Swedbank Mortgage AB

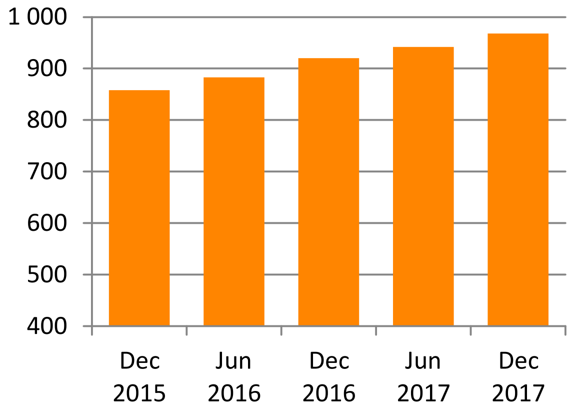
6 February 2018

Year-end report 2017

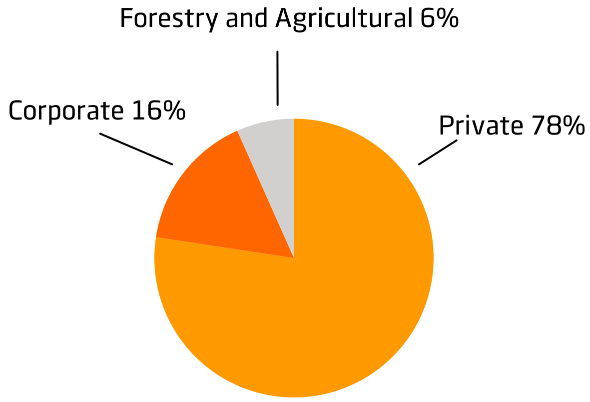
July – December 2017 (January – June 2017)

- Operating profit in the second half of 2017 amounted to SEK 6 011m (5 753)
- Net interest income increased by SEK 110m to SEK 6 522m (6 412)
- Lending to the public increased by 3 per cent or SEK 26bn to SEK 968bn (942)
- Profit before impairments increased by SEK 290m to SEK 6 058m (5 768)
- Credit impairments, net amounted to SEK 47m (15)
- Return on equity was 21.1 per cent (20.1)
- Covered bonds totalling SEK 52bn (80) were issued during the period

Lending to the public, SEK bn



Lending segments



Operating profit, July – December 2017

SEK 6 011m

Jan - June 2017: SEK 5 753m

Market share, mortgages, Dec 2017

24.4 %

June 2017: 24.5%

Business performace

	2017 31 Dec	2017 30 Jun	2016 31 Dec	2016 30 Jun	2015 31 Dec	2015 30 Jun	2014 31 Dec
Lending to the public, SEKbn	968	942	920	883	858	843	822
- Private	753	730	712	679	658	640	619
- Corporate	153	150	147	143	140	143	143
- Forestry and Agricultural	62	62	61	61	60	60	60
Number of customers, thousand	1 128	1 130	1 134	1 119	1 123	1 129	1 130
Market share mortgages % [1)]	24.4	24.5	24.8	24.5	24.6	25.1	25.2
Market share of net growth, full and half year % [1) 2)]	19.8	17.1	26.4	19.8	18.1	22.1	23.9
Volume growth market, ∆ 12-months % [1)]	7.2	7.2	7.6	8.8	8.5	7.3	6.3
Volume growth Swedbank Mortgage, ∆ 12-months % [1) 2)]	5.8	7.4	8.2	6.1	6.1	6.7	6
Private lending							
LTV total portfolio %	53	53	54	56	56	59	59
LTV new mortgages, current year	67	68	66	69	67	70	69
Share of total portfolio which amortises %	67	65	63	61	58	56	53
Share of portfolio which amortises, new mortgages, current year %	87	87	82	81	75	71	68
Funding							
Issued in last six months							
Swedish market, SEKbn	48	60	46	62	47	62	43
Outside Sweden, SEKbn	4	20	4	13	23	26	
Average maturity of outstanding issued covered bonds, months	39	38	36	37	36	36	35

[1)] Source Statistics Sweden (SCB).

[2)] In October 2016, Swedbank Mortgage aquired approximately SEK 13bn of lending volume from SBAB as a final step in Swedbank AB´s acquisition of Sparbanken Öresund.

Financial overview and key ratios

SEKm	2017 Jul-Dec	2017 Jan-Jun	%	2016 Jul-Dec	%	2017 Full year	2016 Full year	%
Net interest income	6 522	6 412	2	6 038	8	12 934	11 810	10
Net commissions	11	-10		7		1	63	
Net gains and losses on financial items at fair value	-349	-506	-31	-266	31	-855	-656	30
Other income	2	3	-33	3	-33	5	6	-17
Total income	**6 186**	**5 899**	**5**	**5 782**	**7**	**12 085**	**11 223**	**8**
Other expenses	125	126	-1	126	-1	251	249	1
Staff costs	3	5	-40	3		8	4	100
Total expenses	**128**	**131**	**-2**	**129**	**-1**	**259**	**253**	**2**
Profit before impairments	**6 058**	**5 768**	**5**	**5 653**	**7**	**11 826**	**10 970**	**8**
Credit impairments, net	47	15		8		62	20	
Operating profit	**6 011**	**5 753**	**4**	**5 645**	**6**	**11 764**	**10 950**	**7**
Appropriations	-618					-618		
Tax	1 459	1 269	15	1 243	17	2 728	2 410	13
Profit for the period	**5 170**	**4 484**	**15**	**4 402**	**17**	**9 654**	**8 540**	**13**

SEKm	2017 31 Dec	2017 30 Jun	2016 31 Dec	2016 30 Jun	2015 31 Dec
Profit					
Net interest margin, %	1.27	1.28	1.20	1.19	1.15
Average total assets	1 016 390	999 504	984 625	967 964	932 305
Return on equity, %	21.1	20.1	21.8	21.9	19.3
Average equity	45 683	44 687	39 165	37 948	36 416
Earnings per share, SEK	419.7	195.0	371.3	179.9	305.4
Equity					
Number of shares in issue at beginning/end of period, million	23	23	23	23	23
Equity per share, SEK	2 015	2 040	1 799	1 657	1 588
Credit quality					
Loans to the public	968 222	942 232	919 572	882 524	857 910
Credit impairments, net	62	15	20	12	30
Credit impairment ratio, %	0.00	0.00	0.00	0.00	0.00
Impaired loans, gross	270	184	222	225	241
Total provisions	124	100	93	95	117
Total provision ratio for impaired loans, %	45.8	54.4	41.7	42.3	48.5
Carrying amount impaired loans	218	157	200	202	208
Share of impaired loans, gross, loans to the public, %	0.02	0.02	0.02	0.02	0.03

For more information on definitions and calculation of key ratios, please see page 29 and the 2016 Annual Report, page 40.

Overview

Market

The global economy strengthened in the second half of 2017 and stock markets rose broadly. Unemployment in the eurozone fell to the lowest level in 10 years at the same time that rising commodity prices provided a boost to commodity-driven economies. Several leading central banks began to communicate a shift towards a less expansionary monetary policy, where low global inflation remains a headache for the central banks. The first to take action was the Federal Reserve, which began reducing its balance sheet while raising the benchmark target range to 1.25–1.50 per cent at the end of 2017. The ECB kept its benchmark rate unchanged at 0 per cent, but decided to further reduce bond buying in 2018.

The Swedish economy grew broadly in the second half of 2017. GDP for the third quarter rose by 2.9 per cent at an annual rate. The second half of the year saw strong investment growth with housing investment accounting for the biggest increase. The labour market continued to report robust job growth, but wage increases remained modest. Inflation rose in the second and third quarters and reached the Riksbank's target of 2 per cent, partly due to temporary effects. At the end of the year inflation again fell below the target. The housing market stayed strong in the first three quarters of 2017, but was affected to some extent by the mortgage amortisation requirement introduced in 2016. The proposal to tighten the amortisation requirement and a high level of housing construction, which created an increased supply, contributed to a more cautious market in the second half of the year. In the fourth quarter house prices began to fall across the country for both tenant-owner apartments and single-family homes. According to pricing data from Valueguard for December, tenant-owner apartment prices fell by 8.7 per cent in the last three months, while single-family home prices dropped by 7.1 per cent. The same statistics showed that tenant-owner apartment prices on a nationwide level were approximately 6.5 per cent lower than a year earlier, while single-family homes were 0.2 per cent higher.

