS 15)

IFRS 15 was issued in May 2014 and establishes the principles for reporting useful information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The standard introduces a five-step model to determine how and when to recognise revenue, but it does not impact the recognition of income from financial instruments in the scope of IAS 39. The standard also establishes new disclosures to provide more relevant information. The standard is applicable from 1 January 2018 and has been approved by the EU. Its impact on Swedbank Mortgage's financial reports is currently being assessed.

Financial instruments (IFRS 9)

IFRS 9 is the replacement of IAS 39 Financial Instruments: Recognition and Measurement and includes requirements for recognition, classification and measurement, impairment, derecognition and hedge accounting. The major changes from IAS 39 relate to classification and measurement, impairment and hedge accounting. The standard was approved by the EU in November 2016 for application to the financial year beginning on 1 January 2018.

Swedbank Mortgage intends to adopt IFRS 9 on the mandatory application date of 1 January 2018. The classification and measurement and impairment requirements will be applied retrospectively by adjusting the consolidated balance sheet at that date. There is no requirement to restate comparative periods and Swedbank Mortgage does not intend to do so.

The impacts of IFRS 9 on the Company's financial reports are still being assessed but are expected to be significant, particularly from adopting the new impairment requirements. A reliable impact on the financial reports will not be known until the impairment models have been further developed and tested.

Swedbank Mortgage will disclose the potential impacts of IFRS 9 when reliable estimates are available, which will be no later than in the Annual Report 2017.

Classification and measurement

At initial recognition, financial assets will be classified as fair value through profit or loss, amortised cost or fair value through other comprehensive income. The classification assessment for debt instruments will be based on two criteria: (a) an entity's business model for managing financial assets and (b) whether the contractual cash flows of instruments represent solely payments of principal and interest. The introduction of the contractual cash flow characteristics test removed the requirements to assess for and separate embedded derivatives, where instruments are financial assets.
Swedbank Mortgage has performed business model assessments, based on how financial asset portfolios are managed and evaluated, and tested the contractual cash flow characteristics. Based on the current balance sheet assets, classifications are not expected to change significantly.

Swedbank Mortgage designates financial assets at fair value through profit or loss under IAS 39 (so-called fair value option), primarily to avoid accounting mismatch. IFRS 9 provides a one-time ability to reevaluate the fair value option and whether it should be ceased voluntarily or elected to be continued (assuming the designation criterion are still met). Fair value option portfolios of financial assets may be reclassified to amortised cost under IFRS 9 if the business model and cash flow characteristics assessment are also met. Swedbank Mortgage is still evaluating the impacts of this option.

The classification and measurement requirements for financial liabilities remain largely unchanged from IAS 39.

Impairment

IFRS 9 removes the requirement in IAS 39 to identify an incurred loss event and introduces an expected credit loss model for the measurement of impairment on financial assets classified as amortised cost. The new impairment model establishes a three stage approach based on whether there has been a significant increase in credit risk since initial recognition of an instrument. Expected credit losses will be measured based on the stage to which the individual asset is allocated at each reporting date.

For financial assets with no significant increase in credit risk since initial recognition, impairment provisions reflect 12-month expected credit losses. For financial assets with a significant increase in credit risk and those which are credit impaired, impairment provisions reflect lifetime expected credit losses. The various types of credit risk information available and the way credit risk is managed for different portfolios become more relevant under IFRS 9, particularly to enable allocation to the appropriate stage. Transfers between stages will be applied at an individual loan level and will also incorporate the effects of forward-looking information.

Scope

Under IFRS 9, the scope of impairment is expanded compared to IAS 39 to include irrevocable off-balance sheet loan commitments and financial guarantees.
These instruments are currently provisioned for in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

Stage 1

Under IFRS 9, 12-month expected credit losses will be recognised on financial assets which are not considered to have significantly increased in credit risk since initial recognition.

Stage 2

Financial assets are considered to be in stage 2 if there has been a significant increase in credit risk since initial recognition. Lifetime expected credit losses shall be recognised against such financial assets. IFRS 9 provisions are expected to be higher than those under IAS 39 as a result of lifetime expected losses being recognised on loans that are not credit-impaired.

Swedbank Mortgage intends to assess changes in credit risk using a combination of individual and collective information and will reflect the increase in credit risk at the individual financial instrument level to the extent practicable. The primary indicator that will be used to assess changes in credit risk will be changes in the lifetime probability of default since initial recognition. Qualitative indicators that may not be captured in a timely manner in the probability of default models will also be considered in the stage allocation assessment and financial assets that are 30 days past due will be allocated to Stage 2 as a backstop.

Stage 3

Stage 3 provisions effectively replace the IAS 39 individual and collective provisions on impaired loans. Financial assets will be included in stage 3 when there is objective evidence that the asset is credit-impaired. Credit-impaired will primarily be defined as an instrument being 90 days or more past due, as well as other factors consistent with the loss event criteria used under IAS 39. Swedbank Mortgage does not currently anticipate rebutting the presumption in IFRS 9 that loans which are 90 days past due are in default. IFRS 9 does not define default but rather states that it shall be consistent with the definition of default used for internal credit risk management purposes. It is the Company´s intention to align the definition of default with the regulatory definition as far as possible.

For financial assets that Swedbank Mortgage does consider to be individually significant, provisions under IFRS 9 will be measured according to the models for expected credit losses. For financial assets that are considered to be individually significant, discounted cash flow calculations will continue to be used as under IAS 39. Changes will be made to these calculations in order to ensure the measurement requirements of IFRS 9 are met. Therefore, the results may not be the same as those calculated according to IAS 39.

Measurement of expected credit losses

Swedbank Mortgage will calculate expected credit losses as the probability-weighted net present value of expected cash shortfalls, considering four main parameters: a probability of default (PD), a loss given default (LGD), an exposure at default (EAD) and a discount rate. Furthermore, expected credit losses will be evaluated and probability-weighted across a diverse set of economic scenarios. The Company´s regulatory IRB models will serve as a base for the IFRS 9 expected credit loss models. However, adjustments need to be made and, in some instances, new models need to be developed in order to meet the objectives of IFRS 9.

Hedge accounting

The IFRS 9 hedge accounting requirements enable entities to better reflect their risk management activities in the financial statements and introduce a less rules-based approach to assessing hedge effectiveness. The new standard does not explicitly address the accounting for portfolio hedges of interest rate risk and, as a result, the following accounting policy choices are provided:

- Adopt the IFRS 9 hedge accounting requirements for all hedge relationships, except the portfolio hedge of interest rate risk, for which IAS 39 is retained
- Adopt IFRS 9 for all hedge relationships
- Retain IAS 39 for all hedge relationships

Swedbank Mortgage has performed a detailed gap analysis of the hedge accounting requirements and expects to adopt the IFRS 9 hedge accounting requirements for all hedge relationships, except the portfolio hedge of interest rate risk.

The new hedge accounting disclosures resulting from the related amendments to IFRS 7 Financial Instruments: Disclosures are required regardless of the accounting policy choice that is elected.

3 Critical accounting judgements and estimates

Presentation of consolidated financial statements in conformity with IFRS requires executive management to make judgments and estimates that affect the recognised amounts for assets, liabilities and disclosures of contingent assets and liabilities as of the closing day as well as recognised income and expenses during the report period. Executive management continuously evaluates these judgments and estimates, including those that affect the fair value of financial instruments, provisions for impaired loans and deferred taxes. Executive management bases its judgments and assumptions on previous experience and several other factors that are considered reasonable under the circumstances. Actual results may deviate from judgments and estimates.

JUDGEMENTS

Financial instruments

When financial instruments are valued at fair value, quoted prices on active markets are primarily used. When quoted prices on active markets are not available, various valuation models are used instead. The company determines when markets are considered inactive and when quoted prices no longer correspond to fair value, requiring valuation models to be used. The markets are considered inactive when the number of completed transactions is too few and when the amounts of the transactions are too small. Swedbank Mortgage determines which valuation model and which pricing parameters are most appropriate for the individual instrument. All the valuation models Swedbank Mortgage uses are generally accepted and are subject to independent risk control. Swedbank Mortgage uses primarily accounting at amortised cost and hedge accounting. The company evaluates these as the most true accounting principles for the business conducted in the company. For part of the lending and funding portfolios the principle of fair value option accounting still applies since before 2009, but will diminish over time.

ESTIMATES

The company uses various estimates and assumptions about the future to determine the value of certain assets and liabilities.

Provisions for credit impairments

Receivables measured at amortised cost are tested if loss events have occurred. Individual loans are tested initially, followed by groups of loans with similar credit terms and which are not identified individually. A loss event refers to an event that occurred after the loan was paid out and which has a negative effect on projected future cash flows. Determining loss events for groups of loans carries greater uncertainty, since a number of different events, such as macroeconomic factors, may have had an impact. Loss events include late or non-payments, concessions granted due to the borrower's financial difficulties, bankruptcy or other financial reconstructions, and local economic developments tied to non-payments, such as an increase in unemployment or decrease in real estate prices. Where a loss event has occurred, individual loans are classified as impaired. The company considers that loans whose terms have been significantly changed due to the borrower's economic difficulties and loans that have been nonperforming for more than 90 days should automatically be treated as impaired. Such a loan is not considered impaired if there is collateral which covers the capital, accrued and future interest and fees by a satisfactory margin. When a loss event has occ-urred, a determination is made when in the future the loan's cash flows will be received and its probable size. For impaired loans, interest is not considered to be received, only capital or portions thereof. For groups of loans, estimates are based on historical values and experience-based adjustments to the current situ-ation.

