Swedbank Mortgage AB

Annual report 2017

The financial year 2017 in brief

Full year 2017 (full year 2016)

- Operating profit for the full year of 2017 amounted to SEK 11 764m (10 950)
- Net interest income increased by SEK 1 124m to SEK 12 934m (11 810)
- Lending to the public increased by 5 per cent or SEK 48bn to SEK 968bn (920)
- Profit before impairments increased by SEK 856m to SEK 11 826m (10 970)
- Credit impairments amounted to SEK 62m (20)
- Return on equity was 21.1 per cent (21.8)
- Covered bonds totaling an amount of SEK 132bn (125) were issued during the year

SEKm	2017	2016
Net interest income	12 934	11 810
Other operating income	-849	-587
Total income	**12 085**	**11 223**
Other expenses	251	249
Staff expenses	8	4
Total expenses	**259**	**253**
Profit before impairments	**11 826**	**10 970**
Credit impairments	62	20
Operating profit	**11 764**	**10 950**
Appropriations	-618	
Tax	2 728	2 410
Profit for the period	**9 654**	**8 540**

Operating profit 2017

SEK 11 764m

2016: SEK 10 950m

Market share, mortgages, Dec 2017

24.4%

December2016: 24.8%

About Swedbank Mortgage AB

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

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

No lending with collateral outside of Sweden is performed.

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

Swedbank Mortgage's operations are integrated in Swedbank, which creates economies of scale with the bank's other operations.

Contents

Key ratios 2013-2017

SEKm	2017 31 Dec	2016 31 Dec	2015 31 Dec	2014 31 Dec	2013 31 Dec
Profit					
Net interest margin, %	1.27	1.20	1.15	0.94	0.82
Average total assets	1 016 390	984 625	932 305	863 882	838 161
Return on equity, %	21.1	21.8	19.3	16.9	13,0
Average equity	45 683	39 165	36 416	33 889	35 172
Earnings per share, SEK	419.7	371.3	305.4	249.0	209.9
Equity					
Number of shares in issue at beginning/end of period, million	23	23	23	23	23
Equity per share, SEK	2 015.40	1 799.40	1 587.61	1 446.48	1 534.26
Credit quality					
Loans to the public	968 222	919 572	857 910	821 547	768 840
Credit impairments, net	62	20	30	37	30
Credit impairment ratio, %	0.00	0.00	0.00	0.00	0.00
Impaired loans, gross	270	222	241	293	213
Total provisions	124	93	117	122	155
Total provision ratio for impaired loans, %	45.8	41.7	48.5	41.7	72.7
Carrying amount impaired loans	218	200	208	262	149
Share of impaired loans, gross, loans to the public, %	0.02	0.02	0.03	0.03	0.02

For more information on definitions and calculation of key ratios, refer to page 52.

Business development

	2017 31 dec	2016 31 dec	2015 31 dec	2014 31 dec	2013 31 dec
Lending to the public, SEKbn	968	920	858	822	769
- Private	753	712	658	619	582
- Corporate	153	147	140	143	131
- Forestry and Agricultural	62	61	60	60	56
Number of customers, thousands	1 128	1 134	1 123	1 130	1 132
Market share mortgages % [1)]	24.4	24.8	24.6	25.2	25.3
Market share new mortgages, full year % [1) 2)]	19.8	26.4	18.1	23.9	13.8
Volume growth market, full year % [1)]	7.2	7.6	8.5	6.3	5.3
Volume growth Swedbank Mortgage, full year % [1) 2)]	5.8	8.2	6.1	6,0	2.8
Private lending					
LTV total portfolio %	53	54	56	59	62
LTV new mortgages, actual year %	67	66	67	69	68
Share of total portfolio which amortises %	67	63	58	53	49
Share of portfolio which amortises, new mortgages, actual year %	87	82	75	68	55
Funding					
Issued during year					
Swedish market, SEKbn	108	108	109	80	54
Outside Sweden, SEKbn	24	17	49	12	19
Average maturity of outstanding issued covered bonds, months	39	36	36	35	36

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 aquisition of Sparbanken Öresund.

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 expensed. Comparative figures have been restated; see Note 30.

IFRS 9 enters into force as of 1 January 2018. For more information on the effects of the introduction, see Note 2 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 49 for a list of alternative performance measures.

The company's development

Result
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.

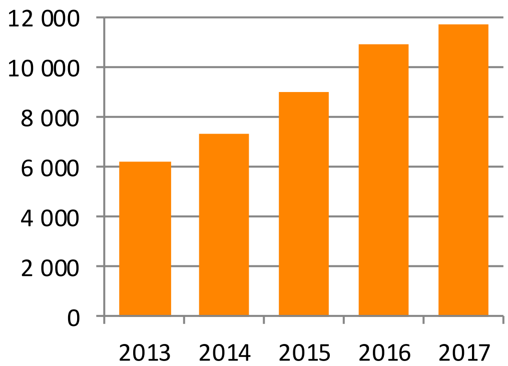
Net interest income increased by SEK 1 124m to SEK 12 934m (11 810). Increased margins due to lower interest expenses for funding, mainly associated with the intra-group loans from Swedbank, and increased lending volumes contributed positively to net interest income. The positive effect on net interest 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 remains very high and credit impairments were at a low level. Credit impairments increased to SEK 62m (20). A provision in the second half of the year 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 12 and 16.

OPERATING PROFIT (SEKm)

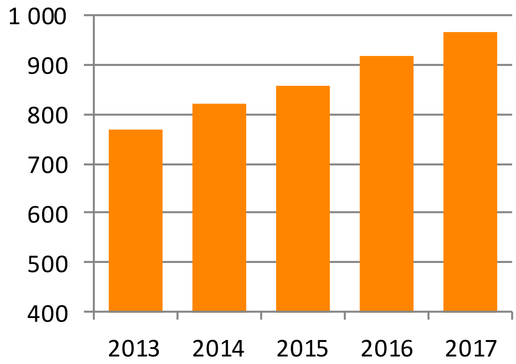


Lending
Swedbank Mortgage finances properties and individual tenant-owned apartments up to 85 per cent of their estimated market value. The company also lends directly to municipalities or other borrowers with municipal guarantees as collateral as well as to the forestry and agricultural sector.
Development of a digital offering is continuing. The mortgage commitment process was automated during the year and preparations were made to automate and digitise the entire 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 (7.6). 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 (24.8).

Loans to the public increased by SEK 48bn to SEK 968bn (920). The private segment accounted for SEK 753bn (712) and the forestry and agriculture segment for SEK 62bn (61). The corporate segment accounted for SEK 153bn (147).

LENDING TO THE PUBLIC (SEKbn)

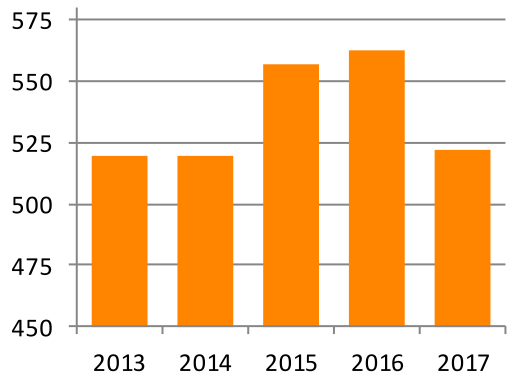


The Swedish Financial Supervisory Authority (SFSA) decided, with the government's consent, to introduce a stricter mortgage amortisation requirement effective 1 March 2018. The stricter requirement requires new borrowers with mortgage debt exceeding 4.5 times their gross income to amortise at least 1 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 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 132bn (125) in covered bonds during the year. Maturities for the full year were nominally SEK 70bn (78), 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 (375).

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.

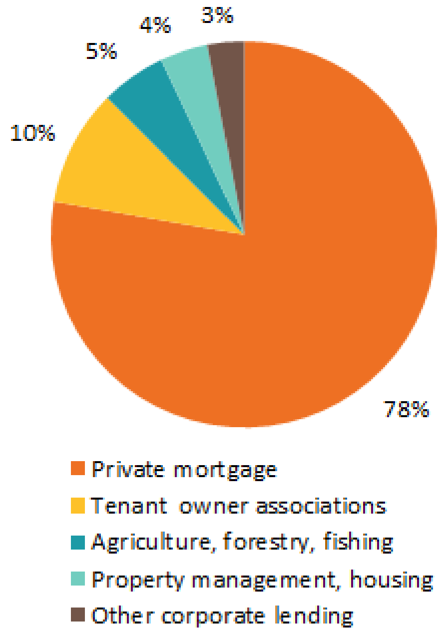
As part of its liquidity planning, Swedbank Mortgage actively buys back a large portion of its bonds starting about 1.5 years before maturity. In this way it reduces the liquidity risk in having large volumes mature at the same time. During the year SEK 93bn (42) was repurchased. The average maturity of all outstanding covered bonds was 39 months (36) at 31 December.

Risk management
Risks arise naturally in all financial businesses. Managing and pricing risks correctly is therefore an important part of Swedbank Mortgage's daily work. Risk refers here to a potentially negative impact on Swedbank Mortgage's value that can arise due to internal processes or future internal or external events.

Credit risks
To maintain a low risk profile and a good balance between risk and return, Swedbank Mortgage works continuously to understand customers and their markets. As a responsible financial partner, it is in Swedbank Mortgage's interest that customers don't take unnecessary risks either. This is ensured by considering each customer's financial situation, ability to repay and resilience in both the short and long term. Swedbank Mortgage monitors all borrowers continuously, and in the case of corporate customers, credit institutions and sovereigns credit assessments are conducted at least once a year.

Only developed properties that have received a certificate of occupancy are placed in Swedbank Mortgage. The only exception is agricultural and forest properties, which can be undeveloped.

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.



The majority of Swedbank Mortgage's lending consists of mortgages to private customers in Sweden. Prices in the Swedish housing market turned lower in the autumn after increasing over a long period. Activity in the market remained high, however. To verify their long-term viability, Swedbank Mortgage always performs an analysis of their ability to repay, even in the event of significantly higher interest rates. For loans to tenant-owner apartments, the analysis includes a higher fee to the tenant-owner association. Swedbank Mortgage also has an amortisation requirement and limits on debt levels in relation to income. Swedbank Mortgage continuously reviews its lending criteria.

The average loan-to-value ratio for loans to private customers was 53 per cent (54), based on property level. For new lending during the year the loan-to-value ratio was 67 per cent (66).

Market risks
Despite growing macroeconomic uncertainty at times, Swedbank Mortgage's market risks remained at low and stable levels.

Swedbank Mortgage controls and analyses its market risks on a daily basis. Value-at-Risk, sensitivity to interest rate fluctuations, is an example of the calculations that are performed and analysed to ensure that any market risk-related losses are limited to low levels and within the risk appetite set by the Board of Directors. To complement these calcula-tions, stress tests are conducted in which a number of more extreme events and their potential impact on the market value of the portfolios are analysed. A specification of market risks is provided in Note 4.