Important to note

The Board of Directors of Swedbank AB has decided to remove the guarantee for debt instruments issued by Swedbank Mortgage. The decision does not affect Swedbank Mortgage's rating or its debt instruments in issue. The decision concerns debt instruments issued as of 8 November 2017. According to the terms of the guarantee, the guarantee will continue to cover debt instruments already in issue until they are repaid.

Due to a revision in the agreement with the savings banks, the reporting of compensation paid to the savings banks for brokering mortgage loans has changed. Brokerage expenses are recognised as reduced interest income, while administrative services are reported as expenses. Comparative figures have been restated; see Note 14.

IFRS 9 enters into force as of 1 January 2018. For more information on the effects of the introduction, see Note 1 Accounting policies, under the paragraph New standards and interpretations.

The annual report contains a number of alternative performance measures that provide additional information on Swedbank Mortgage. The alternative performance measures are calculated from the financial reports without any adjustment. See page 27 for a list of alternative performance measures.

The company’s performance

(Comparative figures for the balance sheet refer to 30 June 2017, unless otherwise indicated)

Result second half of 2017 compared with first half of 2017

Swedbank Mortgage reported operating profit of SEK 6 011m for the second half of 2017, compared with SEK 5 753m in the previous half year. The increase is due to stronger net interest income as well as higher net gains and losses on financial items at fair value.

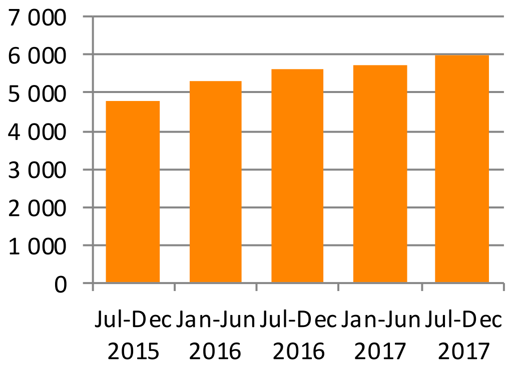
Net interest income increased by SEK 110m to SEK 6 522m (6 412). Increased margins due to lower interest expenses for funding, mainly associated with the intra-group loans from Swedbank, and increased lending volumes contributed positively to net interest income.

Net gains and losses on financial items increased to SEK -349m (-506) as a result of lower negative effects from covered bond repurchases. A correction to the cash flow hedge in December had a negative effect of SEK 89m.

Expenses amounted to SEK 128m (131). Other expenses of SEK 125m (126) include part of the compensation paid to the savings banks and partly owned banks. This expense amounted to SEK 121m (121). No such compensation is paid to Swedbank.

The credit quality of Swedbank Mortgage’s lending remained very high and credit impairments were at a low level. Credit impairments increased to SEK 47m (15). A provision in the second quarter for a large commitment raised credit impairments by SEK 37m. Provisions rose to SEK 124m (100). A specification of credit impairments and lending is provided in Notes 5 and 6 respectively.

OPERATING PROFIT (SEKm)



Result full-year 2017 compared with full-year 2016

Operating profit increased to SEK 11 764m, compared with SEK 10 950m for the full-year 2016. The increase is mainly due to stronger net interest income at the same time that net gains and losses on financial items weakened.

Net interest income increased by SEK 1 124m to SEK 12 934m (11 810). Increased margins due to lower interest expenses for funding, mainly associated with the intra-group loans from Swedbank, and increased lending volumes contributed positively to net interest income. The positive effect on net interest income from covered bond repurchases was lower than in the previous year. The resolution fund fee increased by SEK 317m to SEK 540m (223) and negatively affected net interest income.

Net gains and losses on financial items decreased to SEK -855m (-656) because of previously accrued market values that decline as remaining maturities decrease. A correction to the cash flow hedge in December had a negative effect of SEK 89m.

Expenses increased to SEK 259m (253). Other expenses of SEK 251m (249) include part of the compensation paid to the savings banks and partly owned banks. This expense amounted to SEK 242m (241). No such compensation is paid to Swedbank.

The credit quality of Swedbank Mortgage’s lending remained very high and credit impairments were at a low level. Credit impairments increased to SEK 62m (20). A provision in the second quarter for a large commitment raised credit impairments by SEK 37m. Provisions rose to SEK 124m (93). A specification of credit impairments and lending is provided in Notes 5 and 6.

Lending

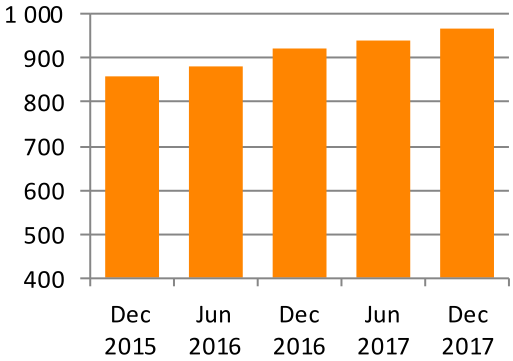
Swedbank Mortgage finances properties and individual tenant-owned apartments up to 85 per cent of their estimated market value. The company also lends directly to municipalities or other borrowers with municipal guarantees as collateral as well as to the forestry and agricultural sector.

Development of a digital offering is continuing. The mortgage commitment process was automated during the year and preparations were made to automate and digitise the remaining parts of the lending process.

Growth in the Swedish mortgage market levelled off compared with the previous year but remained high at an annual rate of 7.2 per cent (7.2). Swedbank’s share of the year’s net market growth was 19.8 per cent and the total market share was 24.4 per cent (24.5).

Loans to the public increased during the second half of the year by SEK 26bn to SEK 968bn (942). The private segment accounted for SEK 753bn (730) and the forestry and agriculture segment for SEK 62bn (62). The corporate segment accounted for SEK 153bn (150).

LENDING TO THE PUBLIC (SEKbn)



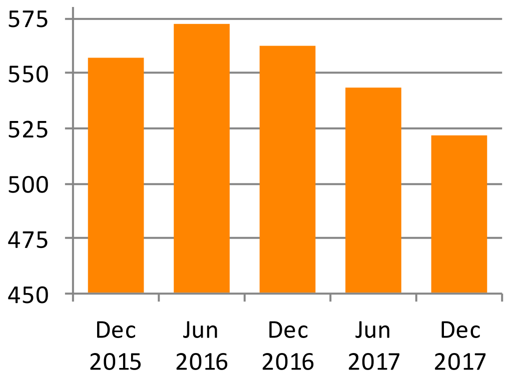
The Swedish Financial Supervisory Authority (SFSA) decided, with the government's consent, to introduce a stricter mortgage amortisation requirement effective 1 March 2018. The stricter requirement requires new borrowers with mortgage debt exceeding 4.5 times their gross income to amortise at least 1 per cent of the debt over and above the existing amortisation requirement. The purpose of the SFSA rule is to increase Swedish households' resilience to macro-economic turbulence.

The EU's mortgage directive entered into force on 1 January 2017. The aim of the directive is to strengthen consumer protection. The law contains provisions on marketing, information, the features of mortgage offers, the right to a reflection period, and advisory services. In Sweden everyone who administers mortgages will have to be licenced. The industry has developed a common mortgage lending licence.

Funding and liquidity

Swedbank Mortgage primarily finances its lending by issuing covered bonds on the Swedish and international capital markets. Remaining funding needs are met through loans from Swedbank AB.

OUTSTANDING COVERED BONDS (SEKbn)



The funding process has been is simplified through Swedbank Mortgage having a number of standardised loan programmes adapted to the legal requirements of various types of markets and investors.