Provisions for impaired loans are made on the difference between estimated value i.e estimated future cash flows discounted by the loan's original effective interest rate, and amortised cost. Amortised cost refers to contractual cash flows discounted by the loan's original effective interest rate.

Assumptions about when in time a cash flow will be received as well as its size determine the size of the provisions. Decisions on provisions are therefore based on various calculations and the company's assumptions of current market conditions. The company is of the opinion that provision estimates are important because of the complexity of making these estimates.

Financial instruments at fair value

When financial instruments are measured at fair value according to valuation models, an estimate is made which observable market data should be used in those models. The assumption is that quoted prices from financial instruments with as similar a turnover as possible will be used. When such prices or components of prices cannot be identified, the company must make its own assumptions. Note 28 shows financial instruments at fair value divided into three valuation levels: quoted prices, valuation models with observable market inputs and valuation models with internal assumptions. As of year-end 2016 financial instruments measured at fair value with internal assumptions which have a significant effect on the valuation amounted to SEK 0m (0). A change in the assumed valuation rate of 10bp would have changed the value by SEK 0m (0).

4 Risks

Swedbank Mortgage's operations have mainly credit, liquidity, financial and operational risks. Swedbank Mortgage measures, follows up, manages and reports risks in accordance with the guidelines and policies that apply within the Swedbank Group.

Swedbank Mortgage defines risk as a potential negative impact on the company's valuation that can occur due to continuing internal processes or future internal or external events. The risk concept encompasses both the probability that an event will occur and the impact that event would have on the group's profitability, equity or value. The Board has adopted a policy for Enterprise Risk Management (ERM) which describes the risk framework, the risk management process and the roles and responsibilities regarding risk management and risk control. Swedbank Mortgage continously identifies the risks in its business and has developed a process for risk assessment and management.

The risk management process encompasses eight steps: prevent risks, identify risks, quantify risks, analyse risks, suggest measures to control and monitor risks, report risks and follow up risk management. The process encompasses all risk categories and results in the Swedbank Mortgage's internal capital evaluation process.

To ensure that Swedbank Mortgage maintains a long-term low risk profile, the Board has established an overall risk appetite and individual limits for all risk types the company is exposed to. The limits entail business exposure and portfolio developments. The limits are complemented with risk indicators that are carefully monitored and whose purpose is to give early signals if conditions change.

The capital adequacy assessment process evaluates capital needs based on Swedbank Mortgages aggregate risk level and business strategy. The aim is to ensure efficient use of capital at the same time that Swedbank Mortgage meets the minimum legal capital requirement and maintains access to domestic and international capital markets, even under adverse market conditions.

Credit risk

The risk that counterparty, the borrower, fails to meet contractual obligations to Swedbank Mortgage and the risk that collateral will not cover the claim. Credit risk also includes counterparty risk, concentration risk and settlement risk.

Liquidity risk
The risk that Swedbank Mortgage cannot fulfil its payment commitments when they fall due.

Market risk
The risk that Swedbank Mortgage's results, equity or value will decease due to changes in risk factors in financial markets. Market risk includes interest rate risk, currency risk, share price risk, commodity risk and risks from changes in volatilities or correlations

Operational risk
The risk of losses resulting from inadequate or failed internal processes or procedures, human error, defective systems or external events. The definition includes legal risk and information risk.

Other risks
Include business risk, pension risk, strategic risk, and reputational risk.

Operational risk management
Within the Swedbank Group qualitative methods such as risk and vulnerability assessment, business continuity planning and a process to authorise new products, systems and processes apply, as well as quantitative methods where, among other things, incident reporting and operational losses are used to quantify the operational risks.

Other risk management
The parent company, Swedbank, is responsible for managing other risks, with the exception of strategic risk which is managed within the framework of the Swedbank Mortgage board's ongoing work. The Swedbank Mortgage board's work is to ensure the company's best interest in its role as client of the parent company and that other risks are reported to the Swedbank Mortgage board as part of the general day-to day reporting.

4a Credit risk

Definition
Credit risk refers to the risk that a counterparty or borrower will fail to meet their contractual obligations towards Swedbank Mortgage and the risk that pledged collateral will not cover the claim.
Credit risk also includes counterparty risk, concentration risk and settlement risk. Counterparty risk is the risk that a counterparty in a trading transaction will fail to meet their financial obligations towards Swedbank Mortgage and that the collateral which has been received is insufficient to cover the claim against the counterparty. Trading transactions refer here to repos, derivatives, securities financing transactions and money market transactions.
Concentration risk comprises, among other things, large exposures or concentrations in the credit portfolio to specific counterparties, sectors or geographies.
Settlement risk is the risk that a counterparty will fail to meet its obligations before Swedbank Mortgage fulfils its obligations when a transaction is executed (delivery/payment).

Risk classification
Responsible lending is a precondition for a well-functioning bank. This means that Swedbank Mortgage looks at customers' long-term financial situation, payment ability and financial resilience. We work proactively with customers deemed to face financial difficulties. For corporate customers a special risk evaluation process is conducted regarding sustainability, which includes corruption and environmental risks.

The treasury department has counterparty risks mainly in derivative contracts. All derivative contracts have the parent company as counterparty. Counterparty risks are reduced through bilateral agreements, which allow the risks to be netted according to standardised procedures.

Risk measurement
Swedbank Mortgage's internal risk classification system is the basis for:

- Risk assessment and credit decisions
- Calculating risk-adjusted returns (including RAROC)
- Calculating portfolio provisions
- Monitoring and managing credit risks (including migrations)
- Reporting credit risks to the Board and CEO
- Developing credit strategies and associated risk management activities
- Calculating capital requirements and capital allocation

Risk classes are tested and confirmed based on credit decisions. This affects the analysis and documentation and also follow-up procedure on customers. This means that credits with a low risk profile can be approved in a simpler and faster credit process. Risk classification is also a central part in each credit exposure follow-up process.

Several methods of risk classification have been developed to achieve the best possible accuracy in the internal rating classification. Models are essentially of two kinds. One is built on statistical methods and is conditional upon a large quantity of counterparty information data, including counterparty defaults. When statistical methods cannot be applied, models are used where credit evaluation is based on expert assessments.

Swedbank Mortgage has received approval from SFSA to apply the IRB approach, which is used to calculate the majority of the capital requirement for credit risks. The IRB approach is applied to the large part of lending to the public except for lending to governments. For exposures where the IRB approach is not used, the SFSA standardised approach is used to calculate capital requirement.

The goal of the risk classification is to predict defaults within 12 months. The classification is expressed on a scale of 23 classes, where 0 represents the greatest risk and 21 represents the lowest risk of default, with one class for defaulted loans. The subsequent table describes the Group's risk classification and how it relates to the probability of default within 12 months (PD) as well as an indicative rating from S&P.

Risk levels as per IRB approach			
Internal levels	Risk scale	PD (%)	Indic. Rating S&P
Default	Default	100	D
High risk	0-5	>5.7	C to B
Heightened risk	6-8	2.0-5.7	B+
Normal risk	9-12	0.5-2.0	BB to BB+
Low risk	13-21	<0.5	BBB to AAA

Models are validated when new models are applied, during major changes as well as continuously (at least annually). The validation ensures that each model measures risk in an acceptable way. In addition, the models are tested in the daily credit assessment process. Models indicate a probability of credit default one year ahead.

4a Credit risk, contd.

Loans to the public and credit institutions, carrying amount 2016

SEKm	Loans individually assessed as not impaired				Loans individually assessed as impaired			
	Carrying amount before provisions		Portfolio provisions	Carrying amount after provisions	Carrying amount before provisions	Provisions	Carrying amount after provisions	Total
	Payments on time	Past due						
Loans to the public and credit institutions	975 735	543	-71	976 207	222	-22	200	976 407
Total loans to the public and credit institutions	**975 735**	**543**	**-71**	**976 207**	**222**	**-22**	**200**	**976 407**
Sector/Industry [1]								
Private customers	710 541	466	-36	710 971	96	-9	87	711 058
Tenant-owner associations	94 849	5	-15	94 839	3		3	94 842
Forestry,agriculture and fishing	52 418	37	-4	52 451	84	-12	72	52 523
Manufacturing	789	1		790				790
Public services	3 218			3 218				3 218
Construction	3 506	4	-1	3 509				3 509
Retail markets	1 237			1 237	37		37	1 274
Transport	414	1		415				415
Sea transport and offshore	7			7				7
Hotel and restaurant	674	4		678				678
Information and communication	216			216				216
Finance and insurance	782			782				782
Housing	33 413	7	-13	33 407	2	-1	1	33 408
Commercial properties	7 064	4		7 068				7 068
Industry and storage	1 006			1 006				1 006
Other private lending	4 869			4 869				4 869
Corporate services	2 656	4	-1	2 659	1		1	2 660
Other corporate lending	1 241	10	-1	1 250	-1		-1	1 249
Total	**918 900**	**543**	**-71**	**919 372**	**222**	**-22**	**200**	**919 572**
Credit institutions	56 835			56 835				56 835
Total loans to the public and credit institutions	**975 735**	**543**	**-71**	**976 207**	**222**	**-22**	**200**	**976 407**
Collateral held as security								
Residential properties including tenant-owner apartments	846 929	471	-50	847 350	99	-9	90	847 441
Other real estate	63 990	72	-21	64 041	123	-13	110	64 150
Municipality guaranteed	7 973			7 973				7 973
Other collateral	8			8				8
Total	**918 900**	**543**	**-71**	**919 372**	**222**	**-22**	**200**	**919 572**
Credit institutions guaranteed by Swedbank AB	56 835			56 835				56 835
Total loans to the public and credit institutions	**975 735**	**543**	**-71**	**976 207**	**222**	**-22**	**200**	**976 407**

[1] According to SCB sector codes

4a Credit risk, contd.