Operational risks
Swedbank Mortgage is exposed to operational risks in all its businesses. Increased regulation and digitis-ation are making work with these risks increasingly complex, not least because of the growing number of places and ways in which the bank interacts with customers. The aim is to minimise operational risks as far as possible in the business.

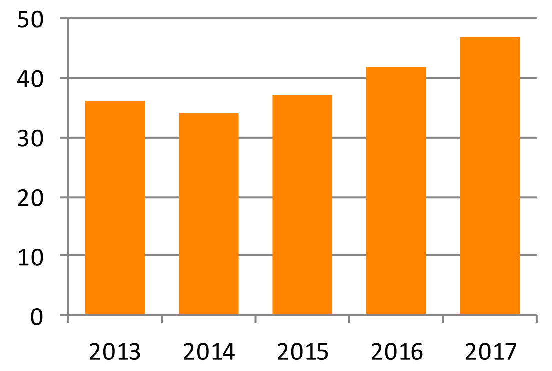
Operational risks are managed through self-assessments, incident management, and continuity and crisis management. When new products, services and IT systems are introduced or significant changes are made, risk assessment are performed.

Working consistently on a daily basis with operational risks is critical to maintaining low credit impairment levels. Losses related to operational risks remain very low and in 2017 no incidents occurred that materially affected Swedbank Mortgage.

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.

COMMON EQUITY TIER 1 CAPITAL (SEKbn)



Swedbank Mortgage's Common Equity Tier 1 capital increased by SEK 5bn during the year to SEK 47bn (42) on 31 December 2017.

The capital requirement was SEK 39 533m (37 324), compared with SEK 4 585m (4 727) without taking into account the Basel 1 floor.

In 2017 Swedbank Mortgage prepaid the Tier 2 loan from Swedbank. The transaction reduced the capital base by SEK 4.0bn, which was offset by a shareholder's contribution that Swedbank Mortgage AB received from Swedbank AB. During the year there was a migration from the standardised approach to an internal IRB approach for previously converted loans from Sparbanken Öresund, which reduced the risk exposure amount by approximately SEK 6.5bn. Capital adequacy is specified in Note 5.

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 ratios 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 (4.5).

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

Important events after the end of the period
No important events have occurred after the end of the period.

Corporate governance

Swedbank Mortgage is a wholly owned subsidiary of Swedbank AB. To create economies of scale with Swedbank's operations, Swedbank Mortgage's operating activities have been outsourced to the bank. The mortgage company has retained the functions it needs to manage day-to-day operations, including governance, control and analysis.

The shareholders ultimately decide on Swedbank Mortgage's governance. At the annual general meeting the shareholders elect the Board of Directors and auditors. The Board is responsible to the shareholders for Swedbank Mortgage's organisation and management of its affairs and elects a CEO to run the company's ongoing operations. The auditors review the financial reporting and submit an auditor's report, among other things.

Board of Directors and CEO
Swedbank Mortgage's Board of Directors consists of five members. The CEO is not a member of the Board. The Board is responsible for the company's organisation and management and takes decisions on issues that are of material importance and an overarching nature involving the company's operations. This includes establishing policies and the instructions for the CEO. The Board appoints, evaluates and, when necessary, dismisses the CEO. The CEO is responsible for day-to-day management of the business and carrying out the Board's decisions in accordance with the Board's guidelines and established policies. The CEO reports to the Board. The Board stays continuously updated on the company's development so that it is able to assess the company's economic situation and financial position at any time. In addition, it will, on a regular basis, address and evaluate the company's current risks and risk management.

Internal control and governance
Ultimately it is the responsibility of the Board and the CEO to ensure that internal governance and control are good. The Board and the CEO have several functions to assist them. The key control functions in this case are Compliance, Risk and Internal Audit, which are described below. Other functions such as Accounting, Credit and Legal serve as support for the Board and the CEO on matters of internal governance and control.

Internal Audit
The company's internal audit is outsourced to Swedbank's central internal audit department. Internal Audit's duties are based on a policy established by the Board for Internal Audit's work. Internal Audit independently audits Swedbank Mortgage's operations and accounting and evaluates whether the processes used for risk management, internal governance and control are satisfactory. The conclusion of its audit and the measures that must be taken are reported to the Board.

Compliance
The company's compliance function is outsourced to Swedbank. The compliance function is an independent control function that ensures compliance with laws, regulations and internal rules as well as generally accepted standards. Compliance also advises and supports the company and ensures that operating units are informed of any new and revised rules that may affect them. The company's compliance officer reports on any significant findings to the CEO on an ongoing basis. In addition, the CEO and the Board receive quarterly compliance reports and the Board annually adopts a plan for compliance work.

Risk
Chief Risk Officer (CRO) supports the Board, the CEO and other operations in fulfilling their responsibility for ensuring that good risk management and control are practiced in the operations and that risks are managed in accordance with the risk framework established by the Board and the CEO. The CRO is responsible for identifying, quantifying, analysing and reporting material risks that arise in the operations. The CRO operates independently. The CRO reports risks and measures taken to the CEO on a continuous basis, in addition to quarterly presentations of risk reports to the Board.

Internal control of financial reporting
The Board is ultimately responsible for ensuring that internal control of financial reporting (ICFR) complies with external regulations. These regulations contain disclosure requirements on how internal control is organised and are designed to provide reasonable assurance of the reliability of the financial reporting.

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

Five-year summary

Income statement SEKm	2017	2016	2015	2014	2013
Interest income	16 218	16 646	18 831	22 891	25 051
Interest expenses	-3 284	-4 836	-8 124	-14 798	-18 183
Net interest income	**12 934**	**11 810**	**10 707**	**8 093**	**6 868**
Net commission income	1	63	38	47	47
Other operating income	-850	-650	-1 433	-496	-428
Total income	**12 085**	**11 223**	**9 312**	**7 644**	**6 487**
Other operating expenses	259	253	258	262	266
Profit before impairments	**11 826**	**10 970**	**9 054**	**7 382**	**6 221**
Credit impairments	62	20	30	37	30
Operating profit	**11 764**	**10 950**	**9 024**	**7 345**	**6 191**
Appropriations	-618				
Tax expense	2 728	2 410	2 000	1 618	1 364
Profit for the year	**9 654**	**8 540**	**7 024**	**5 727**	**4 827**

Balance sheet SEKm	2017	2016	2015	2014	2013
Assets					
Loans to credit institutions	23 534	56 835	69 864	47 626	71 046
Loans to the public	968 222	919 572	857 910	821 547	768 840
Other assets	21 247	30 893	33 440	38 681	21 712
Total assets	**1 013 003**	**1 007 300**	**961 214**	**907 854**	**861 598**
Liabilities and equity					
Liabilities					
Amount owed to credit institutions	419 608	374 741	335 590	322 387	273 579
Debt securities in issue	522 090	563 201	556 663	520 089	520 021
Other liabilities	24 951	23 971	28 391	28 109	32 530
Subordinated liabilities		4 000	4 000	4 000	
Total liabilities	**966 649**	**965 913**	**924 644**	**874 585**	**826 310**
Equity	**46 354**	**41 387**	**36 570**	**33 269**	**35 288**
Total liabilities and equity	**1 013 003**	**1 007 300**	**961 214**	**907 854**	**861 598**

Financial statements and notes

Initial notes

Income statement

Statement of comprehensive income

Balance sheet

Other notes

Income statement

SEKm	Note	2017	2016
Interest income, including negative yield on financial assets		**16 218**	**16 646**
Interest expenses		-3 390	-4 996
Negative yield on financial liabilities		106	160
Interest expenses, including negative yield on financial liabilities		**-3 284**	**-4 836**
Net interest income	7	**12 934**	**11 810**
Commission income		63	68
Commission expenses		-62	-5
Net commission income	8	**1**	**63**
Net gains and losses on financial items at fair value	9	-855	-656
Other operating income		5	6
Total income		**12 085**	**11 223**
Other expenses	11	251	249
Staff expenses	10	8	4
Total expenses		**259**	**253**
Profit before impairments		**11 826**	**10 970**
Credit impairments	12	62	20
Operating profit		**11 764**	**10 950**
Appropriations		-618	
Tax	13	2 728	2 410
Profit for the year		**9 654**	**8 540**
Of which attributable to the shareholders of the parent company		9 654	8 540
Earnings per share, before and after dilution, SEK	14	419.74	371.30

Statement of comprehensive income

SEKm	Note	2017	2016
Profit for the year - income statement		**9 654**	**8 540**
Items that may be reclassified to the income statement			
Cash flow hedges:			
Gains/losses for the period		-580	120
Reclassification adjustments to the income statement, net interest income		13	16
Tax relating to components of other comprehensive income	15	125	-30
Total comprehensive income for the year, attributable to shareholders of Swedbank Mortgage		**9 212**	**8 646**
Of which attributable to the shareholders of the parent company		9 212	8 646

Balance sheet

SEKm	Note	2017	2016
Assets			
Loans to credit institutions		23 534	56 835
Loans to the public	16	968 222	919 572
Value change of interest hedged items in portfolio hedge		791	1 483
Shares and participating interests	17		1
Derivatives	18	18 602	27 982
Deferred tax assets		60	
Other assets	19	693	74
Prepaid expenses and accrued income	20	1 101	1 353
Total assets		**1 013 003**	**1 007 300**
Liabilities and equity			
Liabilities			
Amounts owed to credit institutions		419 608	374 741
Debt securities in issue	21	522 090	563 201
Derivatives	18	5 567	7 382
Current tax liabilities		1 041	638
Deferred tax liabilities			65
Other liabilities and provisions	22	11 953	8 157
Accrued expenses and prepaid income	23	5 940	6 661
Subordinated liabilities	21		4 000
Total liabilities		**966 199**	**964 845**
Untaxed reserves	24	**450**	**1 068**
Equity	25		
Share capital		11 500	11 500
Statutory reserve		3 100	3 100
Fair value fund		-212	230
Retained earnings		31 966	26 557
Total equity		**46 354**	**41 387**
Total liabilities and equity		**1 013 003**	**1 007 300**

Statement of changes in equity

SEKm	Restricted equity: Share capital	Restricted equity: Statutory reserve	Non-restricted equity: Fair value fund	Non-restricted equity: Retained earnings	Total equity
Opening balance 1 January 2016	**11 500**	**3 100**	**124**	**21 847**	**36 570**
Group contributions paid				-8 050	-8 050
Tax reduction due to Group contributions paid				1 771	1 771
Shareholders' contribution				2 450	2 450
Total comprehensive income for the year			106	8 540	8 646
of which gains and losses during the year			120		120
of which reported through profit or loss			16		16
of which tax reported through other comprehensive income			-30		-30
Closing balance 31 December 2016	**11 500**	**3 100**	**230**	**26 557**	**41 387**
of which, conditional shareholders' contributions				2 400	2 400
Opening balance 1 January 2017	**11 500**	**3 100**	**230**	**26 557**	**41 387**
Group contributions paid				-10 570	-10 570
Tax reduction due to Group contributions paid				2 325	2 325
Shareholders' contribution				4 000	4 000
Total comprehensive income for the year			-442	9 654	9 212
of which gains and losses during the year			-580		-580
of which reported through profit or loss			13		13
of which tax reported through other comprehensive income			25		25
Closing balance 31 December 2017	**11 500**	**3 100**	**-212**	**31 966**	**46 354**
of which, conditional shareholders' contributions				2 400	2 400

Statement of cash flow

SEKm	2017	2016
Operating activities		
Operating profit	11 764	10 950
Adjustments for non-cash items in operating activities	-1 814	-2 552
Taxes paid [1)]	-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 of interest-bearing securities	-162 207	-119 817
Shareholders´ contribution	4 000	2 450
Decrease in other funding	-4 000	0
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**

[1)] Including also the tax effect of the Group contribution, amounting to SEK 2 325m.

