Swedbank Mortgage AB

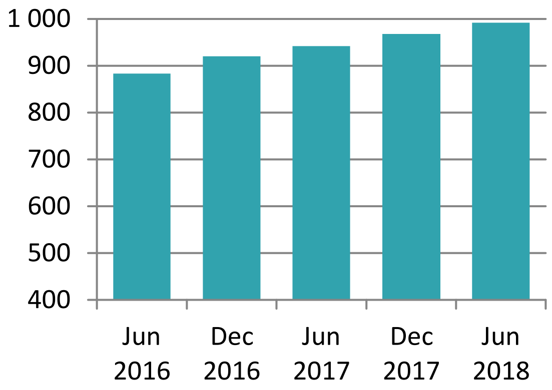
18 July 2018

Interim report 2018

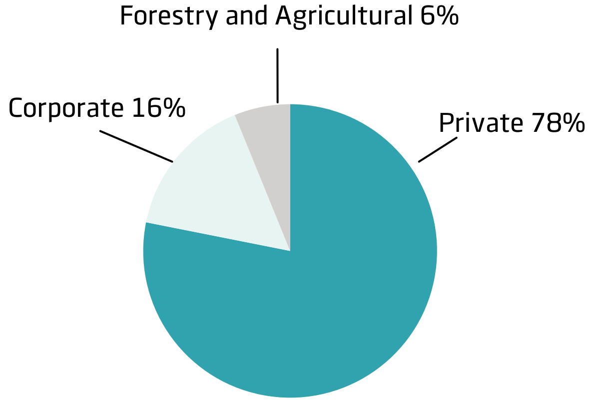
January – June 2018 (July – December 2017)

- Operating profit in the first half of 2018 amounted to SEK 6 546m (6 011)
- Net interest income increased by SEK 190m to SEK 6 712m (6 522)
- Lending to the public increased by 2.5 per cent or SEK 24bn to SEK 992bn (968)
- Profit before impairments increased by SEK 579m to SEK 6 637m (6 058)
- Credit impairments, net, according to IFRS 9, amounted to SEK 91m (SEK 47m according to IAS 39)
- Return on equity was 21.9 per cent (21.1)
- Covered bonds totalling SEK 66bn (52) were issued during the period

Lending to the public, SEK bn



Lending segments



Operating profit, January - June 2018

SEK 6 546m

Jul - Dec 2017: SEK 6 011m

Market share, mortgages, May 2018

24.4 %

Dec 2017: 24.4%

Business performance

	2018 30 Jun	2017 31 Dec	2017 30 Jun	2016 31 Dec	2016 30 Jun	2015 31 Dec	2015 30 Jun
Lending to the public, SEKbn	992	968	942	920	883	858	843
- Private	775	753	730	712	679	658	640
- Corporate	156	153	150	147	143	140	143
- Forestry and Agricultural	61	62	62	61	61	60	60
Number of customers, thousand	1 127	1 128	1 130	1 134	1 119	1 123	1 129
Market share mortgages % [1]	24.4	24.4	24.5	24.8	24.5	24.6	25.1
Market share of net growth, full and half year % [1) 2)]	24.4	19.8	17.1	26.4	19.8	18.1	22.1
Volume growth market, ∆ 12-months % [1]	6.8	7.2	7.2	7.6	8.8	8.5	7.3
Volume growth Swedbank Mortgage, ∆ 12-months % [1) 2)]	6.3	5.8	7.4	8.2	6.1	6.1	6.7
Private lending							
LTV total portfolio %	53	53	53	54	56	56	59
LTV new mortgages, current year	66	67	68	66	69	67	70
Share of total portfolio which amortises %	68	67	65	63	61	58	56
Share of portfolio which amortises, new mortgages, current year %	88	87	87	82	81	75	71
Funding							
Issued in last six months							
Swedish market, SEKbn	51	48	60	46	62	47	62
Outside Sweden, SEKbn	15	4	20	4	13	23	26
Average maturity of outstanding issued covered bonds, months	40	39	38	36	37	36	36

1) Market share and volume growth are presented as of May. 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	2018 Jan-Jun	2017 Jul-Dec	%	2017 Jan-Jun	%
Net interest income	6 712	6 522	3	6 412	5
Net commissions	13	11		-10	
Net gains and losses on financial items at fair value	33	-349		-506	
Other income	2	2	0	3	-33
Total income	**6 760**	**6 186**	**9**	**5 899**	**15**
Other expenses	118	125	-6	126	-6
Staff costs	5	3	67	5	
Total expenses	**123**	**128**	**-4**	**131**	**-6**
Profit before impairments	**6 637**	**6 058**	**10**	**5 768**	**15**
Credit impairments, net	91	47	94	15	
Operating profit	**6 546**	**6 011**	**9**	**5 753**	**14**
Appropriations		-618			
Tax	1 440	1 459	-1	1 269	13
Profit for the period	**5 106**	**5 170**	**-1**	**4 484**	**14**

SEKm	2018 30 Jun	2017 31 Dec	2017 30 Jun	2016 31 Dec	2016 30 Jun
Profit					
Net interest margin, %	1.28	1.27	1.28	1.20	1.19
Average total assets	1 051 801	1 016 390	999 504	984 625	967 964
Return on equity, %	21.9	21.1	20.1	21.8	21.9
Average equity	46 613	45 683	44 687	39 165	37 948
Earnings per share, SEK	222.0	419.7	195.0	371.3	179.9
Equity					
Number of shares in issue at beginning/end of period, million	23	23	23	23	23
Equity per share, SEK	2 002	2 015	2 040	1 799	1 657
Credit quality					
Loans to the public	992 415	968 222	942 232	919 572	882 524
Loans to credit institutions	74 290	23 534	57 476	56 835	85 420
Credit impairments, net	91	62	15	20	12
Credit impairment ratio, %	0.01	0.00	0.00	0.00	0.00
Total provisions	542	124	100	93	95
Share of Stage 3 loans, gross %	0.10				
Share of impaired loans, gross, loans to the public, %		0.02	0.02	0.02	0.02
Total credit impairment provision ratio, %	0.05				

For more information on definitions and calculation of key ratios, please see page 32 and the 2017 Annual Report, page 52. The first half of 2018 results reflect the adoption of IFRS 9 Financial instruments and prior periods have not been restated. Refer to Note 1 for further information.

Overview

Market

The global economy continues to generate robust growth despite increased trade tensions between the US, the EU and China. Politics have also taken centre stage in Europe, especially in Italy and Germany.

The US Federal Reserve continued its rate hike cycle when in June it raised its benchmark rate (fed funds) for the seventh time since the end of 2015, to a range of 1.7% to 2%. The European Central Bank (ECB) decided at its latest monetary policy meeting in June to stop buying bonds by the close of the year, but signalled that a rate hike wouldn't come before the summer of 2019.

The Swedish economy continues to generate robust growth. GDP grew 0.7% in the first quarter, or 3.3% on an annual basis. While housing investment rose at the start of the year, the number of housing starts and number of building permits have declined. The CPIF inflation rate and inflation expectations are in line with the Riksbank's 2% target, but underlying inflation (CPIF excluding energy) has fallen to low levels. As a result, the Riksbank has decided to delay a first rate hike until the end of the year at the earliest. Credit growth has slowed and in May rose 6.6% on an annual basis, down from 7.0% at the beginning of the year. Consumer credit saw the biggest drop, but mortgages increased at a slower pace as well, 6.8% vs. 7.2% in December of 2017. Stricter amortisation requirements, a weaker housing market and increased cautiousness among homebuyers are contributing to the lower lending growth. House prices have stabilised in recent months after dropping at the end of last year. According to Valueguard, house prices (single-family homes and condominiums) rose 0.4-0.5% in seasonally adjusted terms in April and May, indicating a stabilising housing market. On an annual basis the drop in house prices levelled off at around 4% in April and May.