Demand for Swedbank Mortgage's bonds has been good. Swedbank Mortgage issued SEK 52bn (80) in covered bonds in the second half of the year. Maturities in the second half year were nominally SEK 28bn (42), calculated from the beginning of the year.

As of 31 December, outstanding funding through covered bonds amounted to SEK 522bn (544) at the same time that funding from Swedbank AB amounted to SEK 420bn (411).

Issuance plans are mainly affected by changes in available funding from Swedbank AB and lending growth, and are adjusted over the course of the year.

As part of its liquidity planning, Swedbank Mortgage actively buys back a large portion of its bonds starting about 1.5 years before maturity. In this way it reduces the liquidity risk in having large volumes mature at the same time. In the second half of the year SEK 44bn (50) was repurchased. The average maturity of all outstanding covered bonds was 39 months (38) at 31 December.

Risks

The main risks consist of credit risk, liquidity risk, market risk and operational risk. Swedbank Mortgage has a low risk profile with a well-diversified credit portfolio as well as limited market and operational risks. A further description of the company's risks is provided in the annual report for 2016.

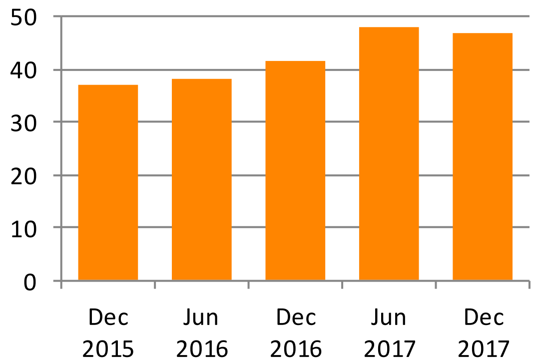
Capital adequacy

Swedbank Mortgage's legal capital requirement is based on the Capital Requirements Regulation (CRR), but more specifically limited by the Basel 1 floor within CRR. The Basel 1 floor i.e. 80 per cent of the capital requirement according to Basel 1, is a transition rule in CRR expiring on 1 January 2018.

Since Swedbank Mortgage's capital requirement according to the Basel 1 floor is higher than the requirements in CRR/CRDIV (Capital Requirements Directive IV), Pillar 1 and Pillar 2 combined (including a risk weight floor on the Swedish mortgage portfolio of 25 per cent, a capital conservation buffer of 2.5 per cent and a countercyclical buffer of 2.0 per cent) it is the Basel 1 floor that sets the minimum requirement for Swedbank Mortgage as of 31 December 2017.

Swedbank Mortgage's Common Equity Tier 1 capital decreased in the second half of 2017 by SEK 1.3bn to SEK 46.6bn (47.9) on 31 December 2017.

COMMON EQUITY TIER 1 CAPITAL (SEKbn)



The capital requirement was SEK 39 533m (38 411), compared with SEK 4 585m (4 570) without taking into account the Basel 1 floor. Capital adequacy is specified in Note 13.

In December 2017 the Basel Committee agreed on the final Basel 3 rules, commonly called Basel 4. The rules were reviewed to improve the comparability of banks' capital ratios and cover revised standardised approaches to calculate capital requirements for credit, market, counterparty and operational risks. In addition, a minimum requirement is being introduced for leverage ratio (Tier 1 capital in relation to the total exposure measure, where the exposure measure includes both on- and off-balance sheet items) and an aggregate capital floor based on proposed standardised approaches for banks that use internal models. The new rules will enter into force in 2022 and be fully implemented by 2027.

Before an assessment of the new regulation's impact is completed, it is uncertain how Swedbank Mortgage will be affected. With its robust profitability and strong capitalisation, however, Swedbank Mortgage is well positioned to meet future changes in the capital requirements.

Swedbank Mortgage's leverage ratio as of 31 December 2017 was 4.8 per cent (5.1).

Credit and asset quality

Swedbank Mortgage's credit impairments and impaired loans remain at very low levels. Strong economic growth in Sweden contributed to the generally low risk in the credit portfolio. The low portfolio risk was confirmed by internal and external stress tests. For more information on asset quality, see the Factbook.

The majority of Swedbank Mortgage's lending consists of mortgages to private customers in Sweden. Activity and prices in the Swedish housing market fell slightly during the year, which is a sensible development. To ensure the quality of the credit portfolio, Swedbank Mortgage continuously reviews its lending criteria.

The average loan-to-value ratio for loans to private customers was 53 per cent (53), based on property level. For new lending in the second half year the loan-to-value ratio was 67 per cent (68).

Operational risks

No incidents occurred in the second half of 2017 that materially affected Swedbank Mortgage. Losses related to operational risks remained very low.

Rating

Swedbank Mortgage is one of the largest players on the Swedish covered bond market with top ratings (Aaa/ AAA) from both Moody's Investor Service and S&P Global Ratings. Swedbank Mortgage has ratings of Aa3 from Moody's and AA- from S&P.

On 24 November S&P revised its ratings outlook to stable from negative. The change was motivated by the price correction in the Swedish housing market in the second half of the year, combined with Swedbank's solid earnings and capital. There were no changes in Moody's rating in the second half of 2017.

	Moody's		S&P Global Ratings	
	Rating	Outlook	Rating	Outlook
Covered bonds	Aaa	N/A	AAA	Stable
Long-term funding	Aa3	Stable	AA-	Stable
Short-term funding	P-1	N/A	A-1+	N/A

Events after 31 December 2017

No major events have occurred after 31 December 2017.

Annual report

Swedbank Mortgage's annual report will be available to the public on Swedbank's website on 23 February 2018.

Income statement, condensed

SEKm	2017 Jul-Dec	2017 Jan-Jun	%	2016 Jul-Dec	%	2017 Full year	2016 Full year	%
Interest income	**8 067**	**8 151**	**-1**	**8 192**	**-2**	**16 218**	**16 646**	**-3**
Interest expense	-1 602	-1 788	-10	-2 232	-28	-3 390	-4 996	-32
Negative yield on financial liabilities	57	49	16	78	-27	106	160	-34
Interest expense, including negative yield on financial liabilities	**-1 545**	**-1 739**	**-11**	**-2 154**	**-28**	**-3 284**	**-4 836**	**-32**
Net interest income (note 3)	**6 522**	**6 412**	**2**	**6 038**	**8**	**12 934**	**11 810**	**10**
Commission income	31	32	-3	34	-9	63	68	-7
Commission expenses	-20	-42	-52	-27	-26	-62	-5	
Net commissions	**11**	**-10**		**7**	**57**	**1**	**63**	
Net gains and losses on financial items at fair value (note 4)	-349	-506	-31	-266	31	-855	-656	30
Other income	2	3	-33	3	-33	5	6	-17
Total income	**6 186**	**5 899**	**5**	**5 782**	**7**	**12 085**	**11 223**	**8**
Other expenses	125	126	-1	126	-1	251	249	1
Staff costs	3	5	-40	3		8	4	100
Total expenses	**128**	**131**	**-2**	**129**	**-1**	**259**	**253**	**2**
Profit before impairments	**6 058**	**5 768**	**5**	**5 653**	**7**	**11 826**	**10 970**	**8**
Credit impairments, net (note 5)	47	15		8		62	20	
Operating profit	**6 011**	**5 753**	**4**	**5 645**	**6**	**11 764**	**10 950**	**7**
Appropriations (note 9)	-618					-618		
Tax	1 459	1 269	15	1 243	17	2 728	2 410	13
Profit for the period	**5 170**	**4 484**	**15**	**4 402**	**17**	**9 654**	**8 540**	**13**

Statement of comprehensive income, condensed

SEKm	2017 Jul-Dec	2017 Jan-Jun	%	2016 Jul-Dec	%	2017 Full year	2016 Full year	%
Profit for the period reported via income statement	**5 170**	**4 484**	**15**	**4 402**	**17**	**9 654**	**8 540**	**13**
Items that may be reclassified to the income statement								
Cash flow hedges:								
Gains and losses arising during the period	158	-738		-230		-580	120	
Reclassification adjustments to income statement, net interest income	7	6	17	7	0	13	16	-19
Tax relating to components of other comprehensive income	-36	161		49		125	-30	
Total comprehensive income attributable to shareholders of Swedbank Mortgage AB	**5 299**	**3 913**	**35**	**4 228**	**25**	**9 212**	**8 646**	**7**