Comment on statement of cash flow

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

Operating activities

Cash flow from operating activities is based on operating profit for the year. Adjustments are made for income tax paid and items not included in cash flow from operating activities. Changes in assets and liabilities in operating activities consist of items that are part of regular business activities, such as loans to and funding from the public and credit institutions, and that are not attributable to investing and financing activities. The profit generated cash flow includes interest deposits of SEK 15 966m (17 113) and interest payments, including capitalised interest, of SEK 4 069m (6 361).

Financing activities

The issue and repayment of bond loans with maturities exceeding one year are reported gross. Changes in other borrowing include net changes in borrowing with shorter maturities and high turnover.

Cash and cash equivalents

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

Specification of adjustment of non-cash items SEKm	2017	2016
Unrealised translation differences, bonds in issue	831	4 348
Accrued income and prepaid expenses	252	393
Accrued expenses and prepaid income	-721	-1 548
Change in value of loans to the public and credit institutions	1 739	1 057
Change in value of funding and derivatives	-3 382	-6 914
Other items	-533	112
Total	**-1 814**	**-2 552**

Notes

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

Note 1 Corporate information

The annual report for Swedbank Mortgage (publ) for the financial year 2017 was approved for issuance by the Board of Directors and the CEO on 22 February 2018. Swedbank Mortgage, which maintains its registered office in Stockholm, Sweden, is a wholly owned subsidiary of Swedbank (publ). Swedbank Mortgage's operations are described in the Board of Directors' report. The annual report will be presented for adoption by the Company's Annual General Meeting.

Note 2 Accounting policies

BASIS OF ACCOUNTING

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

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

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

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

CHANGES IN ACCOUNTING POLICIES

The following adoption of accounting pronouncements and changes are applied in the financial reports during 2017.

Other IFRS changes

New or amended IFRS standards or interpretations which have been adopted during 2017 have had no impact on Swedbank Mortgage's financial position, results, cash flows or disclosures.

SIGNIFICANT ACCOUNTING POLICIES

Presentation of financial statements (IAS 1)

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

Changed presentation 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 is divided between brokerage services and on-going administrative services for mortgages. Brokerage services costs for loans are added to the loans' acquisition values 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 interest income and expenses but not the total profit for the year. The change in presentation of is presented in note 30.

Assets and liabilities in foreign currency (IAS 21)

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

Financial instruments (IAS 32, IAS 39)

A large part of the Swedbank Mortgage's balance sheet items represents financial instruments. A financial instrument is any contract which gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Cash is an example of a financial asset, wheareas a contractual obligation to deliver cash or another financial asset is an example of a financial libility. Financial instruments are classified on relevant lines of the balance sheet depending on the nature of the instrument and the counterparty. If a financial instrument does not have a specific counterparty or it is listed on the market, the instrument is classified on the balance sheet as securities. Financial liabilities where the creditor has a lower priority than others are classified on the balance sheet as Subordinated liabilities. A derivative is a financial instrument that is distinguished by the fact that its value changes, for example, due to exchange rates, interest rates or share prices, it requires little or no initial net investment and it is settled on a future date. Contractually accrued interest regarding financial instruments other than derivatives is recognised on separate lines as prepaid or accrued income or expenses in the balance sheet.

Recognition and derecognition

Financial assets and financial liabilities are recognised on the balance sheet on the trade day, which is the date when the Swedbank Mortgage becomes a party to the instrument's contractual provisions, with the exception of loans and receivables, which are recognized on the settlement day. Financial assets are derecognised when the right to obtain the cash flows from a financial instrument has expired or has been transferred to another party.
Financial liabilities are removed from the balance sheet when the obligation in the agreement has been discharged, cancelled or expired.

Offsetting

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

Negative yield

The Company holds some financial liabilities with negative yields, which are presented as a separate line within Net interest income in the income statement.

Financial instruments, recognition (IAS 39)

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

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

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

Valuation category, fair value through profit or loss

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

Typically these financial instruments have a fixed contractual interest rate. The fair value option is used to eliminate the accounting volatility that would otherwise arise because of the different measurement principles that are normally used for derivatives compared with other financial instruments. The fair value of financial instruments is determined based on quoted prices on active markets. When such market prices are not available, generally accepted valuation models such as discounted future cash flows are used.
The valuation models are based on observable market data, such as quoted prices on active markets for similar instruments or quoted prices for identical instruments on inactive markets. Differences that arise at initial recognition between the transaction price and the fair value according to a valuation model, so called day '1-profits or losses', are recognised in the income statement only when the valuation model entirely has been based on observable market data. In all other cases the difference is amortised during the financial instrument's remaining maturity. For loans measured at fair value where observable market data on the credit margin are not available at the time of measurement, the credit margin for the most recent transaction with the same counterparty is used.

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

Valuation category, loans and receivables

Loans to credit institutions and the public, categorised as loans and receivables, are recognised on the balance sheet on the settlement day. Loans are initially recognized at fair value and subsequently measured at amortised cost. Fair value is normally the loan amount paid out less fees received and any costs that constitute an integral part of the return. The interest rate that produces the loan's fair value at initial recognition as a result of the calculation of the present value of future payments is considered the effective interest rate. The loan's amortised cost is calculated by discounting the remaining future payments by the effective interest rate. Interest income includes interest payments received and the change in the loan's amortised cost during the period, which produces a consistent return over the life of a loan, the effective interest rate. On the closing day, it is determined whether there is objective evidence to indicate an impairment need for a loan or group of loans. If, after the loan is initially recognised, one or more events have occurred that negatively impact the estimated future cash flows, and the impact can be estimated reliably, impairment is made. The impairment is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows, discounted by the loan's original effective interest rate. Swedbank Mortgage determines first whether there is objective evidence for impairment of each individual loan. Loans for which such evidence is lacking are included in portfolios with similar credit risk characteristics. These portfolios are subsequently measured for impairment on a collective basis, in the event that objective evidence of impairment exists. Any impairment is calculated for the portfolio as a whole. Homogenous groups of loans with limited value and similar credit risk that have been individually identified as having objective evidence of impairment are measured individually based on the loss risk in the portfolio as a whole. If the impairment decreases in subsequent periods, previously recognised impairment losses are reversed. However, loans are never recognised at a value higher than what the amortised cost would have been if the write-down had not occurred. Loan impairments are recognised in profit or loss as credit impairments. Credit impairments include provisions for individually impaired loans, portfolio provisions and write-offs of impaired loans. Write-offs are recognized as credit impairments when the amount of loss is ultimately determined and represent the amount before the utilisation of any previous provisions. Provisions utilised in connection with write-offs are recognised on a separate line within credit impairments. Repayments of write-offs and recovery of provisions are recognised within credit impairments. The carrying amount of loans is the amortised cost less write-offs and provisions. Individual provisions and portfolio provisions are recognised in a separate provision account in the balance sheet, while write-offs reduce the amount of outstanding loans. Provisions for assumed losses on guarantees and other contingent liabilities are recognised on the liability side. Impaired loans are those for which it is likely that payment will not be received in accordance with the contract terms. A loan is not impaired if there is collateral that covers the principal, unpaid interest and any latefees by a satisfactory margin.

Valuation category, other financial liabilities

Financial liabilities that are not recognised as financial instruments at fair value through profit or loss are initially recognised on the trade day at fair value, which is normally the amount borrowed less fees paid and any costs that constitute as integral part of the effective interest rate, and subsequently at amortised cost. Amortised cost is calculated in the same way as for loans and receivables.

Hedge accounting at fair value

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

Cash flow hedges

Derivative transactions are sometimes entered into to hedge the exposure to variations in future cash flows resulting from changes in interest rates and exchange rates. These hedges can be recognised as cash flow hedges, whereby the effective portion of the change in the value of the derivative, the hedging instrument, is recognised directly in other comprehensive income.

Any ineffective portion is recognised through profit or loss in net gains and losses on financial items at fair value. When future cash flows lead to the recognition of a financial asset or a financial liability, any gains or losses on the hedging instrument are eliminated from other comprehensive income and recognised in profit or loss in the same periods that the hedged item affects profit or loss. A precondition to apply hedge accounting is that the hedge has been formally identified and documented. The hedge's effectiveness must be measurable in a reliable way and must be proven to remain very effective, both prospectively and retrospectively, in offsetting changes in value of the hedged risk.

Pensions (IAS 19)

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

Revenues (IAS 18)

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

Tax (IAS 12)

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

Cash and cash equivalents (IAS 7)

Cash and cash equivalents consist of current accounts with Swedbank.

Operating segments (IFRS 8)

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

Untaxed reserves and Group contributions

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

NEW STANDARDS AND INTERPRETATIONS

The International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC) have issued the following standards, amendments to standards and interpretations that apply in or after 2016. The IASB permits earlier application. For Swedbank Mortgage to apply them it also requires that they have been approved by the EU if the amendments are not consistent with previous IFRS rules. Consequently, Swedbank Mortgage has not applied the following amendments in the 2017 annual report.

Financial instruments (IFRS 9)

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 standard was approved by the EU in November 2016 for application to the financial year beginning on 1 January 2018. The impacted areas and the estimated impacts from the adoption of IFRS 9 are summarised below.

Changes to classification and measurement

Financial assets will be classified as either amortised cost or fair value through profit or loss. Swedbank Mortgage will not have any financial assets classified as fair value through other comprehensive income. The classification assessment for debt instruments will be based on two criteria: (a) Swedbank Mortgages business model for managing financial assets and (b) whether the contractual cash flows of instruments represent solely payments of principal and interest. The introduction of the contractual cash flow characteristics test removed the requirements to assess for and separate embedded derivatives, where instruments are financial assets.