Loans to the public and credit institutions, carrying amount 2015

	Loans individually assessed as not impaired				Loans individually assessed as impaired			
	Carrying amount before provisions		Portfolio provisions	Carrying amount after provisions	Carrying amount before provisions	Provisions	Carrying amount after provisions	Total
SEKm	Payments on time	Past due						
Loans to the public and credit institutions	926 952	698	-84	927 566	241	-33	208	927 774
Total loans to the public and credit institutions	**926 952**	**698**	**-84**	**927 566**	**241**	**-33**	**208**	**927 774**
Sector/Industry [1]								
Private customers	656 704	518	-48	657 174	109	-8	101	657 275
Tenant-owner associations	88 450	62	-16	88 496				88 498
Forestry,agriculture and fishing	51 739	72	-5	51 806	116	-22	94	51 900
Manufacturing	800			800				800
Public services	3 179			3 179				3 179
Construction	3 381	8		3 389	4		4	3 393
Retail markets	1 301			1 301	3	-1	2	1 303
Transport	565			565				565
Sea transport and offshore	8			8				8
Hotel and restaurant	715	2		717				717
Information and communication	212	3		215				215
Finance and insurance	759			759				759
Housing	32 347	4	-11	32 340	5	-2	3	32 343
Commercial properties	7 170	1		7 171				7 171
Industry and storage	542			542				542
Other private lending	5 459	10		5 469	2		2	5 471
Corporate services	2 734	9	-1	2 742	1		1	2 743
Other corporate lending	1 023	9	-2	1 028	1		1	1 029
Total [2]	**857 088**	**698**	**-84**	**857 702**	**241**	**-33**	**208**	**857 910**
Credit institutions				69 864				69 864
Total loans to the public and credit institutions	**857 088**	**698**	**-84**	**927 566**	**241**	**-33**	**208**	**927 774**
Collateral held as security								
Residential properties including tenant-owner apartments	785 470	580	-73	785 977	109	-8	101	786 078
Other real estate	62 864	118	-11	62 971	132	-25	107	63 078
Municipality guaranteed	8 745			8 745				8 745
Other collateral	9			9				9
Total [2]	**857 088**	**698**	**-84**	**857 702**	**241**	**-33**	**208**	**857 910**
Credit institutions guaranteed by Swedbank AB	69 864			69 864				69 864
Total loans to the public and credit institutions	**926 952**	**698**	**-84**	**927 566**	**241**	**-33**	**208**	**927 774**

[1] According to SCB sector codes

[2] The figures from 2015 before provisions have been amended. The total has been changed from 856 980 to 857 088 and between the different sectors, the figure of total loans to the public and credit institutions has not been amended.

4a Credit risk, contd.

Impaired, past due and foreborne loans

SEKm	2016	2015
Impaired loans		
Carrying amount before provisions	222	241
Provisions for the year	-22	-33
Book value after provisions	200	208
Net impaired loans ratio, %	0.02	0.02
Gross impaired loans ratio, %	0.02	0.03
Carrying amount of impaired loans that returned to normal status	2	6
Past due loans that are not impaired		
Valutation category, loans receivable		
Loans past due, 5-30 days	66	122
Loans past due, 31-60 days	185	236
Loans past due, 61 days or more	204	192
Valutation category, fair value through profit and loss		
Loans past due, 5-30 days	63	83
Loans past due, 31-60 days	45	63
Loans past due, 61 days or more	73	110
Total	**636**	**806**
Provisions		
Opening balance	**117**	**122**
Provisions for the year	12	7
Recoveries of previous provisions	-23	4
Provisions for loans that are not impaired	-13	-8
Closing Balance	**93**	**117**
Total provision ratio for impaired loans, % [1)]	41.70	48.50
Provision ratio for individually identified impaired loans, %	10.00	13.80

[1)] including portfolio provisions for loans classified as impaired.

Impaired loans are those for which it is likely that payment will not be received in accordance with the contract terms. A loan is not impaired if there is collateral that covers the principal, unpaid interest and any late fees by a satisfactory margin.

Specified above are the provisions allocated for impaired loans as well as for other lending where loss events have occurred but where individual loans have not yet been identified. Loss events include late or non-payments, situations where the borrower is likely to go bankrupt and domestic or local economic developments tied to nonpayment, such as diminished asset values. The carrying amount for impaired loans generally corresponds to the value of the collateral, in cases where collateral exists.
Forborne loans refer to loans whose contractual terms have been amended due to the customer's financial difficulties. The purpose of the forbearance measure is to get the borrower current on their payments again, or when this is not considered possible to maximise the repayment of outstanding loans. Changes in contractual terms include various forms of concessions such as amortisation suspensions, reductions in interest rates to below market rate, forgiveness of all or part of the loan, or issuance of new loans to pay overdue amounts or avoid default. Changes in contractual terms may be so significant that the loan is also considered impaired, which is the case if the forbearance measure reduces the original loan's carrying amount regardless of concessions. The forborne loan's carrying amount is determined by discounting future anticipated cash flows by the original loan's effective interest rate. Before a forborne loan ceases being reported as forborne all the criteria set by the European Banking Authority must be met. Forborne loans amounted to nominal SEK 107m (104) as per 31 December 2016.

4a Credit risk, contd.

Credit risk exposure on loans to the public according to the internal risk classification [1)]

		2016				2015			
Exposure at default	**Risk scales**	**Private**	**Corporate**	**Forestry & Agriculture**	**Total**	**Private**	**Corporate**	**Forestry & Agriculture**	**Total**
Default	Defaulted	406	81	193	680	475	120	263	858
High risk	0-5	3 091	1 032	1 538	5 661	3 595	1 037	1 716	6 348
Heightened risk	6-8	5 372	4 372	4 969	14 713	5 848	4 963	4 705	15 517
Normal risk	9-12	18 960	22 488	14 451	55 899	19 555	21 464	15 269	56 287
Low risk	13-21	638 945	161 923	39 982	840 850	582 573	155 240	37 993	775 806
Non-risk rated		0	0	0	0	10	0	0	10
Total [2)]		**666 774**	**189 896**	**61 133**	**917 803**	**612 056**	**182 823**	**59 946**	**854 825**

[1)] nominalamount before provisions

[2)] The figures only includes Loans to domestic public and loans to non domestic public

4b Liquidity risk

Definition

Liquidity risk refers to the risk of Swedbank Mortgage not being able to meet payment obligations at maturity without a significant increase in the cost of obtaining the funds due to high borrowing costs or unfavorable prices when divesting assets.

Swedbank Mortgage's liquidity can be predicted, since the maturity and interest payments on its mortgages and funding are known in advance. With the help of rigorous forecasts and diversified funding in various geographical markets, Swedbank Mortgage reduces liquidity risk.

Liquidity exposure is limited by the company's Board and monitored continuously by Swedbank Mortgage and the Swedbank Group. Liquidity risk is also limited by covered bond regulations. The high credit rating of covered bonds broadens the investor base, facilitates favourable funding costs and constitutes approved collateral when pledged with the Swedish Riksbank. Swedbank Mortgage has access to the parent company's liquidity reserve where the purpose of building up and maintaining a liquidity reserve is to reduce the Group's liquidity risk. When Swedbank Mortgage faces a high volume of maturing bonds that exceeds lending maturity, the liquidity reserve must be adjusted to meet these maturities in various types of stressed scenarios in the capital markets where access to financing may be limited or where markets are fully or partly closed over an extended period of time. This also means that when Swedbank's maturities are lower, the liquidity reserve can be reduced, since refinancing needs decrease, as does liquiddity risk. Swedbank's Board of Directors has also set a floor for Group Treasury's liquidity portfolio. The portfolio must surpass a given volume and has to be invested in liquid and pledgeable assets (not to be confused with the liquidity reserve, which in addition to the liquidity portfolio includes assets placed with central banks and in the overnight market).

Maturity overview

In the overview of maturities, undiscounted contractual cash flows are distributed on the basis of remaining maturities until the agreed time of maturity. Changes in value and items without an agreed maturity date where the probable realisation date has not been determined are reported in the column "Without maturity date/discount effect".

4b Liquidity risk, contd.