Balance sheet, condensed

SEKm	2017 31 Dec	2017 30 Jun	Δ SEKm	 %	2016 31 Dec	 %
Assets						
Loans to credit institutions (note 6)	23 534	57 476	-33 942	-59	56 835	-59
Loans to the public (note 6)	968 222	942 232	25 990	3	919 572	5
Value change of interest hedged items in portfolio hedge	791	1 007	-216	-21	1 483	-47
Derivatives (note 7)	18 602	19 423	-821	-4	27 982	-34
Current tax assets						
Deferred tax assets	60	96	-36	-38		
Other assets	693	572	121	21	74	
Prepaid expenses and accrued income	1 101	1 531	-430	-28	1 354	-19
Total assets	**1 013 003**	**1 022 337**	**-9 334**	**-1**	**1 007 300**	**1**
Liabilities and equity						
Liabilities						
Amounts owed to credit institutions	419 608	410 964	8 644	2	374 741	12
Debt securities in issue (note 8)	522 090	543 682	-21 592	-4	563 201	-7
Derivatives (note 7)	5 567	7 223	-1 656	-23	7 382	-25
Current tax liabilities	1 041	589	452	77	638	63
Deferred tax liabilities					65	
Accrued expenses and prepaid income	5 940	5 454	486	9	6 661	-11
Other liabilities	11 953	6 436	5 517	86	8 157	47
Subordinated liabilities (note 8)					4 000	
Total liabilities	**966 199**	**974 348**	**-8 149**	-1	**964 845**	0
Untaxed reserves (note 9)	450	1 068	-618	-58	1 068	-58
Equity	**46 354**	**46 921**	**-567**	-1	**41 387**	12
Total liabilities and equity	**1 013 003**	**1 022 337**	**-9 334**	-1	**1 007 300**	1

Statement of changes in equity, condensed

31 Dec 2016	**Restricted equity**		**Non-restricted equity**		
SEKm	Share capital	Statutory reserve	Fair value fund	Retained earnings	Total equity
Opening balance 1 January 2016	**11 500**	**3 100**	**124**	**21 846**	**36 570**
Group contributions paid				-8 050	-8 050
Tax on group distributions paid				1 771	1 771
Shareholders' contribution				2 450	2 450
Total comprehensive income for the year			106	8 540	8 646
Closing balance 31 December 2016	**11 500**	**3 100**	**230**	**26 557**	**41 387**
of which, conditional shareholders' contributions				2 400	2 400

31 Dec 2017	**Restricted equity**		**Non-restricted equity**		
SEKm	Share capital	Statutory reserve	Fair value fund	Retained earnings	Total equity
Opening balance 1 January 2017	**11 500**	**3 100**	**230**	**26 557**	**41 387**
Group contributions paid				-10 570	-10 570
Tax on group distributions paid				2 325	2 325
Shareholders' contribution				4 000	4 000
Total comprehensive income for the year			-442	9 654	9 212
Closing balance 31 December 2017	**11 500**	**3 100**	**-212**	**31 966**	**46 354**
of which, conditional shareholders' contributions				2 400	2 400

Cash flow statement, condensed

SEKm	2017 Full year	2016 Full year
Operating activities		
Operating profit	11 764	10 950
Adjustments for non-cash items in operating activities	-1 814	-2 552
Taxes paid	-639	244
Increase in loans to the public	-49 729	-63 168
Decrease in amounts owed to credit institutions	44 868	39 151
Increase in other assets	16	578
Increase/decrease in other liabilities	27	78
Cash flow from operating activities	**4 493**	**-14 719**
Financing activities		
Issuance of interest-bearing securities	132 463	125 359
Redemption and repurchase of interest-bearing securities	-162 207	-119 817
Shareholders' contribution	4 000	2 450
Prepaid subordinated loan	-4 000	
Group contributions paid	-8 050	-6 300
Cash flow from financing activities	**-37 794**	**1 692**
Cash flow for the period	**-33 301**	**-13 029**
Cash and cash equivalents at the beginning of the period	**56 835**	**69 864**
Cash flow for the period	-33 301	-13 029
Cash and cash equivalents at end of the period	**23 534**	**56 835**
Liquid funds with banks and equivalent institutions	23 534	56 835
Loans to credit institutions	23 534	56 835

Notes

These condensed financial statements have been prepared on a going concern basis.
On 5 February 2018, the Board of Directors approved the consolidated condensed financial statements for publication.
All amounts in the notes are in millions of Swedish kronor (SEKm) and at book value unless otherwise indicated.

Note 1 Accounting policies

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

The accounting policies applied in the interim report conform to those applied in the Annual Report for 2016, which was prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpretations thereof. There have been no significant changes to Swedbank Mortgage's accounting policies set out in the 2016 Annual Report, except for the new standards and change as set out below.

Changed reporting of the compensation to the Savings banks for mortgage loans
Swedbank and the Savings banks, as of 1 January 2017, changed their bilateral contract regarding how the compensation will be divided between brokerage services and ongoing administrative services for mortgages. Brokerage services costs for loans are added to the loans acquisitions value and included as part of the loans effective interest. The result is that the transaction cost is reported as a reduction of the interest income during the term of the loans. Costs for administrative services are reported as an expense. Restatement of the historical comparative figures has been made according the new agreement to better illustrate the comparative trends between periods. The change affects the interest income and expenses, but not the total profit for the year. The change in presentation is presented in note 14.

IFRS 9
IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and includes requirements for recognition, classification and measurement, impairment, de-recognition 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.

Adoption impacts
The classification and measurement and impairment requirements will be applied retrospectively by adjusting the consolidated balance sheet as of 1 January 2018. The hedge accounting requirements will be applied prospectively, except for the retrospective application of the exclusion of the currency basis spread component from cash flow hedging relationships. As permitted by IFRS 9, Swedbank Mortgage will not restate comparative periods.

The current estimate of the impact from adopting IFRS 9 as at 1 January 2018 is that equity will be reduced by SEK 740m. The adoption will also reduce the Common Equity Tier 1 ratio on a total level by an estimated 0.68 per cent. Under the Capital Requirements Regulation (CRR), any shortfall of accounting credit impairment provisions as compared with expected losses calculated according to the capital adequacy rules for IRB portfolios is a deduction from Common Equity Tier 1 capital. If accounting credit impairment provisions exceed expected losses according to the capital adequacy rules, the excess amount is included as Tier 2 capital. According to transitional rules that apply until the end of 2022, a portion of the increase in credit impairment provisions may be included in Common Equity Tier 1 capital. These transitional rules are not mandatory and Swedbank Mortgage has decided not to apply them.

The impacts arising from each part of IFRS 9 are set out below.

- Reclassifications and re-measurement of financial assets, namely financial assets no longer designated at fair value through profit or loss, will decrease equity by SEK 487m and decrease the Common Equity Tier 1 capital ratio by 0.85 per cent.
- Application of the impairment requirements will decrease equity by SEK 253m but will increase the Common Equity Tier 1 capital ratio by 0.55 per cent, due to reduction in the shortfall and risk exposure amount.
- The application of the hedge accounting requirements will not affect equity but will decrease the Common Equity Tier 1 capital ratio by 0.38 per cent.

Swedbank Mortgage continues to refine and monitor certain elements of the new impairment process in advance of the reporting of the first half year 2018.

Further details regarding the application of IFRS 9 can be found in the Annual Report 2016 on pages 15-17. Herein provides an update on the Swedbank Mortgage´s conclusions.

Classification and measurement
The assessment of the business models and the contractual cash flow characteristics will not result in significant changes in the classification of financial assets as compared to the classification under IAS 39.