Important to note

Swedbank Mortgage adopted the new reporting standard IFRS 9 Financial Instruments as of the financial year 2018. IFRS 9 replaces IAS 39 and contains among other things new rules on the classification and measurement of financial instruments. The application of IFRS 9 reduced equity by SEK 740m and had a negative effect on the Common Equity Tier 1 capital ratio of 0.68 percentage points between 31 December 2017 and 1 January 2018. According to the transition rules within IFRS 9, which apply until the end of 2022, part of the increase in the reserve for credit impairments can be reported in Common Equity Tier 1 capital. The transition rules are not obligatory and Swedbank Mortgage has decided not to apply them. Comparative figures have not been restated. See note 15 for more information.

Swedbank Mortgage will present contractually accrued interest for financial instruments as part of the carrying amount for the asset or liability in the balance sheet. Previously, contractual interest was recognized in "Prepaid expenses and accrued income" and "Accrued expenses and prepaid income" in the balance sheet. The change positively affected loans to the public by SEK 1 101m and debt securities in issue by SEK 5 193m between 31 December 2017 and 1 January 2018, but does not affect the size of the total balance sheet. Comparative figures have not been restated. See note 15 for more information.

The interim report contains alternative performance measures that Swedbank Mortgage considers valuable information for the reader, since they are used by company management and executive management for internal governance and performance measurement as well as for comparisons between reporting periods. Further information on the alternative performance measures used in the interim report can be found on page 32.

The company’s performance

(Comparative figures for the balance sheet refer to 31 December 2017, unless otherwise indicated)

Result first half of 2018 compared with second half of 2017

Swedbank Mortgage reported operating profit of SEK 6 546m for the first half of 2018, compared with SEK 6 011m 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.

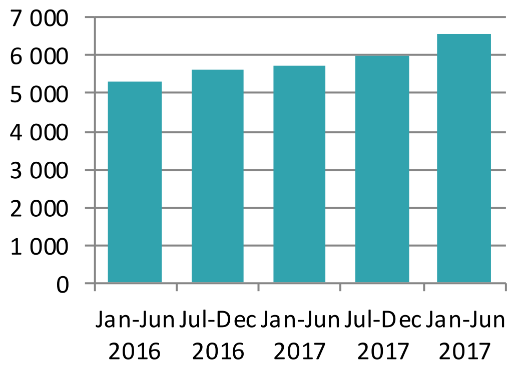
Net interest income increased by SEK 190m to SEK 6 712m (6 522). Increased margins due to lower interest expenses for funding and increased lending volumes positively contributed to net interest income. The resolution fund fee increased with SEK 153m and had a negative impact on net interest income.

Net gains and losses on financial items increased to SEK 33m (-349) as a result of lower effect from covered bond repurchases as well as due to that part of loans to the public no longer are accounted as fair value through profit and loss in connection to the transition to IFRS 9 as of the financial year 2018. If the loans would have continued to be reported at fair value the net gains and losses would have been SEK 152m lower.

Expenses amounted to SEK 123m (128). Other expenses amounted to SEK 118m (125) and included part of the compensation paid to the savings banks and partly owned banks. This expense amounted to SEK 121m (121). No similar compensation is paid to Swedbank.

The credit quality of Swedbank Mortgage’s lending remains very high and credit impairments were at a low level. Credit impairments, according to IFRS 9, increased to SEK 91m (SEK 47m according to IAS 39 in the second half of 2017). A provision in the second half of 2017 for a large commitment increased credit impairments by SEK 37m. This provision was resolved in the first half year. Provisions, according to IFRS 9, rose to SEK 542m (SEK 124m according to IAS 39 as of 31 December 2017). A specification of credit impairments and lending is provided in notes 5, 6 and 7.

OPERATING PROFIT (SEKm)



Result first half of 2018 compared with first half of 2017

Operating profit increased to SEK 6 546m, compared with SEK 5 753m in the same period in 2017. 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 300m to SEK 6 712m (6 412). Increased margins due to lower interest expenses for funding, mainly associated with the intra-group loans from Swedbank, and increased lending volumes positively contributed to net interest income. The resolution fund fee increased by SEK 153m to SEK 423m (270) and negatively affected net interest income.

Net gains and losses on financial items increased to SEK 33m (-506) as a result of a lower effect from covered bond repurchases as well as due to that part of loans to the public no longer are accounted as fair value through profit and loss in connection to the transition to IFRS 9 as of the financial year 2018. If the loans would have continued to be reported at fair value the net gains and losses would have been SEK 152m lower.

Expenses decreased to SEK 123m (131). Other expenses amounted to SEK 118m (126) and included part of the compensation paid to the savings banks and partly owned banks. This expense amounted to SEK 121m (121). No similar compensation is paid to Swedbank.

The credit quality of Swedbank Mortgage’s lending remains very high and credit impairments were at a low level. Credit impairments, according to IFRS 9, increased to SEK 91m (SEK 15m according to IAS 39 in the first half of 2017). A credit impairment of a large commitment has during the first half year been resolved and reduced the credit impairments by SEK 37m. Provisions rose to SEK 542m (SEK 100m according to IAS 39 as of 31 December 2017). A specification of credit impairments and lending is provided in notes 5, 6 and 7.

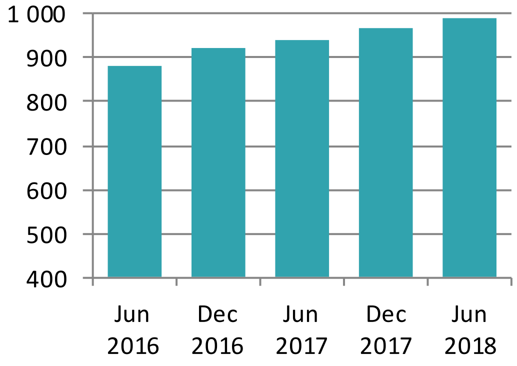
Lending

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.

The process of digitising and automating the mortgage business continued in the first half year. The next step is to enable existing customers to increase their loan amounts digitally.
Growth in the Swedish mortgage market levelled off compared with the previous year but maintained a high annual rate of 6.8 per cent (7.2) as of 31 May 2018. Swedbank’s share of the year’s net mortgage growth was 24.4 per cent and the total market share was 24.4 per cent (24.4) as of 31 May 2018.

Loans to the public increased by SEK 24bn in the first half of the year to SEK 992bn (968). The private segment accounted for SEK 775bn (753) and the forestry and agriculture segment for SEK 61bn (62). The corporate segment accounted for SEK 156bn (153).

LENDING TO THE PUBLIC (SEKbn)

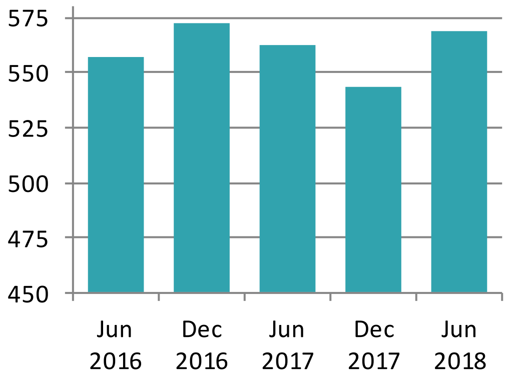


The Swedish Financial Supervisory Authority (SFSA) introduced a stricter mortgage amortisation requirement on 1 March 2018. The stricter requirement means that new borrowers with a mortgage debt exceeding 4.5 times their gross income must amortise at least 1 per cent of their loan over and above the existing requirement. The goal is to make Swedish households more resilient to macroeconomic shocks.