Undiscounted contractual cash flows - 2016

Remaining maturity, 2016 Swedbank Group and Swedbank Mortgage AB SEKm	Payable on demand	< 3 mths	3 mths-1 yr	1-5 yrs	5-10 yrs	> 10 yrs	Without maturity date /discount effect [1]	Total
Assets								
Loans to credit instiutions	56 835							56 835
Loans to the public		3 110	9 814	51 196	59 457	793 297	2 698	921 053
Derivatives		2 120	8 228	14 834	2 641	158		27 982
Other assets							1 430	1 430
Total assets	**56 835**	**5 230**	**18 042**	**66 030**	**62 098**	**793 455**	**4 127**	**1 007 300**
Liabilities								
Amounts owed to credit institutions		884	366 498	7 025	333			374 740
Debt securities in issue		32 102	82 782	380 595	22 604	14 930	30 188	563 201
Derivatives		738	1 465	3 396	1 173	610		7 382
Subordinated liabilities					4 000			4 000
Other liabilities							15 522	15 522
Total liabilities		**33 724**	**450 745**	**391 016**	**28 110**	**15 540**	**45 709**	**964 845**

[1)] Refers to discount effect for all items, except other assets and other liabilities without a defined maturity date

Undiscounted contractual cash flows - 2015

Remaining maturity, 2015 Swedbank Group and Swedbank Mortgage AB SEKm	Payable on demand	< 3 mths	3 mths-1 yr	1-5 yrs	5-10 yrs	> 10 yrs	Without maturity date /discount effect [1]	Total
Assets								
Loans to credit instiutions	69 864							69 864
Loans to the public		2 737	8 602	43 931	50 490	748 302	3 848	857 910
Derivatives		2 358	2 951	5 703	937	91	17 150	29 190
Other assets							4 251	4 251
Total assets	**69 864**	**5 095**	**11 553**	**49 634**	**51 427**	**748 393**	**25 249**	**961 215**
Liabilities								
Amounts owed to credit institutions		2 338	323 745	9 176	331			335 590
Debt securities in issue		21 846	57 956	391 494	36 416	14 829	34 121	556 662
Derivatives		336	1 653	2 659	1 084	932	4 904	11 568
Subordinated liabilities					4 000			4 000
Other liabilities							15 753	15 753
Total liabilities		**24 520**	**383 354**	**403 329**	**41 831**	**15 761**	**54 778**	**923 573**

[1)] Refers to discount effect for all items, except other assets and other liabilities without a defined maturity date

4c Market risk - Interest rate risk

Definition

Interest rate risk refers to the risk that the value of Swedbank Mortgage's results, equity or value decreases due to changes in interest rates on the financial market. The interest rate risk in Swedbank Mortgage's operations arises as a result of differences in the average interest fixing periods in the lending portfolio and funding. In the table below interest risk is measured as the change in the value of interest bearing assets and liabilities resulting from an increase of one percentage point in all market rates (for valuation principles, see note 2). The effect of such an increase would have reduced the fair value of all interest bearing assets and liabilities, including derivatives, by SEK 248m (466) as of 31 December 2016.

Net gains and losses on financial items, before taking into account cash flow hedges, would have increased by SEK 56m (decreased 213) for the portion of Swedbank Mortgage's balance sheet measured at fair value through the income statement. This would have increased equity by SEK 44m (decreased 166).

Change in value if the market rates rise by one percentage point

Impact on the value of assets and liabilities, including derivatives, if market rates are raised by one percentage point

2016

SEKm	< 3 mths	3-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	> 10 yrs	Total
SEK	29	-34	-70	-82	-142	70	26	-121	76	-248
Foreign currency										
Total	**29**	**-34**	**-70**	**-82**	**-142**	**70**	**26**	**-121**	**76**	**-248**
of which financial instruments measured at fair value through profit and loss										
SEK	45	-10	27	-20	-6	-2	-18	13	27	56
Foreign currency										
Total	**45**	**-10**	**27**	**-20**	**-6**	**-2**	**-18**	**13**	**27**	**56**

2015

SEKm	< 3 mths	3-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	> 10 yrs	Total
SEK	61	-39	-131	-163	-240	31	55	-95	56	-466
Foreign currency										
Total	**61**	**-39**	**-131**	**-163**	**-240**	**31**	**55**	**-95**	**56**	**-466**
of which financial instruments measured at fair value through profit and loss										
SEK	-146	-25	-36	18	-26	-5	8	-19	18	-213
Foreign currency										
Total	**-146**	**-25**	**-36**	**18**	**-26**	**-5**	**8**	**-19**	**18**	**-213**

4d Market risk – Currency risk

Definition

Currency risk refers to the risk that the value of the company's results, equity or value may decrease due to changes in exchange rates. Currency risk arises as Swedbank Mortgage's lending in SEK is partly financed with funding in other liquid currencies.

Swedbank Mortgage's policy is to hedge any exposure to currency risk. Essentially, currency risk is hedged through derivatives on the currency market. The table below shows assets and liabilities broken down by currency.

4d Market risk – Currency risk, contd.

Currency distribution 2016							
SEKm	**SEK**	**EUR**	**USD**	**GBP**	**NOK**	**Other**	**Total**
Assets							
Loans to credit institutions	56 835						56 835
Loans to the public	919 572						919 572
Other assets, undistributed	30 893						30 893
Total	**1 007 300**						**1 007 300**
Liabilities							
Amounts owed to credit institutions	374 741						374 741
Debt securities in issue	395 201	113 038	31 770	12 971	8 291	5 930	567 201
Other liabilities, undistributed	22 903						22 903
Total	**792 845**	**113 038**	**31 770**	**12 971**	**8 291**	**5 930**	**964 845**
Other assets and liabilities, including derivative positions		**113 038**	**31 770**	**12 971**	**8 291**	**5 930**	
Net position in currencies		**0**	**0**	**0**	**0**	**0**	

Currency distribution 2015							
SEK million	**SEK**	**EUR**	**USD**	**GBP**	**NOK**	**Other**	**Total**
Assets							
Loans to credit institutions	69 864						69 864
Loans to the public	859 623						859 623
Other assets, undistributed	685						685
Total	**930 172**						**930 172**
Liabilities							
Amounts owed to credit institutions	335 590						335 590
Debt securities in issue	342 504	109 375	46 356		8 630	19 677	526 542
Other liabilities, undistributed	42 785						42 785
Total	**720 879**	**109 375**	**46 356**		**8 630**	**19 677**	**904 917**
Other assets and liabilities, including derivative positions		**109 375**	**46 356**		**8 630**	**19 677**	
Net position in currencies		**0**	**0**		**0**	**0**	**0**

5 Capital adequacy

Capital adequacy analysis

The capital adequacy regulations determine how much capital, designated as the capital base, a credit institution must have in relation to the size of the risk exposure amounts. For Swedbank Mortgage, the capital adequacy rules according to CRR mean that the minimum capital requirement for credit risks, with the approval of the SFSA, will be based on an internal 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 SFSA.

Swedbank Mortgage's legal capital requirement is based on 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 be maintained for Swedish institutions as a backstop rule. 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-weight floor on Swedish mortgage of 25%, capital conserveation buffer of 2.5% and counter cyclical buffer of 1%), these rules constitute the minimum capital requirements for Swedbank Mortgage.

Swedbank also formulates and documents its own methods and processes for evaluating the Group's capital requirements. This evaluation includes Swedbank Mortgage. The capital requirement is determined systematically on the basis of the total level of risks to which Swedbank Mortgage is exposed. All risks are taken into account, including risks other than those included in the calculation of the capital requirements.

International work is underway regarding future capital requirements for banks. Among other things, the Basel Committee is conducting an extensive review to improve the comparability of banks' capital ratios. The review covers future standard methods for calculating capital requirements for credit, market 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. According to the Basel 1 floor regulation, the capital requirement can be obtained through a combination of common equity tier 1 (CET 1), tier 1 and tier 2 capital without specifying the share of each type of capital.

The note contains the information made public according to the SFSA 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: https://www.swedbank.com/investor-relations/risk-and-capital-adequacy/risk-report/

5 Capital adequacy, contd.

SEKm	2016	2015
Shareholders' equity according to the balance sheet	41 387	36 570
Share of capital in tax allocation	833	833
Unrealised value changes in own financial liabilities due to changes in own credit valuation	49	87
Cash flow hedges	-230	-124
Additional valuation adjustments [1]	-7	-11
Net provisions for reported IRB credit exposures	-243	-246
Common Equity Tier 1 capital	**41 789**	**37 109**
Total Tier 1 capital	**41 789**	**37 109**
Total Tier 2 capital	**4 000**	**4 000**
Total capital base	**45 789**	**41 109**
Capital requirement for credit risks, standardised approach	576	426
Capital requirement for credit risks, IRB	3 124	3 143
Capital requirement for credit valuation adjustment		
Capital requirement for operational risks	995	850
Additional minumum capital requirement, Article 3 CRR	32	32
Minimum capital requirement [2]	**4 727**	**4 451**
Surplus of capital	**41 062**	**36 658**
Risk exposure amount credit risks, standardised approach	7 206	5 326
Risk exposure amount credit risks, IRB	39 041	39 282
Risk exposure amount credit valuation adjustment		
Risk exposure amount operational risks [3]	12 435	10 622
Additional risk exposure amount, Article 3 CRR	403	403
Risk exposure amount	**59 085**	**55 633**
Common Equity Tier 1 ratio, %	70.7	66.7
Tier 1 capital ratio, %	70.7	66.7
Total capital adequacy ratio, %	**77.5**	**73.9**

[1] Adjustment according to the implementation of EBA technical standard regarding prudent valuation. The purpose is to adjust for valuation uncertainty regarding positions at fair value

[2] Minimum capital requirement within Pillar 1 i.e. 8 % of total risk exposure amount

[3] According to standardised approach, retail bank

5 Capital adequacy, contd.

SEKm	2016	2015
Capital buffer requirement [1], %		
Institution specific CET 1 requirement	8.5	8.0
of which CET 1 requirement	4.5	4.5
of which capital conservation buffer	2.5	2.5
of which countercyclical capital buffer	1.5	1.0
CET 1 capital available to meet institution specific CET1 capital requirements [2]	64.7	60.7

[1] New requirements regarding capital buffers according to Swedish implementation of CRD IV
[2] 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.