Swedbank Mortgage designates financial assets at fair value through profit or loss under IAS 39, primarily to avoid an accounting mismatch. Upon the application of IFRS 9, Swedbank Mortgage will revoke previous designations made under IAS 39 for loans to the public of approximately SEK 93bn, due to that there is no longer an elimination or significant reduction of an accounting mismatch. These loans to the public will be reclassified to amortised cost under IFRS 9, as the business model and cash flow characteristics assessments are also met. The financial liabilities designated by Swedbank Mortgage at fair value through profit or loss under IFRS 9 are unchanged compared to IAS 39.

Impairment
IFRS 9 introduces an expected credit loss model for the measurement of impairment, where credit impairment provisions are recognised based on unbiased forward-looking information even if no actual loss events have taken place. Expected credit losses are estimated considering a broad range of information, including past events, current conditions and reasonable and supportable forecasts of future economic conditions that could affect the expected collectability of the future cash flows. Consequently, credit impairment provisions under IFRS 9 are more sensitive to changes in the future economic outlook and are likely to be more volatile as compared to IAS 39.

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 (Stage 1), impairment provisions reflect 12-month expected credit losses. For financial assets with a significant increase in credit risk (Stage 2) and those which are credit impaired (Stage 3), impairment provisions reflect lifetime expected credit losses.

Stage 1
There were no updates to Swedbank Mortgage´s approach to Stage 1 during 2017.

Stage 2
Swedbank Mortgage will 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. For instruments with an initial recognition date of 1 January 2018 or later, the primary indicator that will be used to assess changes in credit risk will be changes in the forward-looking lifetime probability of default since initial recognition. The forward-looking lifetime probability of default will incorporate effects stemming from historical and forecasted economic conditions. Changes in the Swedbank Mortgage internal credit rating since initial recognition will also be used to assess for significant increase in credit risk. This indicator will be used as the primary indicator for instruments with an initial recognition date prior to 1 January 2018, due to that the determination of the forward-looking lifetime probabilities of default at historical initial recognition dates would require undue cost and effort and would not be possible without the use of bias and hindsight. This indicator will be used as a secondary indicator for instruments with an initial recognition date of 1 January 2018 or later.

Qualitative indicators that may not be captured in a timely manner by the quantitative triggers will also be considered in the stage allocation assessment; for example, whether a borrower is monitored on the watch list or has been extended performing forbearance measures. Financial assets that are 30 days past due will be allocated to Stage 2. IFRS 9 affords a practical expedient such that financial assets with low credit risk at the reporting date are deemed to not have experienced a significant increase in credit risk. Swedbank Mortgage defines low credit risk as being rated with an investment grade equivalent and will only apply this practical expedient to instruments issued to sovereigns and financial institutions. An instrument is no longer considered to have experienced a significant increase in credit risk when all indicators are no longer breached.

Stage 3
Swedbank Mortgage´s IFRS 9 definition of default and credit-impaired will be aligned to its regulatory definition of default, which considers indicators that the borrower is unlikely to pay or has been extended non-performing forbearance measures, the borrower is in bankruptcy and occurs no later than when the exposure is more than 90 days past due. The Swedbank Mortgage will rebut the presumption that instruments which are 90 days past due are in default and are credit-impaired for sovereign and financial institution counterparties only. An instrument is considered no longer to be in default or credit-impaired when there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Measurement of expected credit losses
Swedbank Mortgage´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 have been developed in order to meet the objectives of IFRS 9.

Incorporating forward-looking information will require significant judgment, both in terms of the scenarios to be applied and ensuring that only relevant forward-looking information is considered in the calculation of expected credit losses. Swedbank's Macro Research Department will be responsible for defining forward-looking scenarios, in terms of macroeconomic indicators such as gross domestic product, house prices, unemployment rates and interest rates for Swedbank Mortgage's home market. The scenarios will cover as a minimum a base scenario, an upside scenario and a downside scenario, constructed based on probability weights linked to the likelihood of occurrence.

Impact on governance and controls
Swedbank Mortgage´s existing governance and internal controls frameworks have been refined and revised to reflect the changes in the new impairment methodologies and calculations required, as well as new areas of significant judgment. The revised processes and framework include dedicated committees to review, challenge and sign off the assumptions used and the results of the credit impairment provision calculations. An expert panel was established to govern the setting of forward-looking economic scenarios, including probability weights. A process has been implemented around management of models, to ensure continuous improvement in the model estimation accuracy. Further to this, the independent model validation function within Risk Assurance will validate the IFRS 9 models on an annual basis or when they are changed.

Hedge accounting
Swedbank Mortgage will adopt the IFRS 9 hedge accounting requirements for all hedge relationships, except the portfolio hedge of interest rate risk. Hedging relationships that exist under IAS 39 qualify in accordance with the IFRS 9. Additionally, Swedbank Mortgage has elected to retrospectively apply the exclusion of the currency basis spread component from the hedging relationships. The primary impact will be a reclassification from the cash flow hedge reserve to the new foreign currency basis risk reserve within equity.

IFRS 15
IFRS 15 and associated clarifications has been approved by the EU and will be adopted from 1 January 2018. The adoption will not have any impact on Swedbank Mortgage´s financial position, results or cash flows.

Note 2 Business segments

SEKm	2017 Full year Private	Corporate	Forestry and Agricultural	Total	2016 Full year Private	Corporate	Forestry and Agricultural	Total
Net interest income	10 573	1 205	911	12 689	9 567	1 082	847	11 496
Net commissions	1	0	0	1	49	10	4	63
Total income	**10 574**	**1 205**	**911**	**12 690**	**9 616**	**1 092**	**851**	**11 559**
Total cost	217	3	23	243	215	3	23	241
Profit before impairments	**10 357**	**1 202**	**888**	**12 447**	**9 401**	**1 089**	**828**	**11 318**
Credit impairments	15	2	45	62	8	-1	13	20
Operating profit	**10 342**	**1 200**	**843**	**12 385**	**9 393**	**1 090**	**815**	**11 298**
Loans to the public	753 350	152 763	62 109	968 222	711 713	146 594	61 265	919 572

Reconciliation of segment reporting and income statement, condensed

SEKm	2017 Full year Total income	Total expenses	Operating profit	2016 Full year Total income	Total expenses	Operating profit
Total segments	12 690	243	12 385	11 559	241	11 298
Return on legal equity	245		245	314		314
Net gains and losses on financial items	-855		-855	-656		-656
Other income	5		5	6		6
Other expenses		16	16		12	12
Total financial report	**12 085**	**259**	**11 764**	**11 223**	**253**	**10 950**

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

Note 3 Net interest income

SEKm	2017 Jul-Dec	2017 Jan-Jun	%	2016 Jul-Dec	%	2017 Full year	2016 Full year	%
Interest income								
Loans to credit institutions	3	5	-40	14	-79	8	25	-68
Loans to the public	8 064	8 146	-1	8 178	-1	16 210	16 621	-2
Total interest income	**8 067**	**8 151**	**-1**	**8 192**	**-2**	**16 218**	**16 646**	**-3**
Interest expense								
Amounts owed to credit institutions	-75	-78		27		-153	29	
Debt securities in issue	-3 106	-3 412	-9	-4 164	-25	-6 518	-8 884	-27
Derivatives	1 907	2 035	-6	2 119	-10	3 942	4 294	-8
Subordinated debt	0	-13	-100	-24	-100	-13	-49	-73
Other	-271	-271		-112		-542	-226	
of which resolution/stabilisation fund fee	-270	-270		-112		-540	-223	
Total interest expense including negative yield on financial liabilities according to income statement	**-1 545**	**-1 739**	**-11**	**-2 154**	**-28**	**-3 284**	**-4 836**	**-32**
Total net interest income	**6 522**	**6 412**	**2**	**6 038**	**8**	**12 934**	**11 810**	**10**