Funding and liquidity

Swedbank Mortgage funds its lending primarily 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)



Swedbank Mortgage has simplified its funding process through a number of standardised loan programmes that are 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 66bn (52) in covered bonds in the first half of the year. Maturities in the first half of the year were nominally SEK 15bn (28) calculated from the beginning of the year.

As of 30 June outstanding funding through covered bonds amounted to SEK 569bn (522) at the same time that funding from Swedbank AB amounted to SEK 471bn (420).

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 first half of the year SEK 16bn (44) was repurchased. The average maturity of all outstanding covered bonds was 40 months (39) at 30 June.

Risks

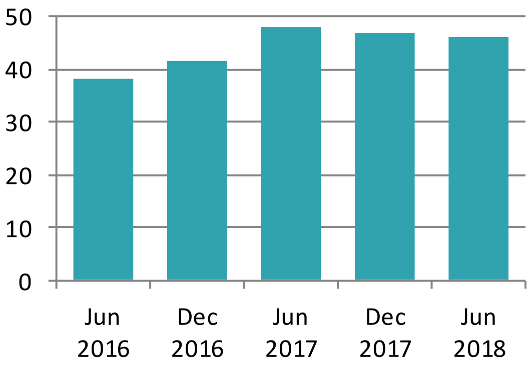
The main risks consist of credit risk, liquidity risk, market risk and operational risk. Swedbank Mortgage has a low risk profile with a well-diversified credit portfolio as well as limited market and operational risks. A further description of the company's risks is provided in the annual report for 2017.

Capital adequacy

Swedbank Mortgage's legal capital requirement is based on the Capital Requirements Regulation (CRR).Swedbank Mortgage's Common Equity Tier 1 capital ratio was 74.6 per cent on 30 June 2018 (81.3 per cent on 31 December 2017), compared with the requirement of 56.9 per cent.

Common Equity Tier 1 capital decreased in the first half year by SEK 0.2bn to SEK 46.4bn (46.6), mainly driven by group contribution from Swedbank Mortgage to the parent company. The risk exposure amount (REA) increased by SEK 5.0bn to SEK 62.3bn (57.3). The increase was mainly due to the annual recalculation of REA for operational risks as well as increased consumer lending volumes, which raised REA for credit risk. Capital adequacy is further specified in note 14.

COMMON EQUITY TIER 1 CAPITAL (SEKbn)



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 was 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.
On 28 March the Swedish Financial Supervisory Authority published a proposal to change the method for the application of the risk weight floor for Swedish mortgages to ensure a level playing field in the Swedish mortgage market. The proposal would replace the current risk weight floor, which today is applied within the overall capital assessment in Pillar 2 with a capital requirement within Pillar 1. The proposed measures, if accepted at the EU level, would enter into force on 31 December 2018. For Swedbank the proposal, if implemented, would lead to an increase in REA and thus a decrease in the reported Common Equity Tier 1 capital ratio and the capital requirement expressed as a percentage of REA. In SEK terms, however, Swedbank's capital requirement and capital base will change marginally.

Swedbank Mortgage's leverage ratio as of 30 June 2018 was 4.6 per cent (4.8).

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 reaffirmed by internal and external stress tests. For more information on asset quality, see the Factbook for the Group.

The majority of Swedbank Mortgage's lending consists of mortgages to private customers in Sweden. House prices in Sweden have stabilised on a lower level after declining in the fourth quarter of 2017. While many larger locations still face a housing shortage, uncertainty how far prices could fall has made buyers hesitant, which has affected sales for some new residential projects. The sluggish market for newly built condominiums does not affect Swedbank Mortgage, which only finances tenant-owner associations where the property is built and all the apartments are sold.

The average loan-to-value ratio for loans to private customers was 56 per cent (53), based on property level. For new lending in the first half year the loan-to-value ratio was 69 per cent (67).

Operational risks

No incidents occurred in the first half of 2018 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. The bonds have the highest rating (Aaa/AAA) from both Moody's Investors Service and S&P Global Ratings. In April Moody's upgraded its rating on Swedbank Mortgage to Aa2 after it also upgraded Swedbank. Swedbank Mortgage's rating from S&P is unchanged at AA-.

	Moody's		S&P Global Ratings	
	Rating	Outlook	Rating	Outlook
Covered bonds	Aaa	N/A	AAA	Stable
Long-term funding	Aa2	Stable	AA-	Stable
Short-term funding	P-1	N/A	A-1+	N/A

Events after 30 June 2018
No major events have occurred after 30 June 2018.

Income statement, condensed

SEKm	2018 Jan-Jun	2017 Jul-Dec	%	2017 Jan-Jun	%
Interest income	**8 023**	**8 067**	**-1**	**8 151**	**-2**
Interest expense	-1 510	-1 602	-6	-1 788	-16
Negative yield on financial liabilities	199	57		49	
Interest expense, including negative yield on financial liabilities	**-1 311**	**-1 545**	**-15**	**-1 739**	**-25**
Net interest income (note 3)	**6 712**	**6 522**	**3**	**6 412**	**5**
Commission income	31	31		32	-3
Commission expenses	-18	-20	-10	-42	-57
Net commissions	**13**	**11**	**18**	**-10**	
Net gains and losses on financial items at fair value (note 4)	33	-349		-506	
Other income	2	2		3	-33
Total income	**6 760**	**6 186**	**9**	**5 899**	**15**
Other expenses	118	125	-6	126	-6
Staff costs	5	3	67	5	
Total expenses	**123**	**128**	**-4**	**131**	**-6**
Profit before impairments	**6 637**	**6 058**	**10**	**5 768**	**15**
Credit impairments, net (note 5)	91	47	94	15	
Operating profit	**6 546**	**6 011**	**9**	**5 753**	**14**
Appropriations (note 9)		-618			
Tax	1 440	1 459	-1	1 269	13
Profit for the period	**5 106**	**5 170**	**-1**	**4 484**	**14**

Statement of comprehensive income, condensed

SEKm	2018 Jan-Jun	2017 Jul-Dec	%	2017 Jan-Jun	%
Profit for the period reported via income statement	**5 106**	**5 170**	**-1**	**4 484**	**14**
Items that may be reclassified to the income statement					
Cash flow hedges:					
Gains and losses arising during the period	76	158		-738	
Reclassification adjustments to income statement, net interest income		7	-100	6	-100
Foreign currency basis risk:					
Gains/losses arising during the period	-472				
Tax relating to components of other comprehensive income	87	-36		161	
Total comprehensive income attributable to shareholders of Swedbank Mortgage AB	**4 797**	**5 299**	**-9**	**3 913**	**23**

Balance sheet, condensed

SEKm	2018 30 Jun	2017 31 Dec	Δ SEKm	%	2017 30 Jun	%
Assets						
Loans to credit institutions (note 6)	74 290	23 534	50 756		57 476	29
Loans to the public (note 6)	992 415	968 222	24 193	2	942 232	5
Value change of interest hedged items in portfolio hedge	1 416	791	625	79	1 007	41
Derivatives (note 8)	25 649	18 602	7 047	38	19 423	32
Deferred tax assets	147	60	87		96	53
Other assets	2 192	693	1 499		572	
Prepaid expenses and accrued income	435	1 101	-666	-60	1 531	-72
Total assets	**1 096 544**	**1 013 003**	**83 541**	**8**	**1 022 337**	**7**
Liabilities and equity						
Liabilities						
Amounts owed to credit institutions	471 196	419 608	51 588	12	410 964	15
Debt securities in issue (note 9)	568 902	522 090	46 812	9	543 682	5
Derivatives (note 8)	3 163	5 567	-2 404	-43	7 223	-56
Current tax liabilities	402	1 041	-639	-61	589	-32
Accrued expenses and prepaid income	707	5 940	-5 233	-88	5 454	-87
Other liabilities	5 679	11 953	-6 274	-52	6 436	-12
Total liabilities	**1 050 049**	**966 199**	**83 850**	**9**	**974 348**	**8**
Untaxed reserves (note 10)	450	450	0	0	1 068	-58
Equity	46 045	46 354	-309	-1	46 921	-2
Total liabilities and equity	**1 096 544**	**1 013 003**	**83 541**	**8**	**1 022 337**	**7**