SEKm	2016	2015
Capital requirement Basel 1 floor		
Capital requirement Basel 1 floor	37 324	34 593
Own funds Basel 3 adjusted according to rules for Basel 1 floor	46 031	41 356
Surplus of capital according to Basel 1 floor	**8 707**	**6 763**

SEKm	2016			2015		
Capital requirement for credit risks	**Exposure amount**	**Average risk weight, %**	**Capital requirement**	**Exposure amount**	**Average risk weight, %**	**Capital requirement**
Institutional exposures						
Corporate exposures	35 266	24	678	32 847	25	660
Retail exposures	860 888	4	2 431	813 461	4	2 477
Non-credit obligations	247	74	15	115	63	6
Total credit risks according to IRB approach	896 401	4	3 124	846 423	5	3 143
Total credit risks according to standardised approach	121 425	6	576	127 217	4	426
Total	**1 017 826**	**6**	**3 700**	**973 640**	**5**	**3 569**

5 Capital adequacy, contd.

Risk exposure amount and own funds requirement	2016 Exposure amount	2016 Risk exposure amount	2016 Own funds requirement	2015 Exposure amount	2015 Risk exposure amount	2015 Own funds requirement
Credit risks, standardised approach	**121 425**	**7 206**	**576**	**127 217**	**5 326**	**426**
Central government or central banks exposures	276			1 140		
Regional governments or local authorities exposures	6 970			7 113		
Institutional exposures	95 274			111 957		
Corporate exposures				934	861	69
Retail exposures	1 452	1 089	87	6 068	4 459	357
Exposures secured by mortgages on immovable property	17 443	6 105	488			
Exposures in default	9	9	1	4	4	0
Equity exposures	1	2	0	1	2	0
Credit risks, IRB	**896 401**	**39 041**	**3 123**	**846 423**	**39 282**	**3 143**
Corporate exposures	35 266	8 473	678	32 847	8 252	660
Retail exposures	860 888	30 385	2 431	813 461	30 958	2 477
of which mortgage lending	860 888	30 385	2 431	813 461	30 958	2 477
Non-credit obligations	247	183	15	115	72	6
Operational risks		**12 435**	**995**		**10 622**	**850**
of which standardised approach		12 435	995		10 622	850
Additional risk exposure amount according to Article 3 CRR		403	32		403	32
Total	**1 017 826**	**59 085**	**4 727**	**973 640**	**55 633**	**4 451**

Internal Capital Adequacy Assessment Process

The purpose of the internal capital adequacy assessment process (ICAAP) is to ensure that Swedbank Mortgage is adequately capitalised to cover its risks and to conduct and develop its operations.

Measurement

Swedbank Mortgage develops and documents methods and processes to evaluate its capital requirements. The ICAAP takes into account all relevant risks that may arise.

Swedbank Mortgage's ICAAP is based on the Economic Capital model which is a static model with an evaluation horizon of one year.

Since the capital requirement assessment represents the company's own estimate of its requirements according to Pillar 2, it may deviate upwards or downwards from the corresponding capital requirement according to Pillar 1.

Classification of risk

The risks for which Swedbank Mortgage calculates an internal capital requirement are:

- Credit risk (incl. concentration risk)
- Market risk (incl. interest rate risk outside trading activities)
- Operational risk

Other risks such as reputational risk and liquidity risk are not quantified, although the capital buffer also implicitly protects against such risks. These risks remain an important part of Swedbank Mortgage's risk exposure and are therefore carefully monitored and managed.

Total capital requirement

The internal capital requirement as of 31 December 2016 amounted to SEK 5.4bn according to the Economic Capital model.
However, Swedbank Mortgage's capital requirement on the same date, including the transition rules from Basel I to Basel 3, amounted to SEK 37.3bn. The total capital requirement cannot be less than this capital requirement and therefore also amounts to SEK 37.3bn. The total capital base was SEK 46bn on the same date. As long as the capital ratio exceeds the Pillar 2 requirement, all risks are covered. The conclusion of the 2016 ICAAP as of 31 December 2016 was that Swedbank Mortgage is adequately capitalised.

6 Operating segments

Operating segments	2016				2015			
SEKm	Private	Corporate	Forestry and Agriculture	Total	Private	Corporate	Forestry and Agriculture	Total
Net interest income	10 247	1 129	947	12 323	8 686	1 221	840	10 747
Net commissions	49	10	4	63	29	6	3	38
Total income	**10 296**	**1 139**	**951**	**12 386**	**8 715**	**1 227**	**843**	**10 785**
Total cost	895	50	123	1 068	541	133	102	776
Profit before impairments	**9 401**	**1 089**	**828**	**11 318**	**8 174**	**1 094**	**741**	**10 009**
Credit impairments	8	-1	13	20	20	-4	14	30
Operating profit	**9 393**	**1 090**	**815**	**11 298**	**8 154**	**1 098**	**727**	**9 979**
Loans to the public	711 713	146 594	61 265	919 572	657 611	140 113	60 186	857 910

Reconcilitation of segment reporting and financial report	2016				2015			
SEKm	Net interest income	Total income	Total expenses	Operating profit	Net interest income	Total income	Total expenses	Operating profit
Total segments	**12 323**	**12 386**	**1 068**	**11 298**	**10 747**	**10 785**	**776**	**9 979**
Return on legal equity	314	314		314	486	486		486
Net gains and losses on financial items		-656		-656		-1 440		-1 440
Other income		6		6		7		7
Other expenses			12	12			8	8
Total - financial report	**12 637**	**12 050**	**1 080**	**10 950**	**11 233**	**9 838**	**784**	**9 024**

Results and balance in the Private segment relate to consumer loans to finance residential housing. The coresponding items for Corporate relate to loans to municipal housing companies and tenant-ow ner associations w ith underlying collateral in multi-family housing. The Forestry and Agriculture segment comprises loans to finance forest and agricultural properties. Items in operating profit/loss 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 equity comprises interest income on assets funded by equity.

7 Net interest income

SEKm	2016	2015
Interest income		
Loans to credit institutions	25	63
Loans to the public	17 448	19 294
Total	**17 473**	**19 357**
Interest expense		
Credit institutions	29	-531
Debt securities in issue	-8 884	-11 454
Derivatives	4 294	4 136
Subordinated debt	-49	-64
Other	-226	-211
of which fee stabilisation fund	-223	-208
Total	**-4 836**	**-8 124**
Totoal net interest income	**12 637**	**11 233**
Average balance		
Loans to credit institutions	63 257	51 195
Loans to the public	884 056	841 724
Amount owed to credit institutions	344 846	320 746
Debt securities in issue	572 319	547 807
Interest income on financial assets at amortised cost	13 673	13 427
Interest expense on financial assets at amortised cost	8 762	11 296
Interest income on impaired loans	4	4

8 Net commission income

SEKm	2016	2015
Commission income		
Payment processing	68	70
Total	**68**	**70**
Commission expenses		
Fees to the Swedish National Board of Housing, Building and Planning	-1	-1
Market maker fees	-4	-31
Total	**-5**	**-32**
Total net commissions	**63**	**38**

9 Net gains and losses on financial items

Fair value through income statement SEKm	2016 Full year	2015 Full year
Valuation category, fair value through profit and loss		
Debt securities issued, at fair value	211	826
Derivatives, held for trading	812	980
Lending to the public, fair value	-1 466	-2 603
Total fair value through income statement	**-443**	**-797**
Hedge accounting at fair value		
Ineffective part of hedge accounting at fair value	-22	-34
of which hedging instruments	-932	-4 173
of which hedged items	910	4 139
Total hedge accounting	**-22**	**-34**
Financial liabilities valued at amortised cost	-421	-774
Loans receivable at amortised cost	142	194
Change in exchange rates	88	-29
Total	**-656**	**-1 440**

Swedbank Mortgage uses the fair value option as an alternative to hedge accounting. A change was made in 2014 whereby exchange rate effects for liabilities the bank had chosen to measure at fair value as well as exchange rate effects from derivatives that financially hedge these liabilities are now recognised as changes in exchange rates. Previously exchange rate effects were recognised together with other changes in the value of these items. The change did not affect total net gains and losses on financial items at fair value.