Note 4 Net gains and losses on financial items at fair value

SEKm	2017 Jul-Dec	2017 Jan-Jun	%	2016 Jul-Dec	%	2017 Full year	2016 Full year	%
Valuation category, fair value through profit and loss								
Debt securities in issue	132	135	-2	157		267	211	27
Derivatives	-68	223		462		155	812	-81
Lending to the public	-390	-631	-38	-936	-58	-1 021	-1 466	-30
Total fair value through profit and loss	**-326**	**-273**	**19**	**-317**		**-599**	**-443**	**35**
Hedge accounting								
Ineffective part of hedge accounting at fair value	49	26	88	67		75	-31	
of which hedging instruments	1 238	3 245		-5 197		4 483	-467	
of which hedged items	-1 189	-3 219		5 264		-4 408	436	
Ineffective part of portfolio hedge	-32	-2		43		-34	9	
of which hedging instruments	-217	-475		1 038		-692	-465	
of which hedged items	185	473		-995		658	474	
Total hedge accounting	**17**	**24**	**-29**	**110**		**41**	**-22**	
Financial liabilities valued at amortised cost	-98	-285	-66	-210	-53	-383	-421	-9
Loans and receivables at amortised cost	56	56	0	67	-16	112	142	-21
Change in exchange rates	2	-28		84		-26	88	
Total	**-349**	**-506**	**-31**	**-266**	**31**	**-855**	**-656**	**30**

Note 5 Credit impairments, net

SEKm	2017 Jul-Dec	2017 Jan-Jun	%	2016 Jul-Dec	%	2017 Full year	2016 Full year	%
Provisions for loans individually assessed as impaired								
Provisions	45	4		1		49	13	
Reversal of previous provisions	-7	0		-1		-7	-1	
Provisions for homogenous groups of impaired loans, net	0	0				0	-1	
Total	**38**	**4**		**0**		**42**	**11**	
Portfolio provisions for loans individually assessed as not impaired	**-1**	**3**		**-1**		**2**	**-13**	
Write-offs of impaired loans								
Established losses	25	10		12		35	47	
Utilisation of previous provisions	-13	0		-2		-13	-23	
Recoveries	-2	-2		-1		-4	-2	
Total	**10**	**8**		**9**		**18**	**22**	
Credit impairments, net	**47**	**15**		**8**		**62**	**20**	

Note 6 Loans

SEKm	2017 31 Dec	2017 30 Jun	%	2016 31 Dec	%
Lending					
Carrying amount before provisions	991 880	999 808	-1	976 500	2
Provisions for loans individually assessed as impaired	-52	-27	93	-22	
Portfolio provisions for loans assessed as not impaired	-72	-73	-1	-71	1
Total provisions	**-124**	**-100**	**24**	**-93**	**33**
Carrying amount after provisions	**991 756**	**999 708**	**-1**	**976 407**	**2**
Impaired loans					
Impaired loans, gross	270	184	47	222	22
Provisions for individually assessed impaired loans	-52	-27	93	-22	
Carrying amount of impaired loans	**218**	**157**	**39**	**200**	**9**
Share of impaired loans, gross, loans to the public, %	0.03	0.02		0.02	
Share of impaired loans, net, loans to the public, %	0.02	0.02		0.02	
Total provision ratio for impaired loans, % [1)]	45.8	54.4		41.7	
Provision ratio for individually identified impaired loans, %	19.1	9.9		10.0	

1) Including portfolio provisions for loans individually assessed as impaired.

Note 6 Loans, contd.

Loans by borrower category 31 Dec 2017 SEKm	Private cust-omers	Real estate incl tenant-owner associa-tions	Other corporate lending	Forestry and agri-cultural	Total lending to the public	Credit insti-tutions	Total lending
Carrying amount before provisions	**752 720**	**147 824**	**14 797**	**53 005**	**968 346**	**23 534**	**991 880**
Provisions for loans individually assessed as impaired	-7	-4	-2	-39	-52		-52
Portfolio provisions for loans individually assessed as not impaired	-36	-31	-2	-3	-72		-72
Carrying amount after provisions	**752 677**	**147 789**	**14 793**	**52 963**	**968 222**	**23 534**	**991 756**
Carrying amount of impaired loans	88	5	13	112	218		218

Loans by borrower category 31 Dec 2016 SEKm	Private cust-omers	Real estate incl tenant-owner associa-tions	Other corporate lending	Forestry and agri-cultural	Total lending to the public	Credit insti-tutions	Total lending
Carrying amount before provisions	**711 102**	**141 222**	**14 802**	**52 539**	**919 665**	**56 835**	**976 500**
Provisions for loans individually assessed as impaired	-9	-1		-12	-22		-22
Portfolio provisions for loans individually assessed as not impaired	-36	-28	-4	-3	-71		-71
Carrying amount after provisions	**711 057**	**141 193**	**14 798**	**52 524**	**919 572**	**56 835**	**976 407**
Carrying amount of impaired loans	87	4	37	72	200		200

Note 7 Derivatives

	2017			**2016**		
	31 Dec			**31 Dec**		
SEKm	**Interest**	**Currency**	**Total**	**Interest**	**Currency**	**Total**
Derivatives with positive book value	10 533	8 069	18 602	15 753	12 229	27 982
of which in hedge accounting	9 840	5 484	15 324	14 974	3 653	18 627
Derivatives with negative book value	2 440	3 127	5 567	4 048	3 334	7 382
of which in hedge accounting	1 871	815	2 686	2 292	1 300	3 592
Nominal amount	**546 767**	**321 645**	**868 412**	**644 052**	**168 069**	**812 121**

Swedbank Mortgage uses derivatives to hedge certain exposures to interest-rate and currency risks.

Note 8 Debt securities in issue and subordinated liabilities

SEKm	2017 31 Dec	2017 30 Jun	%	2016 31 Dec	%
Valuation category, other financial liabilities					
Bond loans	506 641	526 648	-4	542 378	-7
Change in value due to hedge accounting at fair value	7 772	9 169	-15	12 700	-39
Subordinated liabilities				4 000	
Total	**514 413**	**535 817**	**-4**	**559 078**	**-8**
Valuation category, fair value through profit and loss					
Bond loans	7 677	7 865	-2	8 123	-5
Total	**7 677**	**7 865**	**-2**	**8 123**	**-5**
Total	**522 090**	**543 682**	**-4**	**567 201**	**-8**

Turnover during the period SEKm	2017 Jul-Dec	2017 Jan-Jun	%	2016 Jul-Dec	%	2017 Full year	2016 Full year	%
Opening balance	**543 682**	**567 201**	**-4**	**577 119**	**-6**	**567 201**	**560 663**	**1**
Issued	52 280	80 183	-35	50 159	4	132 463	125 359	6
Repurchased	-43 833	-49 588	-12	-27 260	61	-93 421	-41 781	
Prepaid subordinated loan		-4 000				-4 000		
Repaid	-27 846	-42 190	-34	-28 126	-1	-70 036	-78 036	-10
Change in market value or in hedged item in fair value hedge accounting	-4 292	-6 258	-31	-8 923	-52	-10 550	-7 019	50
Changes in exchange rates	2 099	-1 666		4 232	-50	433	8 015	-95
Closing balance	**522 090**	**543 682**	**-4**	**567 201**	**-8**	**522 090**	**567 201**	**-8**

Note 9 Untaxed reserves

SEKm	2017 31 Dec	2017 30 Jun	%	2016 31 Dec	%
Tax allocation reserve	450	1 068	-58	1 068	-58
Total reserves	**450**	**1 068**	**-58**	**1 068**	**-58**

Tax allocation reserve from 2011, amounting to SEK 618m, has been reversed to the income statement during 2017. No new allocation has been made.