Statement of changes in equity, condensed

SEKm	Restricted equity		Non-restricted equity			
	Share capital	Statutory reserve	Cash flow hedges	Foreign currency basis risk reserve	Retained earnings	Total equity
Closing balance 31 December 2017	**11 500**	**3 100**	**-212**		**31 966**	**46 354**
Amendments due to the adoption of IFRS 9			**217**	**-217**	**-740**	**-740**
Opening balance 1 January 2018	**11 500**	**3 100**	**5**	**-217**	**31 226**	**45 614**
Group contributions paid					-5 598	-5 598
Tax on group distributions paid					1 232	1 232
Total comprehensive income for the year			59	-368	5 106	4 797
Closing balance 30 June 2018	**11 500**	**3 100**	**64**	**-585**	**31 966**	**46 045**
of which, conditional shareholders' contributions					2 400	2 400
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
Opening balance 1 January 2017	**11 500**	**3 100**	**230**		**26 557**	**41 387**
Group contributions paid					-3 050	-3 050
Tax on group distributions paid					671	671
Shareholders' contribution					4 000	4 000
Total comprehensive income for the year			-571		4 484	3 913
Closing balance 31 June 2017	**11 500**	**3 100**	**-341**		**32 662**	**46 921**
of which, conditional shareholders' contributions					2 400	2 400

Cash flow statement, condensed

SEKm	2018 Jan-Jun	2017 Full-year	2017 Jan-Jun
Operating activities			
Operating profit	6 546	11 764	5 753
Adjustments for non-cash items in operating activities	-4 460	-1 814	-507
Taxes paid	-403	-639	-639
Increase in loans to the public	-24 206	-49 729	-23 315
Decrease in amounts owed to credit institutions	51 557	44 868	36 223
Increase in other assets	-15	16	3
Increase/decrease in other liabilities	-49	27	40
Cash flow from operating activities	**28 970**	**4 493**	**17 558**
Financing activities			
Issuance of interest-bearing securities	63 870	132 463	79 675
Redemption and repurchase of interest-bearing securities	-31 514	-162 207	-88 542
Shareholders' contribution		4 000	4 000
Prepaid subordinated loan		-4 000	-4 000
Group contributions paid	-10 570	-8 050	-8 050
Cash flow from financing activities	**21 786**	**-37 794**	**-16 917**
Cash flow for the period	**50 756**	**-33 301**	**641**
Cash and cash equivalents at the beginning of the period	**23 534**	**56 835**	**56 835**
Cash flow for the period	**50 756**	**-33 301**	**641**
Cash and cash equivalents at end of the period	**74 290**	**23 534**	**57 476**
Liquid funds with banks and equivalent institutions	74 290	23 534	57 476
Loans to credit institutions	74 290	23 534	57 476

Notes

The interim report has been prepared on a going concern basis.
On 17 July 2018, the Board of Directors and the CEO approved the interim report for publication. Swedbank Mortgage, which maintains its registered office in Stockholm, Sweden, is a wholly owned subsidiary of Swedbank (publ). 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 2017, 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 2017 Annual Report, except for the new standards and change as set out below.

Financial Instruments (IFRS 9)
On 1 January 2018, Swedbank Mortgage adopted IFRS 9 *Financial Instruments.* IFRS 9 replaces 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 related accounting policies applied from 1 January 2018 are set out in the 2017 Annual Report, page 21.

The classification, measurement and impairment requirements were applied retrospectively. The hedge accounting requirements were 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 did not restate comparative periods and, accordingly, all comparative period information is presented in accordance with the accounting policies as set out in the 2017 Annual Report. Furthermore, new or amended interim disclosures are presented for the current period according to IFRS 9, where applicable, while comparative period disclosures are consistent with those made in the prior year. Adjustments to carrying amounts of financial assets and liabilities at the date of initial application of 1 January 2018 were recognized in the opening equity in the current period. The adoption impacts are disclosed in note 15.

Revenue from contracts with customers (IFRS 15)
On 1 January 2018, Swedbank Mortgage adopted IFRS 15 *Revenue from contracts with customers*. The standard introduces a five-step approach to determine how and when to recognise revenue.. The standard also establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The adoption did not have any impact on Swedbank Mortgage's financial position, results or cash flows. The significant accounting policies that are applied by Swedbank Mortgage from 1 January 2018 are set out in the 2017 Annual Report, page 20.

Changed presentation of accrued interest
From 1 January 2018, Swedbank Mortgage presents contractually accrued interest on financial assets and financial liabilities as part of the carrying amount of the related asset or liability in the balance sheet. Previously, the contractually accrued interest was presented within Prepaid expenses and accrued income or Accrued expenses and prepaid income. The balance sheet as of 31 December 2017 adjusted for this changed presentation of accrued interest is presented in note 15. The balance sheets for comparative periods have not been restated.

Note 2 Business segments

SEKm	2018 Jan-Jun Private	Corporate	Forestry and Agricultural	Total	2017 Jan-Jun Private	Corporate	Forestry and Agricultural	Total
Net interest income	5 482	678	448	6 608	5 249	592	440	6 281
Net commissions	10	2	1	13	-7	-2	-1	-10
Total income	**5 492**	**680**	**449**	**6 621**	**5 242**	**590**	**439**	**6 271**
Total cost	108	2	11	121	109	2	11	122
Profit before impairments	**5 384**	**678**	**438**	**6 500**	**5 133**	**588**	**428**	**6 149**
Credit impairments	37	67	-13	91	10	1	4	15
Operating profit	**5 347**	**611**	**451**	**6 409**	**5 123**	**587**	**424**	**6 134**
Loans to the public	775 209	155 723	61 483	992 415	729 642	150 464	62 126	942 232

Reconciliation of segment reporting and income statement, condensed

SEKm	2018 Jan-Jun Total income	Total expenses	Credit impairments	Operating profit	2017 Jan-Jun Total income	Total expenses	Credit impairments	Operating profit
Total segments	6 621	121	91	6 409	6 271	122	15	6 134
Return on legal equity	103			103	131			131
Net gains and losses on financial items	33			33	-506			-506
Other income	3			3	3			3
Other expenses		2		2		9		9
Total financial report	**6 760**	**123**	**91**	**6 546**	**5 899**	**131**	**15**	**5 753**

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	2018 Jan-Jun	2017 Jul-Dec	%	2017 Jan-Jun	%
Interest income					
Loans to credit institutions	4	3	33	5	-20
Loans to the public	8 019	8 064	-1	8 146	-2
Total interest income	**8 023**	**8 067**	**-1**	**8 151**	**-2**
Interest expense					
Amounts owed to credit institutions	144	-75		-78	
Debt securities in issue	-2 909	-3 106	-6	-3 412	-15
Derivatives	1 878	1 907	-2	2 035	-8
Subordinated debt				-13	
Other	-424	-271		-271	
of which resolution/stabilisation fund fee	-423	-270		-270	
Total interest expense including negative yield on financial liabilities according to income statement	**-1 311**	**-1 545**	**-15**	**-1 739**	**-25**
Total net interest income	**6 712**	**6 522**	**3**	**6 412**	**5**