10 Staff expenses

Remuneration within Swedbank Mortgage

The Board receives compensation from Swedbank AB (publ). Swedbank has a common remuneration policy for the Group.

SEKm	2016	2015
Salaries and other remuneration	2	3
Pension costs	1	1
Social insurance charges	1	1
Allocation to profit-sharing fund	0	0
Training costs	0	0
Other staff costs	0	0
Total	**4**	**5**
of which profit-based staff costs	0	0

Number of employees

The number of employees at year-end were 6 persons, of whom 50 per cent were women and 50 percent men.

Loans to the Board and employees SEKm	2016	2015
Loans to the President	4	4
Loans to Board members	15	15
No. of employees with loans	5	5

The company has not pledged any assets, other security or accepted any contingent liabilities on behalf of any members of the company´s executive management.

Gender distribution	2016		2015	
	men	women	men	women
Board of Directors	2	3	2	4

11 Other expenses

SEKm	2016	2015
Purchased services	1 068	775
Other	8	4
Total	**1 076**	**779**

12 Net credit impairments

Credit impairments SEKm	2016	2015
Provisions for loans individually assessed as impaired		
Provisions	13	11
Reversal of previous provisions	-1	-1
Provisions for homogenous groups of impaired loans, net	-1	-4
Total	**11**	**6**
Portfolio provisions for loans individually assessed as not impaired	**-13**	**-8**
Write-offs		
Established losses	47	42
Utilisation of previous provisions	-23	-4
Recoveries	-2	-6
Total	**22**	**32**
Credit impairments, net	**20**	**30**
Credit impairments by valuation category		
Loans recievable	17	23
Fair value through profit and loss	3	7
Total	20	30
Credit impairments by borrower category		
General public		
Write-off and provisions	46	41
Recoveries from previous years'actual credit impairments	-26	-11
Total	**20**	**30**

13 Tax

Tax expense SEKm	2016	2015
Tax related to previous years	0	15
Current tax	2 410	1 985
Total	**2 410**	**2 000**

The tax expense corresponds to 22% of the company's pretax profit. The difference between the company's tax expense and the tax expense based on current tax rates is explained below:

	SEKm	per cent	SEKm	per cent
Result	2 410	22	2 000	22
Prevailing tax rate	2 409	22	1 985	22
Difference	**1**	**0**	**15**	**0**

14 Earnings per share

Earnings per share are calculated by dividing net profit attributable to the shareholders of the company by the weighted average number of shares outstanding

	2016	2015
Profit attributable to the shareholders of Swedbank Mortgage, SEKm	8 540	7 024
Average number of shares outstanding, million	23	23
Earnings per share, SEK	371.30	305.39

15 Tax for each component in other comprehensive income

SEKm	2016 Amount before tax	Deferred tax	Amount after tax
Cash flow hedges	136	30	166
Other comprehensive income	**136**	**30**	**166**

	2015 Amount before tax	Deferred tax	Amount after tax
Cash flow hedges	-637	140	-497
Other comprehensive income	**-637**	**140**	**-497**

16 Loans to the public

SEKm	2016	2015
Valuation category, loans receivable		
Loans to the public	778 445	663 035
Total	**778 445**	**663 035**
Valuation category, fair value through profit and loss		
Loans to the public [1]	141 127	194 875
Total	**141 127**	**194 875**
Total loans to the public	**919 572**	**857 910**
[1] Nominal amount	139 467	191 673
Number of loans	1 634 343	1 612 270

The maximum credit exposure for lending measured at fair value corresponds to the carrying amount

17 Shares and participating interests

SEKm	Carrying amount 2016	2015	Acquisition cost 2016	2015
Valuation category, Available for sale				
Tenant-owner rights	1	1	1	1
Total	**1**	**1**	**1**	**1**
of which, unlisted	1	1	1	1

18 Derivatives

Swedbank Mortgage trades in derivatives for the purpose of hedging certain positions that are exposed to interest rate and currency risks. The majority of the interest-rate swaps that safeguard the interest-rate risk associated with certain loans are recognised as hedging instruments in hedge accounting at fair value. The derivatives are recognised at fair value with changes in value through profit and loss in the same manner as for other derivatives. In Note 9 Net gains and losses on financial items, any ineffectiveness in hedges is recognised as the change in value of the derivative together with the change in value of the hedged risk component Currency swaps sometimes also hedge projected future interest payments, so-called cash flow hedges. Future estimated cash flows that are hedged by the swaps are disclosed below. Since the derivatives are recognised as hedging instruments, their fair value is recognised in the statement of other comprehensive income. The carrying amount of derivatives included in hedge accounting is reported separately below. The carrying amounts of all derivatives refer to fair value including accrued interest.

	2016 Remaining contractual maturity nominal amount			Nominal amount		Positive market values		Negative market values	
SEKm	**<1 year**	**1-5 year**	**> 5 year**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Derivatives in hedge accounting									
Fair value hedge									
Interest- rate swaps	89 084	275 267	36 912	401 263	383 694	14 751	15 811	228	299
Portfolio fair value hedge									
Interest- rate swaps	41 000	116 700	13 530	171 230	129 375	223	166	2064	1 601
Cash flow hedge									
Currency swaps	10 926	54 195	35 189	100 310	107 837	3 653	1 560	1 300	4 333
Total	**141 010**	**446 162**	**85 631**	**672 803**	**620 906**	**18 627**	**17 537**	**3 592**	**6 233**
Other derivatives									
Interest-rate related contracts									
Forward contracts					0				0
Swaps	45 050	26 413	96	71 559	89 338	778	783	1756	3 365
Currency-related contracts									
Swaps	21 540	44 198	2 021	67 759	86 144	8 577	10 867	2 034	1 971
Total	**66 590**	**70 611**	**2 117**	**139 318**	**175 482**	**9 355**	**11 651**	**3 790**	**5 336**
Grand total	**207 600**	**516 773**	**87 748**	**812 121**	**796 388**	**27 982**	**29 189**	**7 382**	**11 569**

Maturity distribution regarding future hedged cash flows in cash flow hedge accounting

	<1 year	**1-3 year**	**3-5 year**	**5-10 year**	**>10 year**
Cash inflows (assets)	-	-	-	-	-
Cash outflows (liabilities)	67	220	948	4 022	3 511
Net cash flows	**67**	**220**	**948**	**4 022**	**3 511**

19 Other assets

SEKm	2016	2015
Security settlement claims		599
Other assets	74	53
Total	**74**	**652**

20 Prepaid expenses and accrued income

SEKm	2016	2015
Accrued interest income	1 353	1 713
Other	0	33
Total	**1 353**	**1 746**

21 Debt securities in issue

SEKm	2016	2015
Valuation category, other financial liabilities		
Commercial paper		0
Bond loans	542 378	532 214
Change in value due to hedge accounting at fair value	12 700	12 830
Total	**555 078**	**545 044**
Valuation category, fair value through profit and loss		
Bond loans [1]	8 123	11 619
Total	**8 123**	**11 619**
Total debt securities in issue	**563 201**	**556 633**
[1] Nominal amount	7 045	9 340

22 Other liabilities

SEKm	2016	2015
Security settlement liabilities	0	582
Current tax liabilities	638	599
Deferred tax liabilities	65	35
Group contributions	8 050	6 300
Other liabilities	107	29
Total	**8 860**	**7 545**

23 Accrued expenses and prepaid income

SEKm	2016	2015
Accrued interest expense	6 012	7 537
Other	649	672
Total	**6 661**	**8 209**

24 Equity according to Annual Accounts Act for Credit Institutions and Securities companies

SEKm	2016	2015
Restricted equity		
Share capital	11 500	11 500
Statutory reserve	3 100	3 100
Total	**14 600**	**14 600**
Non-restricted equity		
Conditional shareholders' contribution	2 400	2400
Unconditional shareholders' contribution	5 745	3 295
Retained earnings	18 642	16 275
Total	**26 787**	**21 970**
Total equity	**41 387**	**36 570**
Changes in equity during the period are reported in the statement of the changes in equity page 10	4 817	3 301
Number of shares		
Approved and issued, million	23	23

The quote value per share is SEK 0.50. All shares are fully paid.

25 Pledged assets and commitments

SEKm	2016	2015
Assets pledged		
Loans receivable pledged for covered bonds [1]	542 278	517 904
Repos [2]	234	
Commitments, nominal amount		
Loans granted but not paid	8 969	9 048
Total	**551 481**	**526 952**

[1] Consists of collateral for covered bonds. This collateral is reported as the nominal loan principal, inclduing accrued interest. The holders of the covered bonds have preferentail rights to the collateral in a bankruptcy. From 2016 only the collateral used is reported instead of the total available collateral. Comparative numbers have been restated.
[2] Relate to repos in Swedbank Mortgage's debt securities in issue.

26 Related parties

Parent company

Swedbank Mortgage is a wholly-owned subsidiary of Swedbank .

The following headings in the balance sheet and statement of comprehensive income include transactions with the parent company in the amounts specified.