Note 10 Financial instruments at fair value

SEKm	2017 31 Dec Fair value	Carrying amount	Diff-erence	2016 31 Dec Fair value	Carrying amount	Diff-erence
Assets						
Financial assets, IAS 39						
Loans to credit institutions	23 534	23 534		56 835	56 835	
Loans to the public	965 975	968 222	-2 247	925 252	919 572	5 680
Value change of interest hedged item in portfolio hedge	791	791		1 483	1 483	
Shares and participating interest				1	1	
Derivatives	18 602	18 602		27 982	27 982	
Other financial assets	1 794	1 794		1 427	1 427	
Total	**1 010 696**	**1 012 943**	**-2 247**	**1 012 980**	**1 007 300**	**5 680**
Non-financial assets		60				
Total		**1 013 003**			**1 007 300**	
Liabilities						
Financial liabilities, IAS 39						
Amounts owed to credit institutions	418 278	419 608	-1 330	376 659	374 741	1 918
Debt securities in issue	527 815	522 090	5 725	569 541	563 201	6 340
Subordinated liabilities				4 476	4 000	476
Derivatives	5 567	5 567		7 382	7 382	
Other financial liabilities	18 934	18 934		15 456	15 456	
Total	**970 594**	**966 199**	**4 395**	**973 514**	**964 780**	**8 734**
Non-financial liabilities					65	
Total					**964 845**	

Note 10 Financial instruments at fair value, contd.

31 Dec 2017 SEKm	Instruments with quoted market prices in an active market (Level 1)	Valuation techniques using observable market data (Level 2)	Valuation techniques using non-observable market data (Level 3)	Total
Assets				
Loans to the public		92 681		92 681
Derivatives		18 602		18 602
Total		**111 283**		**111 283**
Liabilities				
Debt securities in issue	3 082	4 595		7 677
Derivatives		5 567		5 567
Total	**3 082**	**10 162**		**13 244**

Determination of fair value of financial instruments

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

The inputs in valuation techniques are divided in 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 when fair value cannot be determined in an active market, established valuation techniques and models are used. 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 market data from active markets. All valuation methods and models and internal assumptions are validated continuously by the independent risk control unit.

Financial instruments at fair value

The above table describes fair values at three valuation levels for financial instruments at fair value. Level 1 contains own bonds in issue that are traded on an active market. Level 2 contains primarily less liquid securities, derivatives and loans to the public. The change in value due to Swedbank Mortgage AB's own credit risk has been determined by calculating the difference in value based on current prices from external dealers for Swedbank Mortgage AB'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 origination date. The change in the value of securities in issue attributable to changes in credit risk amounted to SEK 3m during the period and is recognised as net gains and losses on financial items. The cumulative value change amounted to SEK -46m. For loans to the public where there are no observable market data 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 -6m during the period and is recognised as credit impairments. Cumulative value changes of that kind amounted to SEK -12m. The amount is determined as the difference between the current estimated credit worthiness and estimated credit worthiness of the borrower 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 included shares in tenant-owner associations taken over for protection of claims. They were valued at acquisition cost, since a more reliable fair value was not considered to be available. The assets held per 31 December 2016 were sold in June 2017 for the same amount as the acquisition cost. There was no effect on the income statement.

See Note 3 in the Annual report 2016, "Critical accounting judgements and estimates". There were no transfers of financial instruments between valuation levels during the year.

Note 10 Financial instruments at fair value, contd.

31 Dec 2016 SEKm	Instruments with quoted market prices in an active market (Level 1)	Valuation techniques using observable market data (Level 2)	Valuation techniques using non-observable market data (Level 3)	Total
Assets				
Loans to the public		141 126		141 126
Shares and participating interests			1	1
Derivatives		27 982		27 982
Total		**169 108**	**1**	**169 109**
Liabilities				
Amounts owed to credit institutions				
Debt securities in issue	3 270	4 852		8 122
Derivatives		7 382		7 382
Total	**3 270**	**12 234**		**15 504**

Note 11 Assets pledged, contingent liabilities and commitments

SEKm	2017 31 Dec	2017 30 Jun	%	2016 31 Dec	%
Loans, used as collateral for covered bonds[1)]	518 805	537 086	-3	542 278	-4
Repos [2)]	2 721	2 956	-8	234	
Commitments	9 959	11 409	-13	8 969	11
Pledged assets and contingent liabilities	**531 485**	**551 451**	**-4**	**551 481**	**-4**

[1)] Consist of collateral for covered bonds. Collateral refers to customers' nominal debt including accrued interest.

[2)] Relate to repos in Swedbank Mortgage´s debt securities in issue.

Note 12 Related parties

The table specifies transactions with other companies in the Swedbank Group.

SEKm	2017 31 Dec	2017 30 Jun	2016 31 Dec	2016 30 Jun
Group receivables				
Loans to credit institutions	23 534	57 476	56 835	85 420
Derivatives	18 602	19 423	27 982	32 997
Other assets	30	51	29	31
Total	**42 166**	**76 950**	**84 846**	**118 448**
Group payables				
Amounts owed to credit institutions	419 608	410 964	374 741	366 873
Debt securities in issue	2 244	3 328	8 904	4 886
Derivatives	5 567	7 223	7 382	10 499
Other liabilities	10 615	3 131	8 143	3 896
Subordinated debt			4 000	4 000
Total	**438 034**	**424 646**	**403 170**	**390 154**
Income statement				
Interest income	16	6	34	10
Interest expense	3 757	1 923	4 097	2 063
Other expenses	-38	-18	-17	8
Total	**3 735**	**1 911**	**4 114**	**2 081**

Note 13 Capital Adequacy

Capital adequacy analysis

Capital adequacy regulations determine how much capital, designated as the capital base, a credit institution must have in relation to its risk weighted assets. For Swedbank Mortgage the capital adequacy rules according to CRR mean that the minimum capital requirement for credit risks is based, with the approval of the SFSA, on an internal risk measurement using the IRB approach established by Swedbank. For a small share of the assets the capital requirement for credit risks is calculated according to the standardised approach. The capital requirement for operational risk is calculated, with the approval of the SFSA, using the standardised approach. Swedbank also formulates and documents its own methods and processes for evaluating the Group's capital requirements. This includes Swedbank Mortgage. The capital requirement is evaluated systematically on the basis of the total level of risks to which Swedbank Mortgage is exposed. All risks are taken into account, including those not included in the calculation of capital adequacy. 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/Swedish/investor-relations/finansiell-information-and-publikationer/riskrapporter/

Capital adequacy	**2017**	**2016**
SEKm	**31 Dec**	**31 Dec**
Shareholders' equity according to the balance sheet	46 354	41 387
Share of capital in tax allocation	351	833
Unrealised value changes in own financial liabilities due to changes in own credit valuation	46	49
Cash flow hedges	212	-230
Additional valuation adjustments [1]	-16	-7
Net provisions for reported IRB credit exposures	-375	-243
Common Equity Tier 1 capital	**46 572**	**41 789**
Total Tier 1 capital	**46 572**	**41 789**
Tier 2 capital		4 000
Total own funds	**46 572**	**45 789**
Minimum capital requirement for credit risks, standardised approach	12	576
Minimum capital requirement for credit risks, IRB	3 340	3 124
Minimum capital requirement for credit value adjustment		
Minimum capital requirement for operational risks	1 201	995
Additional minumum capital requirement, Article 3 CRR	32	32
Minimum capital requirement [2]	**4 585**	**4 727**
Risk exposure amount credit risks, standardised approach	149	7 206
Risk exposure amount credit risks, IRB	41 756	39 041
Risk exposure amount credit value adjustment		
Risk exposure amount operational risks [3]	15 011	12 435
Additional risk exposure amount, Article 3 CRR	403	403
Risk exposure amount	**57 319**	**59 085**
Common Equity Tier 1 ratio, %	81.3	70.7
Tier 1 capital ratio, %	81.3	70.7
Total capital ratio, %	**81.3**	**77.5**

[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 method, retail bank

Note 13 Capital adequacy, contd.