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

SEKm	2018 Jan-Jun	2017 Jul-Dec	%	2017 Jan-Jun	%
Fair value through profit and loss					
Debt securities in issue	157	132	19	135	16
Derivatives	-149	-68		223	
Lending to the public		-390	-100	-631	-100
Total fair value through profit and loss	**8**	**-326**		**-273**	
Hedge accounting					
Ineffective part in hedge accounting at fair value	-39	49		26	
of which hedging instruments	551	1 238	-55	3 245	-83
of which hedged items	-590	-1 189	-50	-3 219	-82
Ineffective part in portfolio hedge accounting at fair value	36	-32		-2	
of which hedging instruments	-589	-217		-475	24
of which hedged items	625	185		473	32
Ineffective part in cash flow hedge	1				
Total hedge accounting	**-2**	**17**		**24**	
Derecognition gain or loss for financial liabilities at amortised cost	**-96**	**-98**	**-2**	**-285**	**-66**
Derecognition gain or loss for loans at amortised cost	**55**	**56**	**-2**	**56**	**-2**
Change in exchange rates	**68**	**2**		**-28**	
Total net gains and losses on financial items at fair value	**33**	**-349**		**-506**	

Note 5 Credit impairments, net

SEKm	2018 Jan-Jun (IFRS 9)
Loans at amortised cost	
Credit impairment provisions - Stage 1	14
Credit impairment provisions - Stage 2	91
Credit impairment provisions - Stage 3	-15
Total	**90**
Write-offs	4
Recoveries	-3
Total	**1**
Total loans at amortised cost	**90**
Total Credit impairments	**91**
Credit impairment ratio, %	**0.01**

Credit impairment provisions are estimated using quantitative models, which incorporate inputs, assumptions and methodologies that involve a high degree of management judgement. In particular, the following can have a significant impact on the level of impairment provisions:

- determination of a significant increase in credit risk;
- incorporation of forward-looking macroeconomic scenarios; and
- measurement of both 12-month and lifetime expected credit losses.

Further details on the key inputs and assumptions used as at 30 June 2018 are provided below.

Determination of a significant increase in credit risk
Swedbank Mortgage uses both quantitative and qualitative indicators for assessing a significant increase in credit risk. The criteria are disclosed in the annual report of 2017 on page 21.

Incorporation of forward-looking macroeconomic scenarios
Forward-looking information is incorporated into both the assessment of significant increase in credit risk and calculation of expected credit losses.
From analyses of historical data, Swedbank Mortgage's risk management function has identified and reflected in the models relevant macroeconomic variables that contribute to credit risk and losses for different portfolios based on geography, borrower, and product type. The most highly correlated variables are GDP growth, housing and property prices, unemployment and interest rates. Swedbank Mortgage continuously monitors the global macroeconomic environment in Sweden. This includes defining forward-looking macroeconomic scenarios which are translated into macroeconomic forecasts. The macroeconomic forecasts consider internal and external information and are consistent with the forward-looking information used for other purposes such as budgeting and forecasting. The base scenario is based on the assumptions corresponding to the bank's budget scenario and alternative scenarios reflecting more positive as well as more negative outlook are developed accordingly.
In general, a worsening of an economic outlook on forecasted macroeconomic variables for each scenario or an increase in the probability of the worst case scenario occurring will both increase the number of loans migrating from Stage 1 to Stage 2 and increase the estimated credit impairment provisions. In contrast, an improvement in the outlook on forecasted macroeconomic variables or an increase in the probability of the best case scenario occurring will have the opposite impact.

Measurement of 12-month and lifetime expected credit losses
The key inputs used for measuring expected credit losses are:

- probability of default;
- loss given default;
- exposure at default; and
- expected lifetime.

These estimates are derived from internally developed statistical models, which reflect both historical data and probability-weighted forward-looking scenarios.

IFRS 9 vs Regulatory capital framework

The measurement of expected credit losses according to IFRS 9 is different to the expected loss calculation for regulatory purposes. Although Swedbank Mortgage's regulatory IRB models serve as a base for the IFRS 9 expected credit loss models, adjustments are made and, in some instances, separate models are used in order to meet the objectives of IFRS 9. The main differences are summarised in the table below:

	Regulatory capital	IFRS 9
PD	• Fixed 1-year default horizon • Through-the-cycle, based on a long-run average • Conservative calibration based on backward-looking information including data from downturns	• 12-month PD for Stage 1 and lifetime PD for Stages 2 and 3 • Point-in-time, based on the current position in the economic cycle • Incorporation of forward-looking information • No conservative add-ons
LGD	• Downturn adjusted collateral values and through-the – cycle calibration • All workout costs included	• Point-in-time, based on the current position in the cycle • Adjusted to incorporate forward-looking information • Internal workout costs excluded • Recoveries discounted using the instrument specific effective interest rate
EAD	• 1-year outcome period • Credit conversion factor, with downturn adjustment, applied to off-balance sheet instruments	• EAD over the expected lifetime of instruments • Point-in-time credit conversion factor applied to off-balance sheet instruments • Prepayments taken into account
Expected lifetime	• Not applicable	• Early repayment behaviour in portfolios with longer maturities but predominant prepayments, e.g. mortgages. • Estimating maturities for certain revolving credit facilities, such as credit cards.
Discounting	• No discounting, except in LGD models	• Expected credit losses discounted to reporting date, using the instrument specific effective interest rate
Significant increase in credit risk	• Not applicable	• Relative measure of increase in credit risk since initial recognition • Identification of significance thresholds

Individually assessed provisions

Swedbank Mortgage assesses significant credit-impaired exposures individually and without the use of modelled inputs. The credit impairment provisions for these exposures are established using the discounted expected cash flows and considering a minimum of two possible outcomes, one of which is a loss outcome. The possible outcomes consider both macroeconomic and non-macroeconomic (borrower-specific) scenarios. The estimation of future cash flows takes into account a range of relevant factors such as the amount and sources of cash flows, the level and quality of the borrower's earnings, the realisable value of collateral, Swedbank Mortgage's position relative to other claimants, the likely cost and duration of the work-out process and current and future economic conditions. The amount and timing of future recoveries depend on the future performance of the borrower and the valuation of collateral, both of which might be affected by future economic conditions; additionally, collateral may not be readily marketable. Judgements change as new information becomes available or as work-out strategies evolve, resulting in regular revisions to the credit impairment provisions. Credit impairment provisions recognised in the income statement in relation to individually assessed loans were reduced by SEK 23m.

Credit impairments, historical values IAS 39

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

Note 6 Loans

SEKm	30 Jun 2018 Gross carrying amount (IFRS 9)	30 Jun 2018 Credit Impair-ment provision (IFRS 9)	30 Jun 2018 Carrying amount (IFRS 9)	31 Dec 2017 Carrying amount (IAS 39)	%	30 Jun 2017 Carrying amount (IAS 39)	%
Loans to credit institutions							
Banks	74 290		74 290	23 534		57 476	
Loans to credit institutions	**74 290**		**74 290**	**23 534**		**57 476**	
Loans to the public							
Private customers	869 306	265	869 041	846 874	3	823 553	6
Private, mortgage	774 558	241	774 317	752 662	3	728 938	6
Tenant owner associations	94 748	24	94 724	94 197	1	94 609	0
Private,other				15		6	
Corporate customers	123 651	277	123 374	121 348	2	118 679	4
Agriculture, forestry, fishing	52 157	94	52 063	52 963	-2	52 993	-2
Manufacturing	823	3	820	812	1	790	4
Public sector and utilities	2 477	5	2 472	2 979	-17	2 946	-16
Construction	3 514	10	3 504	3 452	2	3 592	-2
Retail	1 236	3	1 233	1 256	-2	1 281	-4
Transportation	405	2	403	417	-3	419	-4
Shipping and offshore	6		6	6	0	7	-14
Hotels and restaurants	776	3	773	712	9	720	7
Information and communications	257		257	251	2	272	-6
Finance and insurance	817	1	816	796	3	823	-1
Property management	56 781	135	56 646	53 592	6	50 874	11
Residential properties	41 689	58	41 631	38 786	7	36 387	14
Commercial	8 677	37	8 640	8 474	2	8 218	5
Industrial and Warehouse	1 143	15	1 128	1 122	1	1 106	2
Other	5 272	25	5 247	5 210	1	5 163	2
Professional services	2 730	10	2 720	2 739	-1	2 656	2
Other corporate lending	1 672	11	1 661	1 373	21	1 306	27
Loans to the public	**992 957**	**542**	**992 415**	**968 222**	**2**	**942 232**	**5**
Loans to the public and credit institutions	**1 067 247**	**542**	**1 066 705**	**991 756**	**8**	**999 708**	**7**
of which accrued interest	**1 029**		**1 029**				