SEKm	2016	2015
Group receivables		
Loans to credit institutions	56 835	69 864
Derivatives	27 982	29 116
Other assets	22	24
Total	**84 839**	**99 004**
Group liabilities		
Amounts owed to credit institutions [1]	374 741	335 590
Debt securities in issue	8 904	3 108
Derivatives	7 382	11 569
Other liabilities	8 133	6 493
Subordinated liabilities	4 000	4 000
Total	**403 160**	**360 760**
Statement of comprehensive income		
Interest income	23	56
Interest expense	4 097	3 291
Other expenses	-17	-13
Total	**4 103**	**3 334**

Other companies in the Swedbank Group

The following headings in the balance sheet and statement of comprehensive income include transactions with other companies in the Swedbank Group in the amounts specified.

	2016	2015
Group receivables		
Other assets	7	13
Total	**7**	**13**
Group liabilities		
Debt securities in issue		2 884
Accrued expenses and prepaid income	10	6
Total	**10**	**2 890**
Statement of comprehensive income		
Commission expense	-17	-13
Interest income	11	13
Interest expense		
Total	**-6**	**0**

Senior executives

See note 10 for further information.

[1] 2015 years figure regarding amounts owed to credit institutions has been changed from 335 354 to 335 590 due to change of method, including total balances instead of eliminated balances.

27 Financial assets and liabilities, which have been offset or are subject to netting or similar agreements

The disclosures below refer to reported financial instruments that are subject to legally binding neting agreements, even when they have not been offset in the balance sheet. All financial instruments which are subject to netting agreements have the parent company Swedbank as counterparty.

SEKm	2016 Derivatives	2015 Derivatives
Assets		
Financial assets, which have not been offset or are subject to netting or similar agreements	0	1
Financial assets, which have been offset or are subject to netting or similar agreements	27 982	29 188
Carrying amount presented in the balance sheet	**27 982**	**29 189**
Related amount not offset in the balance sheet		
Derivatives, netting agreements	7 382	11 569
Net amount - assets	**20 600**	**17 619**
Liabilities		
Financial liabilities, which have not been offset and not subject to netting or similar agreements		0
Financial liabilities, which have been offset or are subject to netting or similar agreements	7 382	11 569
Carrying amount presented in the balance sheet	**7 382**	**11 569**
Relatered amount not offset in the balance sheet		
Derivatives, netting agreements	7 382	11 569
Net amount - liabilities	**0**	**0**

28 Fair value of financial instruments

Carrying amount and fair value of financial instruments

A comparison between the carrying amounts and fair value of Swedbank Mortgage's financial assets and liabilties according to the definition in IAS 39 is presented below

SEKm	2016 Fair value	2016 Carrying amount	2016 Difference	2015 Fair value	2015 Carrying amount	2015 Difference
Assets						
Financial assets, IAS 39						
Loans to credit institutions	56 835	56 835		69 864	69 864	
of which loans receivable	56 835	56 835		69 864	69 864	
Loans to the public	925 252	919 572	5 680	863 590	857 910	5 680
of which loans receivable	784 126	778 446	5 680	668 734	663 054	5 680
of which fair value through profit or loss	141 126	141 126		194 856	194 856	
Value change of interest hedged items in portfolio hedge	1 483	1 483		1 009	1 009	
Shares and participating interest	1	1		1	1	
Derivatives	27 982	27 982		29 189	29 189	
Other financial assets	1 427	1 427		3 241	3 241	
Total	**1 012 980**	**1 007 300**	**5 680**	**966 894**	**961 214**	**5 680**
Liabilities						
Financial liabilities, IAS 39						
Amounts owed to credit institutions	376 659	374 741	1 918	336 465	335 590	875
of which other financial liabilities	376 659	374 741	1 918	336 465	335 590	875
Debt securities in issue etc.	569 541	563 201	6 341	563 216	556 663	6 553
of which other financial liabilities	561 419	555 079	6 341	551 597	545 044	6 553
of which fair value through profit or loss	8 122	8 122		11 619	11 619	
Subordinated debt	4 476	4 000	476	4 527	4 000	527
Derivatives	7 382	7 382		11 569	11 569	
Other financial liabilities	15 456	15 456		15 719	15 719	
Non-financial liabilities	65	65		35	35	
Total	**973 579**	**964 845**	**8 735**	**931 530**	**923 575**	**7 955**

Determination of fair value of financial instruments

Swedbank Mortgage uses various methods to determine the fair value of financial instruments depending on the degree of observable market data in the valuation and on market activity. An active market is considered a regulated marketplace where quoted prices are easily accessible and which demonstrates regularity. Activity is continuously evaluated by analysing factors such as trading volumes and differences in bid and ask prices.

The methods are divided into three different levels:
- Level 1: Unadjusted, quoted price on an active market
- Level 2: Adjusted, quoted price or valuation model with valuation parameters derived from an active market
- Level 3: Valuation model where a majority of valuation parameters are non-observable and based on internal assumptions.

In cases that lack an active market, fair value is determined with the help of established valuation methods and models. In these cases assumptions that cannot be directly attributed to a market may be applied. These assumptions are based on experience and knowledge of the valuation of financial markets.

The goal, however, is to always maximise the use of data from an active market. All valuation methods and models as well as internal assumptions are validated continuously by the independent risk control unit.

Financial instruments recognised at fair value

The following tables describe fair values at three valuation levels for financial instruments recognised at fair value. Level 1 contains bonds in issue that are traded on an active market. Level 2 mainly contains less-liquid own securities issued, derivatives and loans to the public. The change due to Swedbank Mortgage's own credit risk has been determined by calculating the difference in value based on current prices from external parties for Swedbank Mortgage's own credit risk in its own unquoted issues and the value based on prices for its own credit risk for its own unquoted issues on the issue date. The change in the value of securities in issue attributable to changes in credit risk amounted to SEK 36m during the period and is recognised as net gains and losses on financial items. The cumulative value change amounted to SEK -49m. For loans to the public where there are no observable market inputs for the credit margin at the time of measurement, the credit margin of the last transaction executed with the same counterparty is used. The value change for loans to the public attributable to changes in credit risk amounted to SEK -3m during the period and is recognised as credit impairments. Cumulative value changes of that kind amounted to SEK -14m. The amount is determined as the difference between the borrowers' current estimated credit worthiness and their estimated credit worthiness on the lending date. Other changes in fair value are considered to be attributable to changes in market risks. The valuation models may require certain internal estimates (Level 3), the scope of which is dependent on the instrument's complexity and the availability of market data.

This category contains shares in tenant-owner associations taken over for protection of claims. They have been valued at acquisition cost, since a more reliable fair value is not considered to be available. Sales of assets are recorded as recoveries in the income statement. See Note 3 "Critical accounting judgements and estimates". There were no transfers of financial instruments between valuation levels during the year.

28 Fair value of financial instruments, contd.

	2016				2015			
SEKm	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Loans to the public		141 126		141 126		194 856		194 856
Shares and participating interest			1	1			1	1
Derivatives		27 982		27 982		29 189		29 189
Total		**169 108**	**1**	**169 109**		**224 045**	**1**	**224 046**
Liabilities								
Amounts owed to credit institutions								
Debt securities in issue	3 270	4 852		8 122	3 521	8 098		11 619
Derivatives		7 382		7 382		11 569		11 569
Total	**3 270**	**12 234**		**15 504**	**3 521**	**19 667**		**23 188**

Financial instruments at amortised cost

The table below breaks down the fair value into the three valuation levels accounted at amortised cost

	2016				2015			
SEKm	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Loans to credit institutions		56 835		56 835		69 864		69 864
Loans to the public		784 126		784 126		668 734		668 734
Total		**840 961**		**840 961**		**738 598**		**738 598**
Liabilities								
Amounts owed to credit institutions			376 659	376 659			336 465	336 465
Debt securities in issue	520 798	40 621		561 419	338 917	212 680		551 597
Subordinated liabilities		4 476		4 476		4 527		4 527
Total	**520 798**	**45 097**	**376 659**	**942 554**	**338 917**	**217 207**	**336 465**	**892 589**

29 Proposed distribution of profit

In accordance with the balance sheet for Swedbank Mortgage, the following profit after deduction for a paid Group contribution of SEK 8 050m are at the disposal of the annual general meeting:

	SEKm
Retained profit	18 017
Fair value fund	230
Profit for the year	8 540
Total	**26 787**
The Board proposes that the profit be carried forward to the next year	26 787
Total	**26 787**

30 Events after 31 December 2016

No important events have occurred.

Definitions

Capital adequacy ratio
The capital base in relation to the risk-weighted amount

Capital base
The sum of Tier 1 and Tier 2 capital according to Article 72 in CRR.

Common Equity Tier 1 capital
Common Equity Tier 1 capital according to Article 26 after applicable adjustments specified in Articles 32-35, deductions according to Article 36 and the exemptions and alternatives inAarticles 48, 49 and 79 in CRR.

Common Equity Tier 1 capital ratio
Common Equity Tier 1 capital in relation to the risk exposure amount.

Credit impairment
Established losses and provisions for the year less recoveries related to loans as well as the year's net expenses for guarantees and other contingent liabilities.

Credit impairment ratio
Net credit impairments on loans in relation to the opening balance of loans to credit institutions and loans to the public.