Swedbank Mortgage performed business model assessments based on how financial asset portfolios are managed and evaluated. The contractual cash flow characteristics tests have been performed on standard contracts, samples of contracts from populations with homogeneous contractual features and individual contracts considered to have non-homogeneous features or clauses that required specific evaluation. 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. IFRS 9 provides a one-time ability to reevaluate these fair value designations and whether they should be ceased, either mandatorily or voluntarily, or elected to be continued where the designation criterion are still met. 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, as the business model and cash flow characteristics assessments are also met.

The classification and measurement requirements for financial liabilities remain largely unchanged from IAS 39. The primary change relates to financial liabilities designated at fair value through profit or loss. IFRS 9 requires the fair value changes due to own credit risk on these financial liabilities to be presented in other comprehensive income, rather than in profit or loss. The financial liabilities designated by Swedbank Mortgage at fair value through profit or loss under IFRS 9 are unchanged compared to IAS 39Swedbank Mortgage will not present the change in fair value due to own credit risk in other comprehensive income due to IFRS 9 not being compatible with the Annual Accounts Act.

Changes to impairment

IFRS 9 introduces an expected credit loss model for the measurement of impairment, where credit impairment provisions are recognised on financial assets classified as amortised cost, as well as irrevocable loan commitments and financial guarantees. Expected credit losses are measured based on whether there has been a significant increase in credit risk since initial recognition of an instrument and 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 are more sensitive to changes in the future economic outlook and are likely to be more volatile as compared to IAS 39.

Changes to hedge accounting

The IFRS 9 hedge accounting requirements are aimed at better reflecting risk management activities in the financial statements and introduce a less rules-based approach to assessing hedge effectiveness. An accounting policy choice is provided regarding electing the IFRS 9 hedge accounting requirements or remaining with IAS 39. Swedbank Mortgage will adopt the IFRS 9 hedge accounting requirements for all hedge relationships, except the portfolio hedge of interest rate risk, for which IAS 39 will still be applicable. Hedging relationships that exist under IAS 39 qualify in accordance with 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 spread reserve within equity.

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 total impact from adopting IFRS 9 is that equity will decrease by SEK 740m and will also reduce the Common Equity Tier 1 capital ratio by 0.68 per cent as at 1 January 2018. 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 Q1 2018 reporting.

Impact on governance and controls
Swedbank Mortgages existing governance and internal controls frameworks have been refined and revised to reflect the changes in the new impairment methodologies, calculations required and 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, and to ensure that the scenarios adequately capture the nonlinearity and asymmetry of the loss distribution. A process has been implemented around recalibration and model management, to ensure continuous improvement in the model estimation accuracy. Further to this, the independent model validation unit within Swedbank AB will validate the IFRS 9 models on an annual basis and when the models are changed.

Revenue from Contracts with Customers (IFRS 15)
IFRS 15 was issued in May 2014 and further clarifications were issued in April 2016. The standard establishes the principles for reporting useful information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contracts with a customers. The standard introduces a five-step model to determine how and when to recognise revenue, but it does not impact the recognition of income from financial instruments in the scope of IAS 39 or IFRS 9. Revenue recognition will occur at the point in time when control of the product or service is transferred to the customer. IFRS 15 and associated clarifications are applicable from 1 January 2018 and have been approved by the EU. The Company will adopt the requirements using the modified retrospective method, with the effect of initial application recognised on the date of initial application and no restatement of the comparative periods. The adoption will not have any impact on the Company's financial position, results or cash flows.

Other IFRS changes
No other new or amended IFRS standards or interpretations issued and not yet adopted are expected to have a significant impact on Swedbank Mortgages financial position, results, cash flows or disclosures.

SIGNIFICANT ACCOUNTING POLICIES TO BE APPLIED FROM 1 JANUARY 2018
Swedbank Mortgage has elected to present significant accounting policies for new standards that will be adopted on 1 January 2018. Consequently, these significant accounting policies will only be applicable for Swedbank Mortgage from that adoption date.

Financial instruments, general (IAS 32, IFRS 9)
Financial instruments represent the largest part of Swedbank Mortgages balance sheet. A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Cash is an example of a financial asset, whereas a contractual obligation to deliver cash or another financial asset is an example of a financial liability. A derivative is a financial instrument that is distinguished by the fact that its value changes in response to the change in a specified variable, such as foreign exchange rates, interest rates or share prices, it requires little or no initial net investment and it is settled on a future date. Financial instruments are classified on relevant lines of the balance sheet depending on the nature of the instrument and the counterparty. If a financial instrument does not have a specific counterparty or it is listed on the market, the instrument is classified on the balance sheet as securities. Financial liabilities where the creditor has a lower priority than others are classified on the balance sheet as Subordinated liabilities.

Recognition and derecognition
Financial assets and liabilities are recognised on the balance sheet on the trade day, which is the date when Swedbank Mortgage becomes a party to the instrument's contractual provisions, with the exception of financial assets and liabilities measured at amortised cost, which are recognised on the settlement day. Financial assets are derecognised when the right to obtain the cash flows from a financial instrument has expired or has been transferred to another party.

When a financial asset is modified, Swedbank Mortgage assesses whether the modification results in derecognition. A financial asset is considered modified where the contractual terms governing the cash flows are amended versus the original agreement, for example due to forbearance measures being applied, changes in market conditions, customer retention reasons or other factors unrelated to the credit deterioration of a borrower. Modified financial assets are derecognised from the balance sheet and a new loan recognised where an agreement is cancelled and replaced with a new agreement on substantially different terms or where the terms of an existing agreement are substantially modified. Modifications due to financial difficulties, including forbearance measures, are not considered substantial on their own.

The following are examples of modifications that are likely to result in derecognition: a change in the counterparty, a change in the currency in which a loan is denominated, the addition or removal of debt-to-equity conversion features, loans which switch from being recourse to non-recourse or vice versa and loans which switch from being collateralised to uncollateralised or vice versa. The following are examples of modifications that are not considered to result in derecognition on a stand-alone basis: granting of payment holidays or grace periods, changes in amortisation schedules, interest rate related modifications and amendments or waivers of covenants.
Financial liabilities are derecognised when the obligation in the agreement has been discharged, cancelled or expired.

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

Net interest income
Interest income on financial assets and interest expenses on financial liabilities include interest payments received or paid and changes in an instrument's amortised cost during the period, which produces a constant rate of return over the instrument's life, referred to as the effective interest rate. The effective interest rate is the rate that discounts future cash flows to the gross carrying amount of a financial instrument, taking into account transaction costs, premiums or discounts and fees paid or received that are an integral part of the return. Interest income on financial assets is generally calculated by applying the effective interest rate to the gross carrying amount, with two exceptions. Where financial assets measured at amortised cost have become credit-impaired subsequent to initial recognition (Stage 3 assets), interest income is calculated by applying the effective interest rate to the amortised cost, which is the gross carrying amount less credit impairment provisions. If such financial assets are no longer credit-impaired, the calculation of interest income reverts back to the gross carrying amount basis. Where financial assets measured at amortised cost are credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost until the financial asset is derecognised from the balance sheet. The credit-adjusted effective interest rate is calculated based on the amortised cost of the financial asset rather than the gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.
Interest expense is calculated by applying the effective interest rate to the amortised cost of financial liabilities.

Financial instruments, classification and measurement (IFRS 9)
Financial assets are classified as measured at either amortised cost or fair value through profit or loss, based on the business model for managing the assets and the asset's contractual terms. Swedbank Mortgage does not have any financial assets classified as fair value through other comprehensive income (managed under a hold to collect and sell business model).
The business model reflects how Swedbank Mortgage manages portfolios of financial assets in order to generate cash flows. The factors considered in determining the business model for a portfolio of financial assets include past experience on how the cash flows have been collected, how the financial assets' performance is evaluated and reported to management, how risks are assessed and managed and how compensation is linked to performance.
Swedbank Mortgage assesses the contractual terms of financial assets to identify whether the contractual cash flows are solely payments of principal and interest. In making this assessment, Swedbank Mortgage considers whether the contractual cash flows are consistent with a basic lending arrangement. Principal is defined as the fair value of a financial asset on initial recognition. Interest is defined as the compensation for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is not compliant with the solely payments of principal and interest criterion.
Financial liabilities are classified as measured at either amortised cost or fair value through profit or loss.

Financial assets at amortised cost
Financial assets which are debt instruments are classified as measured at amortised cost if they are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows and if the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Financial assets at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the issue or acquisition of financial assets and subsequently measured at amortised cost. Fair value is normally the amount advanced, including fees and commissions. The amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any credit impairment provisions.

Financial assets at fair value through profit or loss
Financial assets classified as measured at fair value through profit or loss is comprised of:
- Debt instruments that are mandatorily classified at fair value through profit or loss

- Equity instruments
- Derivative assets that are not designated for hedge accounting

The mandatory classification includes debt instruments in a business model other than held to collect the contractual cash flows, including those that are held for trading or that are managed and whose performance is evaluated on a fair value basis. Financial instruments held for trading are acquired for the purpose of selling in the near term or are part of a portfolio for which there is evidence of a pattern of shortterm profit-taking. The mandatory classification also includes debt instruments with contractual cash flows that are not solely payments of principal and interest.
Financial assets at fair value through profit or loss are initially recognised and subsequently measured at fair value. Transaction costs that are directly attributable to the issue or acquisition of financial assets at fair value through profit or loss are expensed in profit or loss. The fair value of financial instruments is determined based on quoted prices in active markets. When such market prices are not available, generally accepted valuation models such as discounted future cash flows are used. The valuation models are based on observable market data, such as quoted prices in active markets for similar instruments or quoted prices for identical instruments in inactive markets.
Differences that arise at initial recognition between the transaction price and the fair value according to a valuation model, so-called day '1 gains or losses', are recognised in the income statement only when the valuation model is based entirely on observable market data. In all other cases the difference is amortised during the financial instrument's remaining maturity.
Changes in fair value other than interest income are recognised in profit or loss within Net gains and losses on financial items at fair value. Changes in fair value due to changes in exchange rates are recognised as changes in exchange rates in the same profit or loss line. Decreases in fair value attributable to debtor insolvency are recognised as credit impairments.

Financial liabilities at amortised cost
Financial liabilities classified as measured at amortised cost include those that are not classified as fair value through profit or loss. Such financial liabilities are recognised on the trade day at fair value, which is typically the amount borrowed, and subsequently measured at amortised cost using the effective interest method. The amortised cost measurement is analogous to that which is applied to financial assets, however it does not include adjustments for credit impairment provisions.