Note 7 Loan stage allocation and credit impairment provisions

SEKm	30 Jun 2018 (IFRS 9)
Credit institutions	
Stage 1	
Gross Carrying amount	74 290
Carrying amount	**74 290**
Public, private customers	
Stage 1	
Gross carrying amount	835 465
Credit impairment provisions	21
Carrying amount	**835 444**
Stage 2	
Gross carrying amount	33 013
Credit impairment provisions	136
Carrying amount	**32 877**
Stage 3	
Gross carrying amount	828
Credit impairment provisions	108
Carrying amount	**720**
Total carrying amount for public, private customers	**869 041**
Public, corporate customers	
Stage 1	
Gross carrying amount	110 561
Credit impairment provisions	33
Carrying amount	**110 528**
Stage 2	
Gross carrying amount	12 902
Credit impairment provisions	214
Carrying amount	**12 688**
Stage 3	
Gross carrying amount	188
Credit impairment provisions	30
Carrying amount	**158**
Total carrying amount for public, corporate customers	**123 374**
Totals	
Gross carrying amount Stage 1	1 020 316
Gross carrying amount Stage 2	45 915
Gross carrying amount Stage 3	1 016
Total Gross carrying amount	**1 067 247**
Credit impairment provisions Stage 1	54
Credit impairment provisions Stage 2	350
Credit impairment provisions Stage 3	138
Total credit impairment provisions	**542**
Total carrying amount	**1 066 705**
Share of Stage 3 loans, gross, %[1)]	0.10
Share of Stage 3 loans, net, %[1)]	0.08
Credit impairment provision ratio Stage 1 loans	0.01
Credit impairment provision ratio Stage 2 loans	0.76
Credit impairment provision ratio Stage 3 loans	13.57
Total credit impairment privision ratio	0.05

Reconciliation of credit impairment provisions for loans

Loans to the public and credit institutions	Non Credit-Impaired		Credit-Impaired	
SEKm	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Gross carrying amount as of 1 January 2018	**949 019**	**42 144**	**1 196**	**992 359**
Gross carrying amount as of 30 June 2018	**1 020 316**	**45 915**	**1 016**	**1 067 247**
Credit impairment provisions				
Credit impairment provisions as of 1 January 2018	**41**	**259**	**151**	**451**
New and derecognised financial assets, net	6	-10	-16	-20
Changes in risk factors (EADF, PD, LGD)	15	-4	12	23
Changes in macroeconomic scenarios	10	20	4	34
Changes due to expert credit judgement (manual adjustments and individual assessments)	0	0	21	21
Stage transfers	-18	85	-34	33
from stage 1 to stage 2	-17	118	0	101
from stage 1 to stage 3	-4	0	6	2
from stage 2 to stage 1	2	-19	0	-17
from stage 2 to stage 3	0	-19	23	4
from stage 3 to stage 2	0	5	-26	-21
from stage 3 to stage 1	1	0	-37	-36
Other	0	0	0	0
Credit impairment provisions as of 30 June 2018	**54**	**350**	**138**	**542**
Carrying amount				
Opening balance as of 1 January 2018	**948 978**	**41 885**	**1 045**	**991 908**
Closing balance as of 30 June 2018	**1 020 262**	**45 565**	**878**	**1 066 705**

Impaired loans, historical values IAS 39

SEKm	2017 31 Dec	2017 30 Jun
Lending		
Carrying amount before provisions	991 880	999 808
Provisions for loans individually assessed as impaired	-52	-27
Portfolio provisions for loans assessed as not impaired	-72	-73
Total provisions	**-124**	**-100**
Carrying amount after provisions	**991 756**	**999 708**
Impaired loans		
Impaired loans, gross	270	184
Provisions for individually assessed impaired loans	-52	-27
Carrying amount of impaired loans	**218**	**157**
Share of impaired loans, gross, loans to the public, %	0.03	0.02
Share of impaired loans, net, loans to the public, %	0.02	0.02
Total provision ratio for impaired loans, % [1)]	45.8	54.4
Provision ratio for individually identified impaired loans, %	19.1	9.9

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

Note 8 Derivatives

	2018			2017		
	30 Jun			31 Dec		
SEKm	Interest	Currency	Total	Interest	Currency	Total
Derivatives with positive book value	10 998	14 651	25 649	10 533	8 069	18 602
of which in hedge accounting	10 326	12 020	22 346	9 840	5 484	15 324
Derivatives with negative book value	2 477	686	3 163	2 440	3 127	5 567
of which in hedge accounting	2 207	133	2 340	1 871	815	2 686
Nominal amount	**775 298**	**169 077**	**944 375**	**546 767**	**321 645**	**868 412**

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

Note 9 Debt securities in issue and subordinated liabilities

	2018	2017		2017	
SEKm	30 Jun	31 Dec	%	30 Jun	%
Valuation category, other financial liabilities					
Bond loans	552 863	506 641	9	526 648	5
Change in value due to hedge accounting at fair value	8 632	7 772	11	9 169	-6
Total	**561 495**	**514 413**	**9**	**535 817**	**5**
Valuation category, fair value through profit and loss					
Bond loans	7 407	7 677	-4	7 865	-6
Total	**7 407**	**7 677**	**-4**	**7 865**	**-6**
Total	**568 902**	**522 090**	**9**	**543 682**	**5**

Turnover during the period	2018	2017		2017	
SEKm	Jan-Jun	Jul-Dec	%	Jan-Jun	%
Closing balance	**522 090**				
Changed presentation of accrued interest [1)]	**5 193**				
Opening balance	**527 283**	**543 682**	**-3**	**567 201**	**-7**
Issued	65 615	52 280	26	80 183	-18
Repurchased	-15 952	-43 833	-64	-49 588	-68
Prepaid subordinated loan				-4 000	
Repaid	-15 563	-27 846	-44	-42 190	-63
Change in market value or in hedged item in fair value hedge accounting	-3 705	-4 292	-14	-6 258	-41
Changes in exchange rates	11 224	2 099		-1 666	
Closing balance	**568 902**	**522 090**	**9**	**543 682**	**5**

[1)] See further information in note 15

Note 10 Untaxed reserves

SEKm	2018 30 Jun	2017 31 Dec	%	2017 30 Jun	%
Tax allocation reserve	450	450	0	1 068	-58
Total reserves	**450**	**450**	**0**	**1 068**	**-58**

Note 11 Financial instruments at fair value

SEKm	2018 30 Jun Fair value	2018 30 Jun Carrying amount	2018 30 Jun Diff-erence	2017 31 Dec Fair value	2017 31 Dec Carrying amount	2017 31 Dec Diff-erence
Assets						
Loans to credit institutions	74 290	74 290		23 534	23 534	
Loans to the public	996 779	992 416	4 363	965 975	968 222	-2 247
Value change of interest hedged item in portfolio hedge	1 416	1 416		791	791	
Derivatives	25 649	25 649		18 602	18 602	
Other financial assets	2 626	2 626		1 794	1 794	
Total	**1 100 760**	**1 096 397**	**4 363**	**1 010 696**	**1 012 943**	**-2 247**
Non-financial assets		147			60	
Total		**1 096 544**			**1 013 003**	
Liabilities						
Amounts owed to credit institutions	472 201	471 196	1 005	418 278	419 608	-1 330
Debt securities in issue	574 122	568 902	5 220	527 815	522 090	5 725
Derivatives	3 163	3 163		5 567	5 567	
Other financial liabilities	6 386	6 386		18 934	18 934	
Total	**1 055 872**	**1 049 647**	**6 225**	**970 594**	**966 199**	**4 395**
Non-financial liabilities		402				
Total		**1 050 049**			**966 199**	

Note 11 Financial instruments at fair value, contd.