Earnings per share before and after dilution
Profit for the period allocated to shareholders in relation to the weighted average number of shares outstanding during the period.

Equity per share
Shareholders' equity in relation to the number of shares outstanding.

Impaired loans
Loans where there is, on individual level, objective evidence of a loss event, and where this loss event has an impact on the cash flow of the exposure. Impaired loans, gross, less specific provisions for loans assessed individually constitute impaired loans, net.

Loan-to-value ratio (LTV)
Loan amount in relation to the market value of the collateral. According to definition by ASCB (Association of Swedish Covered Bond Issuers, www.ascb.se)

Net interest margin
Net interest income in relation to average total assets.

Past due
A loan is past due when the counterparty has failed to make a payment within 5 days from due date.

Provision for credit impairment
Impairment of loans if the solvency of the borrower is not expected to improve sufficiently within two years and the value of the collateral does not cover the loan amount.

Provision ratio for individually assessed impaired loans
Provisions for impaired loans assessed individually in relation to impaired loans, gross.

Restructured loan
Loan for which the borrower has been granted some form of concession due to deteriorated financial position.

Return on equity
Profit for the period allocated to shareholders in relation to average shareholders' equity.

Risk exposure amount
Risk weighted exposure value i.e. the exposure value after considering the risk inherent in the asset.

Share of impaired loans, net
Carrying amount of impaired loans, net, in relation to the carrying amount of loans to credit institutions and the public.

Tier 1 capital
The sum of Common Equity Tier 1 capital and additional Tier 1 capital according to Article 25 in CRR.

Tier 1 capital ratio
Tier 1 capital in relation to risk exposure amount.

Total provision ratio for impaired loans receivable
All provisions for loans recievable in relation to impaired loans, gross.

Signatures of the Board of Directors and the CEO

The Board of Directors and the CEO hereby affirm that the annual report has been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the instructions and general guidelines of the Swedish Financial Supervisory Authority (FFFS 2008:25) and the Swedish Financial Accounting Standards Council's recommendation RFR 2 Accounting for Legal Entities, and provides an accurate portrayal of the company's position and earnings and that the Board of Directors' Report provides an accurate review of trends in the company's operations, position and earnings, as well as describes significant risks and instability factors faced by the company.

Stockholm 22 February 2017

Leif Karlsson
Chairman

Magdalena Frostling
CEO

Gunilla Domeij-Hallros

Malin Hlawatsch

Johan Smedman

Eva de Falck

Review report submitted on 22 February 2017
Deloitte AB

Patrick Honeth
Authorised accountant

Auditor´s report

To the general meeting of the shareholders of Swedbank Mortgage AB (publ) corporate identity number 556003-3283

Report on the annual accounts

Opinions

We have audited the annual accounts and consolidated accounts of Swedbank Mortgage AB (publ) for the year 2016 except for the corporate governance statement on page 5. The annual accounts and consolidated accounts of the company are included on pages 3-36 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on pages 5. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the company.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the company and in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

Judgments and estimates with respect to valuation of loan receivables

Recognition and measurement of financial instruments as regulated in IAS 39 is a complex and significant area with large impact on the company's business and financial reporting. Management exercises significant judgment when determining both when and how much to record as loan loss provisions. Example of various assumptions and judgments includes the financial condition of the counterparty, expected future cash flow, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. Furthermore, the associated disclosures are complex and dependent on high quality data.

At December 31, 2016, gross loans to the public amounted to SEK 919 665 million, with loan loss provisions of SEK 93 million. Given the significance of loans to the public (representing 91% of total assets) as well as the impact from the inherent uncertainty and subjectivity involved in assessing loan loss provisions, we consider this to be a key audit matter for our audit.

Refer to critical judgments and estimates in note 2 and 3 in the financial statement and related disclosures of credit risk in note 4.

Our audit procedures included, but were not limited to:

- We assessed key controls over the approval, recording and monitoring of loans and receivables, and evaluating the methodologies, inputs and assumptions used in determining and calculating the loan loss provisions.
- For provisions calculated on an individual basis we examined a selection of individual loan exposure in detail, and evaluated management assessment of the recoverable amount. We tested the assumptions underlying the impairment, including forecast of future cash flows, valuation of underlying collateral and estimates of recovery on default. We applied professional judgment in selecting the loan exposure for our detailed testing with an emphasis on exposures in sectors that pose an increased uncertainty for recovery in the current market circumstances.
- We examined the sufficiency of the underlying models, assumptions and data used to measure loan loss provisions for portfolios of loans with similar credit characteristics. Likewise we have examined the models, assumptions and data used for the collective impairment for incurred but not identified loss events.
- Finally, we assessed the completeness and accuracy of the disclosures relating to loan loss provision to

assess compliance with disclosure requirements included in IFRS.

Valuation of complex financial instruments

The valuation of financial instruments is a key area of focus of our audit given the degree of complexity involved in valuing some of the financial instruments and the judgments and estimates made by management.

At December 31st, 2016, financial instruments measured at fair value, comprised of assets of SEK 169 109 million and liabilities of SEK 15 504 million, referred to in note 28. For financial instruments that are actively traded and for which quoted market prices are available, there is a high objectivity in determining the market price (level 1 instruments). When observable market prices are not available, the fair value of such financial instrument is subject to significant estimation uncertainty (level 2 and 3 instruments). The valuation of such instruments is determined through different valuation techniques, which often includes significant judgments and estimates made by management. In our audit we had a specific focus on the instruments in level 2 and 3, where estimation uncertainty is particularly high, which is why these instruments are considered to be a key audit matter for our audit.

Refer to critical judgments and estimates in note 2 and 3 in the financial statement and related disclosures of financial instruments at fair value in note 28.

Our audit procedures included, but were not limited to:

- We tested identified key controls in the valuation processes, which included controls over data inputs into valuation models, validation of valuation models and changes to existing models.
- For level 1 instruments, we tested the fair value by comparing recorded fair values with publicly available market data. For the level 2 and 3 instruments, we assessed the appropriateness of the models and inputs. This work included valuing a sample of financial instruments using independent models and source data and comparing the results to the Group's valuations.
- For instruments with significant and unobservable inputs, mainly certain derivatives, we used internal valuation experts to assess and challenge the different assumptions used.
- Finally, we assessed the completeness and accuracy of the disclosures relating to financial instruments at fair value to assess compliance with disclosure requirements included in IFRS.

IT-systems that support complete and accurate financial reporting

The company is dependent on their IT-systems to (1) serve customers, (2) support their business processes, (3) ensure complete and accurate processing of financial transactions and (4) support the overall internal control framework. Many of the company's internal controls over financial reporting are depending upon automated application controls and completeness and integrity of reports generated by the IT-systems. Given the high dependency on technology, we consider this to be a key audit matter for our audit.

The company categorizes their key IT-risk and control domains relating to financial reporting in the following sections:

- Modifications to the IT-environment
- Operations and monitoring of the IT-environment
- Information security

Modifications to the IT-environment

Inappropriate modifications to the IT-environment may result in systems that do not function as expected and result in unreliable data processing with impact on financial reporting. Hence management has implemented processes and controls to support that changes to the IT-environment are appropriately implemented and function consistently with management's intentions.

Our audit procedures included, but were not limited to:

- We assessed management principles and processes for modifications to the IT-environment.
- We assessed management testing and monitoring of modifications in the IT-environment.
- We evaluated segregations of duties for personnel working with development and production environment.

Operations and monitoring of the IT-environment

Inappropriate operation and monitoring of the IT-environment may result in the inability to prevent or detect incorrect data processing. Hence management has implemented processes and controls to support that IT environment is monitored continuously and that incorrect data processing is identified and corrected.

Our audit procedures included, but were not limited to:

- We evaluated the appropriateness of IT-System job scheduling and alarm configuration capabilities.
- We evaluated the appropriateness of IT-System and job monitoring capabilities and alarm monitoring.

Information security

If physical and logical security tools and controls are not implemented and configured appropriately, key control activities may be ineffective, desired segregation of duties may not be maintained, and information may be modified inappropriately, become unavailable or disclosed inappropriately. This is of particular importance considering the current cyber threat level. Hence management has implemented processes and controls to support that information is safeguarded through access controls and that known vulnerabilities are managed timely.

Our audit procedures included, but were not limited to:

- We evaluated the process for identity and access management, including access granting, change and removal.

- We evaluated the appropriateness of processes and tools to ensure availability of data as per user requests and business requirements, including data back-up and restore procedures.
- We evaluated the appropriateness of controls for security governance and system hardening to protect systems and data from unauthorised use, including logging of security events and procedures to identify known vulnerabilities.

Responsibilities of the Board of Directors

The Board of Directors are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accountting. The going concern basis of accounting is however not applied if the Board of Directors intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual, we have also audited the administration of the Board of Directors and the Managing Director of Swedbank Mortgage AB (publ)Error! Reference source not found. for the year 2016 and the proposed appropri-ations of the company's profit or loss.

We recommend to the general meeting of shareholders that the loss to be dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

Auditor's Responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing stand-ards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The Auditor's Examination of the Corporate Governance Statement

The Board of Directors is responsible for that the corporate governance statement on pages 5 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm, February 22, 2017

Deloitte AB

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