Financial liabilities at fair value through profit or loss
Financial liabilities classified as measured at fair value through profit or loss is comprised of:
- Financial liabilities held for trading
- Derivatives that are not designated for hedge accounting
- Financial liabilities designated at fair value through profit or loss at initial recognition

Swedbank Mortgage applies the option to irrevocably designate financial liabilities at fair value through profit or loss for:
- Debt securities in issue, which have fixed contractual interest rates, and for which the portfolio's aggregate interest rate risk is essentially eliminated with derivatives that are measured at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are initially recognised at fair value on the trade day and subsequently measured at fair value. The determination of fair value and the accounting for gains or losses on initial recognition is analogous to that which is applied to financial assets at fair value through profit or loss. Changes in fair value are recognised in profit or loss within Net gains and losses on financial items at fair value, with the exception of changes in fair value due to changes in Swedbank Mortgage`s own credit risk . Such changes are presented in other comprehensive income, with no subsequent reclassification to the income statement.

Reclassification of financial assets and liabilities
Swedbank Mortgage does not reclassify its financial assets unless the business model under which the financial assets are held changes, which is expected to be very exceptional. Financial liabilities are never reclassified.

Financial instruments, credit impairment (IFRS 9)
Credit impairment provisions are recognised on the following financial instruments: financial assets that are measured at amortised cost, irrevocable loan commitments issued, financial guarantee contracts issued and. Credit impairment provisions are measured according to an expected credit loss model and reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considering all reasonable and supportable information available without undue cost or effort at the reporting date. Such provisions are measured according to whether there has been a significant increase in credit risk since initial recognition of an instrument.
- Stage 1 includes financial instruments that have not experienced a significant increase in credit risk since initial recognition and those within Swedbank Mortgage`s policy to assess for low credit risk at the reporting date, which is defined as having an investment grade equivalent rating.
- Stage 2 includes financial instruments that have deteriorated significantly in credit quality since the initial recognition but for which there is no objective evidence of credit impairment.
- Stage 3 includes financial instruments which are credit-impaired and for which there is objective evidence of impairment.

12-month expected credit losses are recognized on instruments in Stage 1 and lifetime expected credit losses are recognized on instruments in Stage 2 and Stage 3. The lifetime expected credit losses represent losses from all possible default events over the remaining life of the financial instrument. The 12-month expected credit losses are the portion of the lifetime expected credit losses resulting from the default events that are possible within 12 months after the reporting date.

Measurement of expected credit losses

Expected credit losses are measured for each individual exposure as the discounted product of a probability of default (PD), an exposure at default (EAD), and a loss given default (LGD). The PD represents the likelihood that a borrower will default on its obligation, during the next 12 months or during the remaining lifetime of the obligation. The EAD is an expected exposure at the time of default, taking into account scheduled repayments of principal and interest, and expected further drawdowns on irrevocable facilities. The LGD represents the expected loss on a defaulted exposure, taking into account such factors as counterparty characteristics, collateral and product type.

Expected credit losses are determined by projecting the PD, LGD and EAD for each future month over the expected lifetime of an exposure. The three parameters are multiplied together and adjusted for the probability of survival, or the likelihood that the exposure has not been prepaid or has not defaulted in an earlier month. This effectively calculates monthly expected credit losses, which are discounted back to the reporting date using the original effective interest rate and summed. The sum of all months over the remaining expected lifetime results in the lifetime expected credit losses and the sum of the next 12 months results in the 12-month expected credit losses.

When estimating expected credit losses, Swedbank Mortgage considers at least three scenarios (a base case, an upside and a downside), represented by relevant macroeconomic variables, such as GDP, house prices, and unemployment rates. The risk parameters used to estimate expected credit losses incorporate the effects of the macroeconomic forecasts and associated expected probabilities, to measure an unbiased probability weighted average. In cases where the impacts of relevant factors are not captured in the modelled expected credit loss results, Swedbank Mortgage uses its experienced credit judgement to incorporate such effects.

Swedbank Mortgage assesses material 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, which consider macroeconomic and non-macroeconomic (borrower-specific) scenarios.

Definition of default and credit-impaired assets

Default is an input to the PD, which affects both the identification of a significant increase in credit risk and the measurement of the expected credit losses. Financial assets classified as credit-impaired are included in Stage 3. Swedbank Mortgage`s IFRS 9 definitions of default and credit-impaired are aligned to Swedbank Mortgage`s regulatory definition of default, as this is what is used for risk management purposes. Default and credit-impairment are triggered when one of the following occurs: an exposure is more than 90 days past due, an exposure is declared in bankruptcy or similar order, a non-performing forbearance measure is applied towards the borrower or there is an assessment that the borrower is unlikely to pay its obligations as agreed. When assessing whether a borrower is unlikely to pay its obligations, Swedbank Mortgage takes into account both qualitative and quantitative factors including but not limited to the overdue status or non-payment on other obligations of the same borrower, expected bankruptcy and breaches of financial covenants. Swedbank Mortgage has elected to rebut the presumption that instruments which are 90 days past due are in default or credit-impaired for instruments in the sovereign and financial institutions exposure classes only. An instrument is no longer considered to be in default or credit-impaired when all overdue amounts are repaid, there is sufficient evidence to demonstrate that there is a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of credit-impairment.

Determining a significant increase in credit risk since initial recognition

Swedbank Mortgage assesses changes in credit risk using a combination of individual and collective information and reflects significant increases in credit risk at the individual financial instrument level. For financial instruments with an initial recognition date of 1 January 2018 or later, the primary indicator used to assess changes in credit risk is changes in the forward-looking lifetime probability of default since initial recognition, which incorporates the effects of past and current forecasted economic conditions. Changes in Swedbank Mortgage`s internal credit ratings since initial recognition, where each rating corresponds to a 12-month probability of default, is used as a secondary indicator of significant increase in credit risk. The estimation of the forward-looking lifetime probabilities of default for initial recognition dates prior to the adoption of IFRS 9 would not have been possible without the use of hindsight and would have required undue cost and effort. Consequently, for those instruments with an initial recognition date prior to 1 January 2018, changes in Swedbank Mortgage`s internal credit ratings since initial recognition is used as the primary indicator.

Qualitative indicators are also considered in the stage allocation assessment; for example whether a borrower is monitored on the watch list or has been extended performing forbearance measures. Furthermore, a significant increase in credit risk is considered to have occurred for all financial instruments which are 30 days past due.

Swedbank Mortgage considers that certain financial instruments with low credit risk at the reporting date, which is defined as having an investment grade equivalent rating, have not experienced a significant increase in credit risk. Swedbank Mortgage applies this policy to financial instruments in the sovereign and financial institutions (non-trade finance) exposure classes only.

A financial instrument is no longer considered to have experienced a significant increase in credit risk when all indicators are no longer breached.

Expected lifetime

The lifetime of a financial instrument is relevant for both the assessment of significant increase in credit risk, which considers changes in the probability of default over the expected lifetime, and the measurement of lifetime expected credit losses. The expected lifetime is generally limited by the maximum contractual period over which Swedbank Mortgage is exposed to credit risk, even if a longer period is consistent with business practice. All contractual terms are considered when determining the expected lifetime, including prepayment options and extension and rollover options that are binding to Swedbank Mortgage.

The only exception to this general principle applies for certain revolving facilities, such as credit cards, where the expected lifetime is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by risk management actions. This so-called behavioural life is determined using product-specific historical data and ranges up to 10 years.

Modifications

Where a loan is modified but is not derecognised, significant increases in credit risk continue to be assessed for impairment purposes as compared to the initial recognition credit risk. Modifications do not automatically lead to a decrease in credit risk and all quantitative and qualitative indicators will continue to be assessed. Further to this, a modification gain or loss is recognised in the income statement within Credit impairments, which represents the difference in the present value of the contractual cash flows, discounted at the original effective interest rate.

Where a loan is modified and derecognised, the date of the modification is the initial recognition date of the new loan for credit impairment purposes, including for the assessment of significant increases in credit risk. Where the new loan is considered to be credit-impaired on initial recognition, it is classified as a purchased or originated credit-impaired asset and therefore in Stage 3 until the loan is repaid or written-off.

Purchased or originated credit impaired assets

Instruments which are credit impaired on initial recognition are accounted for as purchased or originated credit-impaired assets. The expected credit losses for such assets are always measured at an amount equal to the lifetime expected credit losses. However, the expected credit loss on initial recognition are considered as part of the gross carrying amount and therefore the recognized credit impairment provision represents only the changes in the lifetime expected credit losses from the initial recognition date. Favourable changes in the lifetime expected credit losses are recognised as an impairment gain, even if those changes are more than the amount previously recognised as credit impairments.

Presentation of credit impairments

For financial assets measured at amortised cost, credit impairment provisions are presented in the balance sheet as a reduction of the gross carrying amount of the assets. For loan commitments and financial guarantee contracts, such provisions are presented as a liability within Other liabilities and provisions.

A write-off reduced the gross carrying amount of a financial asset. Credit impairment losses and write-offs are presented as Credit impairments in the income statement. Write-offs are recognised when the amount of loss is ultimately determined and represent the amount before the utilisation of any previous provisions. Any subsequent recoveries of write-offs or impairment provisions are recognised as gains within Credit impairments.

Financial instruments, hedge accounting (IFRS 9) – to be applied from 1 January 2018

Fair value hedges

Hedge accounting at fair value is applied in certain cases when the interest rate exposure in a recognised financial asset or financial liability hedged with derivatives. Where hedge accounting is applied, the hedged risk in the individual hedged item is also measured at fair value. The value of the hedged risk in an individual financial asset or financial liability is recognised on the same line in the balance sheet as the financial instrument. Both the change in the value of the derivative hedging instruments and the change in the value of the hedged risk are recognised through profit or loss in net gains and losses on financial items at fair value.

In order to apply hedge accounting, the hedge relationship has been formally identified and documented. The hedge's effectiveness is proven to remain prospectively effective. There is an economic relationship between the hedged item and the hedging instrument and the effect of credit risk does not dominate the value changes resulting from that relationship. Also, the hedge ratio is the same as that resulting from the quantity of both the hedged item and the hedging instrument actually used.

Portfolio fair value hedges

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

Cash flow hedges

Derivative transactions are sometimes entered into to hedge the exposure to variations in future cash flows resulting from changes in exchange rates. These hedges can be recognised as cash flow hedges, whereby the effective portion of the change in the value of the derivative hedging instrument, is recognised directly in other comprehensive income. Where the derivative hedging instrument is a currency swap, the Group excludes the foreign currency basis spread from the hedging relationship. The changes in fair value of the currency swap are recognised in other comprehensive income; however the changes related to the effective portion of the hedge relationship and the foreign currency basis spread component are recognised separately in the cash flow hedge reserve and the foreign currency basis reserve, respectively. The amounts accumulated in the respective reserves are subsequently reclassified to profit or loss in the same periods that the hedged future cash flows or the foreign currency basis spread cash flows affect profit or loss. Any ineffective portion is recognised through profit or loss in Net gains and losses on financial items at fair value.

In order to apply hedge accounting, the hedge relationship has been formally identified and documented. The hedge's effectiveness is proven to remain prospectively effective. There is an economic relationship between the hedged item and the hedging instrument and the effect of credit risk does not dominate the value changes resulting from that relationship. Also, the hedge ratio is the same as that resulting from the quantity of both the hedged item and the hedging instrument actually used.