Credit risks, IRB	2017			2016		
	31 Dec			31 Dec		
SEKm	Exposure amount	Average risk weight, %	Minimum capital rqmnt.	Exposure amount	Average risk weight, %	Minimum capital rqmnt.
Central government or central banks exposures	7 362	4	22			
Corporate exposures	41 869	23	777	35 266	24	678
Retail exposures	921 590	3	2 538	860 888	4	2 431
Non-credit obligations	94	49	3	247	74	15
Total credit risks according to IRB approach	970 915	4	3 340	896 401	4	3 124
Total credit risks according to standardised approach	53 397	0	12	121 425	6	576
Total	**1 024 312**	**4**	**3 352**	**1 017 826**	**5**	**3 700**

Capital buffer requirement [1],%	2017 31 Dec	2016 31 Dec
CET 1 capital requirement including buffer requirements	9.0	8.5
of which minimum CET 1 requirement	4.5	4.5
of which capital conservation buffer	2.5	2.5
of which countercyclical capital buffer	2.0	1.5
CET 1 capital available to meet buffer requirement [2]	73.3	64.7

[1] Requirements regarding capital buffers according to Swedish implementation of CRD IV

[2] Calculated as CET capital ratio, less minimum requirement of 4.5% (excluding buffer requirements) and less any CET1 items used to meet the Tier 1 and total capital requirements

Capital adequacy Basel 1 floor [1] SEKm	2017 31 Dec	2016 31 Dec
Capital requirement Basel 1 floor	39 533	37 324
Own funds adjusted according to rules for Basel 1 floor	46 947	46 031
Surplus of capital according to Basel 1 floor	**7 414**	**8 707**

[1] Basel 1 floor based on the higher of the Basel 3 capital requirement and 80% of Basel 1 capital requirement. In the latter case the own funds is adjusted according to CRR article 500.4.

Note 13 Capital adequacy, contd.

Exposure amount, risk exposure amount and minimum capital requirement		**2017**			**2016**	
		31 Dec			**31 Dec**	
SEKm	Exposure amount	Risk exposure amount	Minimum capital rqmnt.	Exposure amount	Risk exposure amount	Minimum capital rqmnt.
Credit risks, standardised approach	**53 397**	**149**	**12**	**121 425**	**7 206**	**576**
Central government or central banks exposures				276		
Regional governments or local authorities exposures				6 970		
Institutional exposures	53 337			95 274		
Corporate exposures						
Retail exposures				1 452	1 089	87
Exposures secured by mortgages on immovable property				17 443	6 106	488
Exposures in default				9	9	1
Equity exposures	60	149	12	1	2	0
Credit risks, IRB	**970 915**	**41 756**	**3 340**	**896 401**	**39 041**	**3 124**
Central government or central banks exposures	7 362	273	22			
Corporate exposures	41 869	9 708	777	35 266	8 473	678
Retail exposures	921 590	31 729	2 538	860 888	30 385	2 431
of which mortgage lending	921 590	31 729	2 538	860 888	30 385	2 431
Non-credit obligations	94	46	3	247	183	15
Operational risks		**15 011**	**1 201**		**12 435**	**995**
of which standardised approach		15 011	1 201		12 435	995
Additional risk exposure amount according to article 3 CRR		**403**	**32**		**403**	**32**
Total	**1 024 312**	**57 319**	**4 585**	**1 017 826**	**59 085**	**4 727**

Note 14 Effects of changed reporting of mortgage compensation to savings banks

Income statement

SEKm	New reporting 2016 Jul-Dec	Δ	Previous reporting 2016 Jul-Dec	New reporting 2016 Full year	Δ	Previous reporting 2016 Full year
Interest income	8 192	-479	8 671	16 646	-827	17 473
Interest expense	-2 232	0	-2 232	-4 996		-4 996
Negative yield on financial liabilities	78	0	78	160		160
Interest expense, including negative yield on financial liabilities	**-2 154**	**0**	**-2 154**	**-4 836**		**-4 836**
Net interest income	**6 038**	**-479**	**6 517**	**11 810**	**-827**	**12 637**
Commission income	34	0	34	68		68
Commission expenses	-27	0	-27	-5		-5
Net commissions	**7**	**0**	**7**	**63**		**63**
Net gains and losses on financial items at fair value	-266	0	-266	-656		-656
Other income	3	0	3	6		6
Total income	**5 782**	**-479**	**6 261**	**11 223**	**-827**	**12 050**
Other expenses	126	-479	605	249	-827	1 076
Staff costs	3	0	3	4		4
Total expenses	**129**	**-479**	**608**	**253**	**-827**	**1 080**
Profit before impairments	**5 653**	**0**	**5 653**	**10 970**		**10 970**
Credit impairments, net	8	0	8	20		20
Operating profit	**5 645**	**0**	**5 645**	**10 950**		**10 950**
Tax	1 243	0	1 243	2 410		2 410
Profit for the period	**4 402**	**0**	**4 402**	**8 540**		**8 540**

Business segments

	New reporting					Previous reporting			
	2016 Full year					2016 Full year			
SEKm	Private	Cor-porate	Forestry- and Agricultural	Total	Δ	Private	Cor-porate	Forestry- and Agricultural	Total
Net interest income	9 567	1 082	847	11 496	-827	10 247	1 129	947	12 323
Net commission income	49	10	4	63		49	10	4	63
Total income	**9 616**	**1 092**	**851**	**11 559**	**-827**	**10 296**	**1 139**	**951**	**12 386**
Total expense	215	3	23	241	-827	895	50	123	1 068
Profit before impairments	**9 401**	**1 089**	**828**	**11 318**		**9 401**	**1 089**	**828**	**11 318**
Credit impairments	8	-1	13	20		8	-1	13	20
Operating profit	**9 393**	**1 090**	**815**	**11 298**		**9 393**	**1 090**	**815**	**11 298**
Loans to the public	711 713	146 594	61 265	919 572		711 713	146 594	61 265	919 572

	2016 Full year			2016 Full year		
SEKm	Total income	Total expense	Opera-ting profit	Total income	Total expense	Opera-ting profit
Total segments	11 559	241	11 298	12 386	1 068	11 298
Return on legal equity	314		314	314		314
Net gains and loss on financial items	-656		-656	-656		-656
Other income	6		6	6		6
Other expenses		12	12		12	12
Total financial report	**11 223**	**253**	**10 950**	**12 050**	**1 080**	**10 950**

Alternative performance measures

Swedbank Mortgage AB prepares its financial statements in accordance with IFRS as issued by the IASB, as set out in Note 1. The interim report includes a number of alternative performance measures, which provide more comparative information between the reporting periods. The executive management believes that inclusion of these measures provides information to the readers that enable comparability between periods. These alternative performance measures are set out below.

Measure	Definition
Credit Impairment ratio	Credit impairment on loans and other credit risk provisions (annualised), net, in relation to the opening balance of loans to credit institutions and loans to public after provisions.
Equity per share	Shareholders equity in relation to the number of shares outstanding.
Net interest margin	Net interest margin is calculated as Net interest income in relation to average total assets. The average is calculated using month-end figures, including the prior year end.
Provision ratio for impaired loans	Provisions for impaired loans assessed individually in relation to impaired loans, gross.
Return on equity	Profit for the period allocated to shareholders in relation to average equity attributable to shareholders. The average is calculated using month-end figures.
Share of impaired loans, gross	Carrying amount of impaired loans, gross, in relation to the carrying amount of loans to credit institutions and the public excluding provisions.
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, excluding provisions.
Total provision ratio for impaired loans	All provisions (individually assessed and portfolio) for loans in relation to impaired loans, gross.

Signatures of the Board of Directors and the President

The Board of Directors and the CEO certify that the year-end report for 2017 provides a fair and accurate overview of the operations, financial position and the results of the Company and that it describes the significant risks and uncertainties faced by the Company.

Stockholm 5 February 2018

Leif Karlsson Chairman	Magdalena Frostling CEO	Gunilla Domeij-Hallros
Malin Hlawatsch	Johan Smedman	Eva de Falck

Review report

Introduction
We have reviewed the year-end report for Swedbank Mortgage AB (publ) for the period 1 January to 31 December 2017. The Board of Directors and the Chief Executive Officer are responsible for the preparation and presentation of this interim report in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review
We conducted our review in accordance with the International Standard on Review Engagements ISRE (2410), *Review of Interim Financial Information Performed by the independent Auditor of the Entity*. A review consists of making inquiries, primarily with persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the interim report is not, in all material respects, in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 5 February 2018

Deloitte AB

Malin Lüning
Authorised Public Accountant

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