30 Jun 2018 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				
Derivatives		25 649		25 649
Total		**25 649**		**25 649**
Liabilities				
Debt securities in issue	3 016	4 277		7 293
Derivatives		3 163		3 163
Total	**3 016**	**7 440**		**10 456**

The table above contains financial instruments measured at fair value by valuation level. The Swedbank Mortgage uses various methods to determine the fair value for financial instruments depending on the degree of observable market data in the valuation and activity in the market. Market activity is continuously evaluated by analysing factors such as 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 significant valuation parameters are non-observable and based on internal assumptions.

When financial assets and financial liabilities in active markets have market risks that offset each other, an average of bid and ask prices is used as a basis to determine the fair values of the risk positions that offset each other. For any open net positions, bid rates are applied for long positions and ask rates for short positions.

Swedbank Mortgage has a continuous process whereby financial instruments that indicate a high level of internal estimates or low level of observable market data are captured. The process determines the way to calculate and how the internal assumptions are expected to affect the valuation. In cases where internal assumptions have a significant impact on fair value, the financial instrument is reported in level 3. The process also includes an analysis and evaluation based on the quality of the valuation data as well as whether a type of financial instrument is to be transferred between levels.

When transfers occur between fair value hierarchy levels those are reflected as taking place at the end of each period. There were no transfers of financial instruments between valuation levels 1 and 2 during the period.

Note 11 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**

Note 12 Assets pledged, contingent liabilities and commitments

SEKm	2018 30 Jun	2017 31 Dec	%	2017 30 Jun	%
Loans, used as collateral for covered bonds[1)]	553 151	518 805	7	537 086	3
Repos [2)]	1 466	2 721	-46	2 956	
Commitments	17 235	9 959	73	11 409	51
Pledged assets and contingent liabilities	**571 852**	**531 485**	**8**	**551 451**	**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 13 Related parties

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

SEKm	2018 30 Jun	2017 31 Dec	2017 30 Jun	2016 31 Dec
Group receivables				
Loans to credit institutions	74 290	23 534	57 476	56 835
Derivatives	25 652	18 602	19 423	27 982
Other assets	46	30	51	29
Total	**99 988**	**42 166**	**76 950**	**84 846**
Group payables				
Amounts owed to credit institutions	471 196	419 608	410 964	374 741
Debt securities in issue	3 646	2 244	3 328	8 904
Derivatives	3 162	5 567	7 223	7 382
Other liabilities	5 607	10 615	3 131	8 143
Subordinated debt				4 000
Total	**483 611**	**438 034**	**424 646**	**403 170**
Income statement				
Interest income	5	16	6	34
Interest expense	2 010	3 757	1 923	4 097
Other expenses	-8	-38	-18	-17
Total	**2 007**	**3 735**	**1 911**	**4 114**

Note 14 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 Mortgage also establishes and documents its own methods and processes for evaluating the company’s capital requirements. 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 SFSA Regulation FFFS 2014:12, chap. 8. Additional periodic information according to Regulation (EU) No 575/2013 of the European Parliament and the Council on supervisory requirements for credit institutions as well as Implementing Regulation (EU) No 1423/2013 of the European Commission can be found on Swedbank’s website:
https://www.swedbank.com/svenska/investor-relations/finansiell-information-and-publikationer/riskrapporter/

Capital adequacy	**2018**	**2017**
SEKm	**30 Jun**	**31 Dec**
Shareholders' equity according to the balance sheet	46 045	46 354
Share of capital in tax allocation	351	351
Unrealised value changes in own financial liabilities due to changes in own credit valuation	30	46
Cash flow hedges	-64	212
Additional valuation adjustments [1]	-7	-16
Net provisions for reported IRB credit exposures		-375
Common Equity Tier 1 capital	**46 355**	**46 572**
Total Tier 1 capital	**46 355**	**46 572**
Tier 2 capital	88	
Total own funds	**46 443**	**46 572**
Minimum capital requirement for credit risks, standardised approach	30	12
Minimum capital requirement for credit risks, IRB	3 536	3 340
Minimum capital requirement for market risks	24	
FX risk other operations	24	
Minimum capital requirement for operational risks	1 359	1 201
Additional minumum capital requirement, Article 3 CRR	32	32
Minimum capital requirement [2]	**4 981**	**4 585**
Risk exposure amount credit risks, standardised approach	367	149
Risk exposure amount credit risks, IRB	44 203	41 756
Risk exposure amount market risks	302	
Risk exposure amount operational risks [3]	16 986	15 011
Additional risk exposure amount, Article 3 CRR	403	403
Risk exposure amount	**62 261**	**57 319**
Common Equity Tier 1 ratio, %	74.5	81.3
Tier 1 capital ratio, %	74.5	81.3
Total capital ratio, %	**74.6**	**81.3**

[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 14 Capital adequacy, contd.

Credit risks, IRB

SEKm	2018 30 Jun Exposure amount	Average risk weight, %	Minimum capital rqmnt.	2017 31 Dec Exposure amount	Average risk weight, %	Minimum capital rqmnt.
Central government or central banks exposures	6 451	4	20	7 362	4	22
Corporate exposures	45 940	26	944	41 869	23	777
Retail exposures	948 612	3	2 535	921 590	3	2 538
Non-credit obligations	519	91	37	94	49	3
Total credit risks according to IRB approach	1 001 522	4	3 536	970 915	4	3 340
Total credit risks according to standardised approach	113 293	0	30	53 397	0	12
Total	**1 114 815**	**4**	**3 566**	**1 024 312**	**4**	**3 352**

Capital buffer requirement [1],%	**2018 30 Jun**	**2017 31 Dec**
CET 1 capital requirement including buffer requirements	9.0	9.0
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	2.0
CET 1 capital available to meet buffer requirement [2]	66.5	73.3

[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

Note 14 Capital adequacy, contd.

Exposure amount, risk exposure amount and minimum capital requirement		**2018**			**2017**	
		30 Jun			**31 Dec**	
SEKm	Exposure amount	Risk exposure amount	Minimum capital rqmnt.	Exposure amount	Risk exposure amount	Minimum capital rqmnt.
Credit risks, standardised approach	**113 293**	**367**	**30**	**53 397**	**149**	**12**
Institutional exposures	113 146			53 337		
Equity exposures	147	367	30	60	149	12
Credit risks, IRB	**1 001 522**	**44 203**	**3 536**	**970 915**	**41 756**	**3 340**
Central government or central banks exposures	6 451	245	20	7 362	273	22
Corporate exposures	45 940	11 801	944	41 869	9 708	777
Retail exposures	948 612	31 684	2 535	921 590	31 729	2 538
of which mortgage lending	942 346	31 478	2 518	921 590	31 729	2 538
of which other lending	6 266	206	17			
Non-credit obligations	519	473	37	94	46	3
Market risks		**302**	**24**			
FX risk other operations		302	24			
Operational risks		**16 986**	**1 359**		**15 011**	**1 201**
of which standardised approach		16 986	1 359		15 011	1 201
Additional risk exposure amount according to article 3 CRR		**403**	**32**		**403**	**32**
Total	**1 114 815**	**62 261**	**4 981**	**1 024 312**	**57 319**	**4 585**

Note 15 Effects of changes in accounting policies, IFRS9

Reconciliation of the balance sheet from IAS 39 to IFRS 9
The following table provides the impacts from the changed presentation of accrued interest and the adoption of IFRS 9 on the balance sheet. The impact from the adoption of IFRS 9 consists of the remeasurement due to reclassifications between valuation categories and the remeasurements related to impairment and expected credit losses.