Note 3 Critical accounting judgements and estimates

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

JUDGEMENTS

Financial instruments

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

ESTIMATES

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

Provisions for credit impairments

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

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

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

Financial instruments at fair value

When financial instruments are measured at fair value according to valuation models, an estimate is made which observable market data should be used in those models. The assumption is that quoted prices from financial instruments with as similar a turnover as possible will be used. When such prices or components of prices cannot be identified, the company must make its own assumptions. Note 29 shows financial instruments at fair value divided into three valuation levels: quoted prices, valuation models with observable market inputs and valuation models with internal assumptions. As of year-end 2016 financial instruments measured at fair value with internal assumptions which have a significant effect on the valuation amounted to SEK 0m (0). A change in the assumed valuation rate of 10bp would have changed the value by SEK 0m (0).

4 Risks

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

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

The risk management process encompasses eight steps: prevent risks, identify risks, quantify risks, analyse risks, suggest measures, control and monitor risks, report risks and follow up risk management. The process encompasses all risk categories and results in a description of Swedbank Mortgage's risk profile.

To ensure that Swedbank Mortgage maintains a long-term low risk profile, the Board has established an overall risk appetite and individual limits for the types of risks to which the company is exposed. The limits cover exposures and the portfolio's development. The limits are complemented with risk indicators that are carefully monitored and whose purpose is to give early signals if risk conditions change.

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

Credit risk

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

Liquidity risk

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

Market risk

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

Operational risk

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

Other risks

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

Operational risk management

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

Other risk management

Business risk, strategic risk and reputational risk are an important part of Swedbank Mortgage's risk exposure, because of which they are carefully monitored and managed.

4a Credit risk

Definition

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

Risk management

Responsible lending is a precondition for a well-functioning bank. This means that Swedbank Mortgage looks at each customer's long-term financial situation, payment ability and financial resilience. It works proactively with customers deemed to be in financial difficulties. A special sustainability risk evaluation process is conducted for corporate customers that includes corruption and environmental risks.

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

Risk measurement

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

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

Risk classes are tested and confirmed in connection with credit decisions. This also affects the scope of the analysis and documentation as well as how the customer is monitored. As a result, credits with low risk can be approved in a simpler and faster process. Risk classification is also a central part of the follow-up of individual credit exposures.

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

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

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

Risk grade according to IRB metodology

Internal rating		PD (%)	Indicative rating Standard & Poor's
Default	Default	100	D
High risk	0-5	>5,7	C till B
Heightened risk	6-8	2,0-5,7	B+
Normal risk	9-12	0,5-2,0	BB- till BB+
Low risk	13-21	<0,5	BBB- till AAA

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

4a Credit risk, contd.

Loans to the public and credit institutions, carrying amount 2017

SEKm	Loans individually assessed as not impaired: Carrying amount before provisions – Payments on time	Carrying amount before provisions – Past due	Portfolio provisions	Carrying amount after provisions	Loans individually assessed as impaired: Carrying amount before provisions	Provisions	Carrying amount after provisions	Total
Total loans to the public and credit institutions								
Sector/Industry [1)]								
Private customers	752 133	492	-36	752 589	95	-7	88	752 677
Tenant-owner associations	94 190	21	-15	94 196	1		1	94 197
Forestry,agriculture and fishing	52 816	38	-3	52 851	151	-39	112	52 963
Manufacturing	809	2		811	1		1	812
Public services	2 967			2 967	14	-2	12	2 979
Construction	3 449	4	-1	3 452				3 452
Retail markets	1 255	1		1 256				1 256
Transport	417			417				417
Sea transport and offshore	6			6				6
Hotel and restaurant	712			712				712
Information and communication	251			251				251
Finance and insurance	796			796				796
Property management, housing	38 791	8	-16	38 783	4	-1	3	38 786
Commercial properties	8 473			8 473	4	-3	1	8 474
Industry and storage	1 122			1 122				1 122
Other property management	5 208	2		5 210				5 210
Corporate services	2 736	4	-1	2 739				2 739
Other corporate lending	1 368	5		1 373				1 373
Total	**967 499**	**577**	**-72**	**968 004**	**270**	**-52**	**218**	**968 222**
Credit institutions	23 534			23 534				23 534
Total loans to the public and credit institutions	**991 033**	**577**	**-72**	**991 538**	**270**	**-52**	**218**	**991 756**
Collateral held as security								
Residential properties including tenant-owner apartments	882 538	523	-60	883 001	98	-8	90	883 091
Other real estate	82 628	54	-12	82 670	172	-44	128	82 798
Municipalities guaranteed	2 291			2 291				2 291
Other collateral	42			42				42
Total	**967 499**	**577**	**-72**	**968 004**	**270**	**-52**	**218**	**968 222**
Credit institutions guaranteed by Swedbank AB	23 534			23 534				23 534
Total loans to the public and credit institutions	**991 033**	**577**	**-72**	**991 538**	**270**	**-52**	**218**	**991 756**

[1)] According to SCB sector codes

4a Credit risk, contd.

Loans to the public and credit institutions, carrying amount 2016

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

[1] According to SCB sector codes

4a Credit risk, contd.

Impaired, past due and forborne loans **SEKm**	**2017**	**2016**
Impaired loans		
Carrying amount before provisions	270	222
Provisions for the year	-52	-22
Book value after provisions	218	200
Net impaired loans ratio, %	0.02	0.02
Gross impaired loans ratio, %	0.03	0.02
Carrying amount of impaired loans that returned to normal status	25	2
Past due loans that are not impaired		
Valutation category, loans receivable		
Loan past due expired amount		
Loans past due, 5-30 days	44	66
Loans past due, 31-60 days	224	185
Loans past due, 60 days more than	240	204
Valutation category, fair value through profit and loss		
Kapitalfodran med förfallet belopp		
Loans past due, 5-30 days	54	63
Loans past due, 31-60 days	31	45
Loans past due, 60 days more than	77	73
Total	**670**	**636**
Provisions		
Opening balance	**93**	**117**
Provisions for the year	49	12
Recoveries of previous provisions	-20	-23
Provisions for loans that are not impaired	2	-13
Closing Balance	**124**	**93**
Total provision ratio for impaired loans, % [1)]	45.80	41.70
Provision ratio for individually identified impaired loans, %	19.10	10.00

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

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

The table above shows the provisions allocated for impaired loans as well as for other lending where loss events have occurred but where individual loans have not yet been identified. Loss events include late or non-payments, situations where the borrower is likely to go bankrupt, and domestic or local economic developments tied to nonpayment, such as diminished asset values. The carrying amount for impaired loans generally corresponds to the value of the collateral, in cases where collateral exists. Forborne loans refer to loans whose contractual terms have been amended due to the customer's financial difficulties. The purpose of the forbearance measure is to get the borrower current on their payments again, or when this is not considered possible to maximise the repayment of outstanding loans.

Changes in contractual terms include various forms of concessions such as amortisation suspensions, reductions in interest rates to below market rate, forgiveness of all or part of the loan, or issuance of new loans to pay overdue amounts or avoid default. Changes in contractual terms may be so significant that the loan is also considered impaired, which is the case if the forbearance measure reduces the original loan's carrying amount regardless of concessions. The forborne loan's carrying amount is determined by discounting future anticipated cash flows by the original loan's effective interest rate. Before a forborne loan ceases being reported as forborne all the criteria set by the European Banking Authority must be met. Forborne loans amounted to nominal SEK 51m (107) as per 31 December 2017.

4a Credit risk, contd.

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

		2017				2016			
Exposure at default	**Risk scales**	Private	Corporate	Forestry & Agriculture	Total	Private	Corporate	Forestry & Agriculture	Total
Default	Defaulted	488	76	493	1 057	406	81	193	680
High risk	0-5	3 270	1 036	1 326	5 632	3 091	1 032	1 538	5 661
Heightened risk	6-8	5 479	5 008	4 219	14 706	5 372	4 372	4 969	14 713
Normal risk	9-12	20 267	25 965	15 590	61 822	18 960	22 488	14 451	55 899
Low risk	13-21	680 122	163 899	40 441	884 462	638 945	161 923	39 982	840 850
Non-risk rated						0	0	0	0
Total [2)]		**709 626**	**195 984**	**62 069**	**967 679**	**666 774**	**189 896**	**61 133**	**917 803**

[1)] nominal amount before provisions

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

4b Liquidity risk

Definition

Liquidity risk refers to the risk of Swedbank Mortgage not being able to meet payment obligations at maturity.

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

Liquidity exposure is limited by the company's Board and monitored continuously by Swedbank Mortgage and the Swedbank Group. Liquidity risk is also limited by covered bond regulations. The high credit rating of covered bonds broadens the investor base, facilitates favourable funding costs and constitutes approved collateral when pledged with the Swedish Riksbank. Swedbank Mortgage has access to the parent company's liquidity reserve, where the purpose of building up and maintaining a liquidity reserve is to reduce the Group's liquidity risk. When Swedbank Mortgage faces a high volume of maturing bonds that exceeds lending maturity, the liquidity reserve must be adjusted to meet these maturities in various types of stressed scenarios in the capital markets where access to financing may be limited or where markets are fully or partly closed over an extended period of time. This also means that when the Swedbank Group's maturities are lower, the liquidity reserve can be reduced, since refinancing needs decrease, as does liquidity risk.

Swedbank's Board of Directors has set a floor for Group Treasury's liquidity portfolio. The portfolio must surpass a given volume and has to be invested in liquid and pledgeable assets (not to be confused with the liquidity reserve, which in addition to the liquidity portfolio includes assets placed with central banks and in the overnight market).

Summary of maturities

In the summary of maturities, undiscounted contractual cash flows are distributed on the basis of remaining maturities until the agreed time of maturity. For lending to the public, amortising loans are distributed based on amortisation schedule. Liabilities whose contracts contain a prepayment option have been distributed based on the earliest date on which repayment can be demanded. The difference between the nominal amount and the carrying amount, discounting effect, is reported in the column Without maturity date/discount effect. This column also includes items without an agreed maturity date and where the probable repayment date has not been determined.

4b Liquidity risk, contd.

Undiscounted contractual cash flows, remaining maturity
SEKm

2017	Payable on demand	< 3 mths	3 mths-1 yr	1-5 yrs	5-10 yrs	> 10 yrs	Without maturity date/discount effect [1)]	Total
Assets								
Loans to credit instiutions	23 534							23 534
Loans to the public		3 539	11 061	57 706	68 902	825 282	1 731	968 222
Derivatives		2 423	3 069	8 736	2 232	307	1 837	18 603
Other assets							2 644	2 644
Total assets	**23 534**	**5 962**	**14 130**	**66 442**	**71 134**	**825 589**	**6 212**	**1 013 003**
Liabilities								
Amounts owed to credit institutions		3 958	411 837	3 814			-1	419 608
Debt securities in issue		9 023	66 372	369 822	44 132	13 551	19 190	522 090
Derivatives		300	1 961	2 087	817	490	-88	5 567
Subordinated liabilities								
Other liabilities							18 934	18 934
Total liabilities		**13 281**	**480 170**	**375 723**	**44 949**	**14 041**	**38 035**	**966 199**

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

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

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

4c Market risk - Interest rate risk

Definition

Interest rate risk refers to the risk that Swedbank Mortgage's results, equity or value will decrease due to changes in interest rates on the financial market. The interest rate risk in Swedbank Mortgage's operations arises as a result of differences in the average interest fixing periods in the lending portfolio and funding. In the table below interest risk is measured as the change in the value of interest bearing assets and liabilities resulting from an increase of one percentage point in all market rates (for valuation principles, see note 2). The effect of such an increase would have reduced the fair value of all interest bearing assets and liabilities, including derivatives, by SEK 551m (248) as of 31 December 2017.

Net gains and losses on financial items, before taking into account cash flow hedges, would have decreased by SEK 129m (increased 56) for the portion of Swedbank Mortgage's balance sheet measured at fair value through the income statement. This would have decreased equity by SEK 101m (increased 44).

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

SEKm

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

2017

	< 3 mths	3-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	> 10 yrs	Total
SEK	-141	0	-232	-170	-14	31	1	-102	76	-551
Foreign currency	0	0	0	0	0	0	0	0	0	0
Total	**-141**	**0**	**-232**	**-170**	**-14**	**31**	**1**	**-102**	**76**	**-551**
of which financial instruments measured at fair value through profit and loss										
SEK	196	8	-238	-82	-22	-10	-36	33	22	-129
Foreign currency	0	0	0	0	0	0	0	0	0	0
Total	**196**	**8**	**-238**	**-82**	**-22**	**-10**	**-36**	**33**	**22**	**-129**

2016

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

4d Market risk – Currency risk

Definition

Currency risk refers to the risk that the value of Swedbank Mortgage's assets and liabilities, including derivatives, may be adversely affected by changes in exchange rates. Currency risk arises as Swedbank Mortgage's lending in SEK is partly financed with funding in other liquid currencies.

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

Currency distribution
SEKm

2017

	SEK	EUR	USD	GBP	NOK	Other	Total
Assets							
Loans to credit institutions	23 534						23 534
Loans to the public	968 222						968 222
Other assets, not distributed	21 247						21 247
Total	**1 013 003**						**1 013 003**
Liabilities							
Amounts owed to credit institutions	419 608						419 608
Debt securities in issue	359 609	119 848	16 317	17 278	5 786	3 252	522 090
Other liabilities, not distributed	24 501						24 501
Total	**803 718**	**119 848**	**16 317**	**17 278**	**5 786**	**3 252**	**966 199**
Other assets and liabilities, including derivative positions		**119 848**	**16 317**	**17 278**	**5 786**	**3 252**	
Net position in currencies		**0**	**0**	**0**	**0**	**0**	

2016

	SEK	EUR	USD	GBP	NOK	Other	Total
Assets							
Loans to credit institutions	56 835						56 835
Loans to the public	919 572						919 572
Other assets, not distributed	30 893						30 893
Total	**1 007 300**						**1 007 300**
Liabilities							
Amounts owed to credit institutions	374 741						374 741
Debt securities in issue	395 201	113 038	31 770	12 971	8 291	5 930	567 201
Other liabilities, not distributed	22 903						22 903
Total	**792 845**	**113 038**	**31 770**	**12 971**	**8 291**	**5 930**	**964 845**
Other assets and liabilities, including derivative positions		**113 038**	**31 770**	**12 971**	**8 291**	**5 930**	
Net position in currencies		**0**	**0**	**0**	**0**	**0**	

5 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, with the approval of the SFSA, are based on an internal classification according to an Internal Ratings-Based Approach ("IRB") developed by Swedbank. For a small portion of assets the capital requirement for credit risks is calculated according to the standardised approach. The capital requirement for operational risk is calculated, with the approval of the SFSA, with the standardised approach.

Swedbank Mortgage's legal capital requirement is based on CRR, but more specifically restricted by the Basel 1 floor within CRR. The SFSA has made clear that the Basel 1 floor i.e. 80% of the capital requirements according to Basel 1, will cease to apply as of 1 January 2018. Since Swedbank Mortgage's capital requirement according to the Basel 1 floor is higher than the requirements in CRR/CRDIV Pillar 1 and Pillar 2 combined (including a risk-weight floor in the Swedish mortgage portfolio of 25%, capital conservation buffer of 2.5% and countercyclical buffer of 2%), these rules constitute the minimum capital requirements for Swedbank Mortgage as of 31 December 2017.

Swedbank also formulates and documents its own methods and processes for evaluating the Group's capital requirements. This evaluation includes Swedbank Mortgage. The capital requirement is determined systematically on the basis of the total level of risks to which Swedbank Mortgage is exposed. All risks are taken into account, including those not included in the calculation of capital adequacy.

In December 2017 the Basel Committee agreed on the final Basel 3 rules, commonly called Basel 4. The regulation has been reconsidered to improve the comparability of banks' capital ratios and covers revised standardised approaches to calculate capital requirements for credit, market, counterparty and operational risks. In addition, a minimum requirement was introduced for leverage ratios (applying only to global systemically important banks) and an aggregate capital floor based on proposed standardised approaches for banks that use internal models. The new regulation will enter into force in 2022 and be fully implemented by 2027.

Before an assessment of the new regulation's impact is complete, it remains 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.

The note contains the information made public according to SFSA's Regulation FFFS 2008:25, chap. 6, para. 4. Additional periodic information according to CRR can be found on Swedbank's website:
https://www.swedbank.com/svenska/investor-relations/finansiell-information-and-publikationer/riskrapporter/

5 Capital adequacy, contd.

Capital Adequacy SEKm	2017	2016
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 valuation 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 valuation 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 approach, retail bank

5 Capital adequacy, contd.

Capital buffer requirement [1], %	2017	2016
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 Institution specific CET1 capital requirements [2]	73.3	64.7

[1] Buffer requirement according to Swedish implementation of CRD IV
[2] CET 1 capital ratio as reported, less minimum requirement of 4.5% (excluding buffer requirements) and less any CET 1 items used to meet the Tier 1and total capital requirements.

Capital requirement Basel 1 floor [1] SEKm	2017	2016
Capital requirement Basel 1 floor	39 533	37 324
Own funds Basel 3 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 highest of the Basel 3 capital requirement and 80% of Basel 1capital requirement. In the latter case the own funds is adjusted according to CRR article 500.4.

Credit risks, IRK SEKm	2017			2016		
	Exposure amount	Average risk weight, %	Minimum capital requirement	Exposure amount	Average risk weight, %	Minimum capital requirement
Central government or central banks exposures	7 362	4	22			
Institutional exposures						
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**	**6**	**3 700**

5 Capital adequacy, contd.

Exposure amount, risk exposure amount and minimum capital requirement SEKm	**2017**			**2016**		
	Exposure amount	Risk exposure amount	Minimum capital requirement	Exposure amount	Risk exposure amount	Minimum capital requirement
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	6 105	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**

Internal Capital Adequacy Assessment Process (ICAAP)

The Internal Capital Adequacy Assessment Process (ICAAP) aims to ensure that Swedbank Mortgage is adequately capitalised to cover its risks and to operate and develop the business.

Measurement

Swedbank Mortgage prepares and documents its own methods and processes to evaluate its capital requirement. The ICAAP takes into account all relevant risks that arise. Swedbank Mortgage's ICAAP is based on the Economic Capital model, a statistical model with an assessment horizon of one year. Since the capital requirement assessment applying the Economic Capital model represents the bank's own estimate of its requirements according to Pillar 2, it may deviate upwards or downwards from the corresponding capital requirement according to Pillar 1.

Classification of risk

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

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

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

Total capital requirement

The internal capital requirement as of 31 December 2017 amounted to SEK 5.0bn according to the Economic Capital model. However, Swedbank Mortgage's capital requirement on the same date, including the transition rules from Basel I to Basel 3, amounted to SEK 39.5bn. The total capital requirement cannot be less than this capital requirement and therefore also amounts to SEK 39.5bn. The total capital base was SEK 46.9bn on the same date. As long as the capital ratio exceeds the Pillar 2 requirement, all risks are covered. The conclusion of the 2017 ICAAP as of 31 December 2017 was that Swedbank Mortgage is adequately capitalised.

6 Operating segments

SEKm	2017				2016			
	Private	Corporate	Forestry and Agriculture	Total	Private	Corporate	Forestry and Agriculture	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

Reconcilitation of segment reporting and financial report

SEKm	2017				2016			
	Net interest income	Total income	Total expenses	Operating profit	Net interest income	Total income	Total expenses	Operating profit
Total segments	**12 689**	**12 690**	**243**	**12 385**	**11 496**	**11 559**	**241**	**11 298**
Return on legal equity	245	245		245	314	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	**12 934**	**12 085**	**259**	**11 764**	**11 810**	**11 223**	**253**	**10 950**

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

7 Net interest income

SEKm	2017	2016
Interest income		
Loans to credit institutions	8	25
Loans to the public	16 210	16 621
Total interest income	**16 218**	**16 646**
Interest expense		
Amounts owed to credit institutions	-153	29
Debt securities in issue	-6 518	-8 884
Derivatives	3 942	4 294
Subordinated debt	-13	-49
Other	-542	-226
of which resolution fee	-540	-223
Total interest expense including negative yield on financial liabilities according to income statement	**-3 284**	**-4 836**
Total net interest income	**12 934**	**11 810**
Average balance		
Loans to credit institutions	47 585	63 257
Loans to the public	942 667	884 056
Amount owed to credit institutions	394 733	344 846
Debt securities in issue	553 041	572 319
Interest income on financial assets at amortised cost	13 802	13 673
Interest expense on financial liabilities at amortised cost	6 916	8 762
Interest income on impaired loans	4	4

8 Net commission income

SEKm	2017	2016
Commission income		
Payment processing	63	68
Total	**63**	**68**
Commission expenses		
Fees to the Swedish National Board of Housing, Building and Planning	-1	-1
Market maker fees	-61	-4
Total	**-62**	**-5**
Total net commission income	**1**	**63**

9 Net gains and losses on financial items

SEKm	2017	2016
Valuation category, fair value through profit and loss		
Debt securities in issue	267	211
Derivatives	155	812
Lending to the public	-1 021	-1 466
Total fair value through profit and loss	**-599**	**-443**
Hedge accounting		
Ineffective part of hedge accounting at fair value	75	-31
of which hedging instruments	4 483	-467
of which hedged items	-4 408	436
Ineffective part of portfolio hedge	-34	9
of which hedging instruments	-692	-465
of which hedged items	658	474
Total hedge accounting	**41**	**-22**
Financial liabilities valued at amortised cost	-383	-421
Loans and receivables at amortised cost	112	142
Change in exchange rates	-26	88
Total	**-855**	**-656**

Swedbank Mortgage uses the fair value option as an alternative to hedge accounting.