SEKm	31 December 2017	Changed present-ation of accrued interest	31 December 2017 adjusted for changed presentation of accrued interest	Remea-surement / classifi-cation	Remeasure-ment / expected credit losses[1]	1 January 2018
Assets						
Loans to credit institutions	23 534		23 534			23 534
Loans to the public	968 222	1 101	969 323	-624	-324	968 375
Value change of interest hedged item in portfolio hedge	791		791			791
Derivatives	18 602		18 602			18 602
Deferred tax assets	60		60			60
Other assets	693		693			693
Prepaid expenses and accrued income	1 101	-1 101	0			0
Total assets	**1 013 003**		**1 013 003**	**-624**	**-324**	**1 012 055**
Liabilities and equity						
Liabilities						
Amounts owed to credit institutions	419 608	34	419 642			419 642
Debt securities in issue	522 090	5 193	527 283			527 283
Derivatives	5 567		5 567			5 567
Current tax liabilities	1 041		1 041	-137	-71	833
Other liabilities and provisions	11 953		11 953			11 953
Accrued expenses and prepaid income	5 940	-5 227	713			713
Total liabilities	**966 199**		**966 199**	**-137**	**-71**	**965 991**
Untaxed reserves	450		450			450
Equity	46 354		46 354	-487	-253	45 614
Total liabilities and equity	**1 013 003**		**1 013 003**	**-624**	**-324**	**1 012 055**

1) The effect includes an remeasurement of the gross carrying amount of loans to the public amounting to SEK 3m (pre-tax)

Reclassification of financial assets at transition to IFRS 9

The following table reconciles the carrying amounts of financial assets from the valuation categories in accordance with IAS 39 on 31 December 2017 to the new valuation categories in accordance with IFRS 9 on 1 January 2018. Swedbank Mortgage's classifications of financial liabilities under IFRS 9 are unchanged compared to IAS 39.
The 31 December 2017 balances presented in the table below have been adjusted for the changed presentation of accrued interest.

		Fair value through profit and loss			
Assets	**Amortised cost**	**Trading**	**Designated**	**Hedging instru-ments**	**Total**
Loans to credit institutions					
31 December 2017 (IAS 39)	23 534				23 534
1 January 2018 (IFRS 9)	**23 534**				**23 534**
Loans to the public					
31 December 2017 (IAS 39)	876 642		92 681		969 323
Reclassifications	92 681		-92 681		
Remeasurement - classifications	-624				-624
Remeasurement - expected credit losses	-324				-324
1 January 2018 (IFRS 9)	**968 375**				**968 375**
Derivatives, 31 December 2017 (IAS 39) and 1 January 2018 (IFRS 9)		**3 278**		**15 324**	**18 602**
Other financial assets, 31 December 2017 (IAS 39) and 1 January 2018 (IFRS 9)	**1 545**				**1 545**
Total	**993 454**	**3 278**		**15 324**	**1 012 056**

Loans to the public

Swedbank Mortgage designated a portfolio of mortgage loans at fair value through profit or loss under IAS 39, primarily to avoid an accounting mismatch. Upon the application of IFRS 9, Swedbank Mortgage mandatorily revoked previous designations made under IAS 39 for loans to the public of SEK 92 681m, due to that there was no longer an elimination or significant reduction of an accounting mismatch. These loans to the public were reclassified to amortised cost under IFRS 9, as the business model is "hold to collect" and the cash flow characteristics assessments were met.

Impairment provisions according to IAS 39 compared to IFRS 9

The following table reconciles the closing credit impairment provisions under IAS 39 and opening credit impairment provisions under IFRS 9.

	31 December 2017, IAS 39			Remeasure-ment	1 January 2018, IFRS 9			
SEKm	**Portfolio**	**Individual**	**Total**		**Total**	**Stage 1**	**Stage 2**	**Stage 3**
Loans to the public	72	52	124	327	451	41	259	151
Total	**72**	**52**	**124**	**327**	**451**	**41**	**259**	**151**

The individual impairment provisions for impaired instruments recognized under IAS 39 have generally been replaced by Stage 3 provisions under IFRS 9, while the collective provisions for non-impaired financial instruments have generally been replaced by either Stage 1 or Stage 2 provisions under IFRS 9. The increase in credit impairment provisions is mainly driven by Stage 2 provisions, which are recognised for financial assets that are not credit-impaired, but have experienced a significant increase in credit risk since initial recognition. Credit impairment provisions for these financial assets are measured as lifetime expected credit losses, as opposed to measuring 12-month expected credit losses for financial assets in Stage 1. The increase in credit impairment provisions for Stage 3 as compared to individual provisions under IAS 39 stems from two main reasons. Firstly, under IAS 39 loans did not have an allowance for loan losses if there was collateral covering the principal, unpaid interest and any late fee by a satisfactory margin. Such loans are credit-impaired and an allowance was recognized in Stage 3 according to IFRS 9 due to the incorporation of forward looking scenarios. Secondly, the credit impairment provisions are higher under IFRS 9 due to the incorporation of forward looking scenarios in the expected credit loss calculations.

Impact of adopting IFRS 9 to equity

The impacts of transition to IFRS 9 on equity reserves and retained earnings are presented in the table below.

SEKm	Impact from transition to IFRS 9
Cash flow hedge reserve	
Closing balance under IAS 39 (31 December 2017)	-212
Reclassification to Foreign currency basis risk reserve, before taxes	278
Income tax reported through other comprehensive income	-61
Opening balance under IFRS 9 (1 January 2018)	**5**
Foreign Currency basis risk reserve	
Closing balance under IAS 39 (31 December 2017)	
Reclassification from cash flow hedges, before taxes	-278
Income tax reported through other comprehensive income	61
Opening balance under IFRS 9 (1 January 2018)	**-217**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	22 312
Reclassifications under IFRS 9	-624
Income taxes, reclassifications under IFRS 9	137
Remeasurements under IFRS 9	-324
Income taxes, remeasurements under IFRS 9	71
Opening balance under IFRS 9 (1 January 2018)	**21 572**

Alternative performance measures

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.
Credit impairment provision Stage 1 loans	Credit impairment provisions Stage 1 in relation to the gross carrying amount Stage 1 loans
Credit impairment provision Stage 2 loans	Credit impairment provisions Stage 2 in relation to the gross carrying amount Stage 2 loans
Credit impairment provision Stage 3 loans	Credit impairment provisions Stage 3 in relation to the gross carrying amount Stage 3 loans
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.
Share of Stage 3 loans, gross	Carrying amount of Stage 3 loans, gross, in relation to the carrying amount of loans to credit institutions and the public, excluding provisions.
Share of Stage 3 loans, net	Carrying amount of Stage 3 loans, net, in relation to the carrying amount of loans to credit institutions and the public.
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 interim report for the period 1 January to 30 June 2018 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 17 July 2018

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

Review report

Introduction
We have reviewed the interim report for Swedbank Mortgage AB (publ) for the period 1 January to 30 June 2018. 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 prepared, in all material respects, in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 17 July 2018

Deloitte AB

Patrick Honeth
Authorised Public Accountant

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