10 Staff expenses

Remuneration within Swedbank Mortgage

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

SEKm	2017	2016
President		
Salaries and other remuneration	1.0	1.0
Pension costs	0.5	0.5
Social insurance charges	0.3	0.3
Other employees		
Salaries and other remuneration	4.2	1.3
Pension costs	1.0	0.3
Social insurance charges	1.5	0.6
Other staff costs	0.0	0.0
Total	**8.5**	**4.0**
of which profit-based staff costs		0.0

Number of employees

The number of employees at year-end were 8 persons, of whom 50 per cent were women and 50 percent men.

Loans to the Board and employees

SEKm	2017	2016
Loans to the President	3	4
Loans to Board members	17	15
No. of employees with loans	7	5

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

Gender distribution

	2017		2016	
	men	women	men	women
Board of Directors	2	3	2	3

11 Other expenses

SEKm	2017	2016
Purchased services	246	243
of which Deloitte AB [1]		
Statutory audit	2	2
Other audit	1	0
Other	5	6
Total	**251**	**249**

[1] Remuneration to Auditors elected by Annual Gerenal Meeting, Deloitte AB

12 Credit impairments

SEKm	2017	2016
Provisions for loans individually assessed as impaired		
Provisions	49	13
Reversal of previous provisions	-7	-1
Provisions for homogenous groups of impaired loans, net	0	-1
Total	**42**	**11**
Portfolio provisions for loans individually assessed as not impaired	**2**	**-13**
Write-offs		
Established losses	35	47
Utilisation of previous provisions	-13	-23
Recoveries	-4	-2
Total	**18**	**22**
Credit impairments, net	**62**	**20**
Credit impairments by valuation category		
Loans recievable	56	17
Fair value through profit and loss	6	3
Total	**62**	20
Credit impairments by borrower category		
General public		
Write-off and provisions	86	46
Recoveries from previous years' actual credit impairments	-24	-26
Total	**62**	**20**

13 Tax

SEKm	2017	2016
Tax expense		
Tax related to previous years	0	0
Current tax	2 728	2 410
Total	**2 728**	**2 410**

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

	SEKm	%	SEKm	%
Result	2 728	22	2 410	22
Prevailing tax rate	2 724	22	2 409	22
Difference	**4**	**0**	**1**	**0**

14 Earnings per share

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

SEKm	2017	2016
Profit attributable to the shareholders of Swedbank Mortgage, SEKm	9 654	8 540
Average number of shares outstanding, million	23	23
Earnings per share, SEK	419.74	371.30

15 Tax for each component in other comprehensive income

SEKm		2017	
	Amount before tax	Deferred tax	Amount after tax
Cash flow hedges	-567	125	-442
Other comprehensive income	**-567**	**125**	**-442**

SEKm		2016	
	Amount before tax	Deferred tax	Amount after tax
Cash flow hedges	136	30	106
Other comprehensive income	**136**	**30**	**106**

16 Loans to the public

SEKm	2017	2016
Valuation category, loans receivable		
Loans to the public	875 541	778 445
Total	**875 541**	**778 445**
Valuation category, fair value through profit and loss		
Loans to the public [1)]	92 681	141 127
Total	**92 681**	**141 127**
Total loans to the public	**968 222**	**919 572**
[1)] Nominal amount	92 068	139 467
Number of loans	1 633 011	1 634 343

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

17 Shares and participating interests

SEKm	2017	2016
Valuation category, Available for sale		
Tenant-owner rights		1
Total		**1**
of which, unlisted		1

18 Derivatives

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

SEKm	2017				2016	2017	2016	2017	2016
	Remaining contractual maturity, nominal amount					Positive market values		Negative market values	
SEKm	<1 year	1-5 year	> 5 year						
Derivatives in hedge accounting									
Fair value hedge									
Interest-rate swaps	33 172	286 473	53 892	373 537	401 263	9 563	14 751	479	228
Portfolio fair value hedge									
Interest-rate swaps	36 500	191 230	13 175	240 905	171 230	277	223	1 392	2 064
Cash flow hedge									
Currency swaps	30	76 392	34 561	110 983	100 310	5 484	3 653	815	1 300
Total	**69 702**	**554 095**	**101 628**	**725 425**	**672 803**	**15 324**	**18 627**	**2 686**	**3 592**
Other derivatives									
Interest-rate related contracts									
Forward contracts									
Swaps	70 195	23 202	98	93 495	71 559	693	778	569	1 756
Currency-related contracts									
Swaps	21 519	27 279	694	49 492	67 759	2 585	8 577	2 312	2 034
Total	**91 714**	**50 481**	**792**	**142 987**	**139 318**	**3 278**	**9 355**	**2 881**	**3 790**
Grand total	**161 416**	**604 576**	**102 420**	**868 412**	**812 121**	**18 602**	**27 982**	**5 567**	**7 382**

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

	<1 year	1-3 year	3-5 year	5-10 year	>10 year
Cash inflows (assets)	-	-	-	-	-
Cash outflows (liabilities)	15	405	1 044	4 119	3 017
Net cash flows	**15**	**405**	**1 044**	**4 119**	**3 017**

19 Other assets

SEKm	2017	2016
Security settlement claims		
Other assets	693	74
Total	**693**	**74**

20 Prepaid expenses and accrued income

SEKm	2017	2016
Accrued interest income	1 101	1 353
Other	0	0
Total	**1 101**	**1 353**

21 Debt securities in issue and subordinated liabilities

SEKm	2017	2016
Valuation category, other financial liabilities		
Bond loans	506 641	542 378
Change in value due to hedge accounting at fair value	7 772	12 700
Subordinated liabilities		4 000
Total	**514 413**	**559 078**
Valuation category, fair value through profit and loss		
Bond loans [1)]	7 677	8 123
Total	**7 677**	**8 123**
Total debt securities in issue	**522 090**	**567 201**
[1)] Nominal amount	6 897	7 045

Turnover during the period	**2017**	**2016**
SEKm	**Full year**	**Full year**
Opening balance	**567 201**	**560 663**
Issued	132 463	125 359
Repurchased	-93 421	-41 781
Prepaid subordinated loan	-4 000	
Repaid	-70 036	-78 036
Change in market value or in hedged item in fair value hedge accounting	-10 550	-7 019
Changes in exchange rates	433	8 015
Closing balance	**522 090**	**567 201**

22 Other liabilities

SEKm	2017	2016
Security settlement liabilities	1 250	0
Current tax liabilities	1 041	638
Deferred tax liabilities	0	65
Group contributions	10 570	8 050
Other liabilities	133	107
Total	**12 994**	**8 860**

23 Accrued expenses and prepaid income

SEKm	2017	2016
Accrued interest expense	5 227	6 012
Other	713	649
Total	**5 940**	**6 661**

24 Appropriations

SEKm	2017	2016
Tax allocation reserve	450	1 068
Total	**450**	**1 068**

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

25 Equity according to Annual Accounts Act for Credit Institutions and Securities Companies

SEKm	2017	2016
Restricted equity		
Share capital	11 500	11 500
Statutory reserve	3 100	3 100
Total	**14 600**	**14 600**
Non-restricted equity		
Conditional shareholders' contribution	2 400	2 400
Unconditional shareholders' contribution	9 745	5 745
Fair value fund	-212	230
Other retained earnings	19 821	18 412
Total	**31 754**	**26 787**
Total equity	**46 354**	**41 387**
Changes in equity during the period are reported in the statement of changes in equity page 14	4 967	4 817
Number of shares		
Approved and issued, million	23	23

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

26 Pledged assets, contingent liabilities and commitments

SEKm	2017	2016
Assets pledged		
Loans receivable pledged for covered bonds [1]	518 805	542 278
Repos [2]	2 721	234
Commitments, nominal amount		
Loans granted but not paid	9 959	8 969
Total	**531 485**	**551 481**

[1] Consists of collateral for covered bonds. This collateral is reported as the customers nominal loan principal, including accrued interest. The holders of the covered bonds have preferentail rights to the collateral in the event of a bankruptcy.

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

27 Related parties

Parent company

Swedbank Mortgage is a wholly-owned subsidiary of Swedbank AB (publ). The following headings in the balance sheet and statement of comprehensive income include transactions with the parent company in the amounts specified.

SEKm	2017	2016
Group receivables		
Loans to credit institutions	23 534	56 835
Derivatives	18 602	27 982
Other assets	23	22
Total	**42 159**	**84 839**
Group liabilities		
Amounts owed to credit institutions [1]	419 608	374 741
Debt securities in issue	2 244	8 904
Derivatives	5 567	7 382
Other liabilities	10 606	8 133
Subordinated liabilities		4 000
Total	**438 025**	**403 160**
Statement of comprehensive income		
Interest income	8	23
Interest expense	3 757	4 097
Other expenses	-19	-17
Total	**3 746**	**4 103**

Other companies in the Swedbank Group

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

	2017	2016
Group receivables		
Other assets	7	7
Total	**7**	**7**
Group liabilities		
Debt securities in issue		
Accrued expenses and prepaid income	9	10
Total	**9**	**10**
Statement of comprehensive income		
Commission expense	-19	-17
Interest income	8	11
Interest expense		
Total	**-11**	**-6**

Senior executives

See note 10 for further information.

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

The disclosures below refer to reported financial instruments that are subject to legally binding netting agreements, even w hen they have not been offset in the balance sheet. All financial instruments w hich are subject to netting agreements have the parent company Sw edbank as counterparty.

SEKm	2017	2016
Assets		
Financial assets, w hich have not been offset or are subject to netting or similar agreements	0	0
Financial assets, w hich have been offset or are subject to netting or similar agreements	18 602	27 982
Carrying amount presented in the balance sheet	**18 602**	**27 982**
Related amount not offset in the balance sheet		
Derivatives, netting agreements	5 567	7 382
Net amount - assets	**13 035**	**20 600**
Liabilities		
Financial liabilities, w hich have not been offset and not subject to netting or similar agreements		
Financial liabilities, w hich have been offset or are subject to netting or similar agreements	5 567	7 382
Carrying amount presented in the balance sheet	**5 567**	**7 382**
Related amount not offset in the balance sheet		
Derivatives, netting agreements	5 567	7 382
Net amount - liabilities	**0**	**0**

29 Fair value of financial instruments

Carrying amount and fair value of financial instruments

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

SEKm	2017			2016		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Financial assets, IAS 39						
Loans to credit institutions	23 534	23 534		56 835	56 835	
of which loans receivable	23 534	23 534		56 835	56 835	
Loans to the public	965 975	968 222	-2 247	925 252	919 572	5 680
of which loans receivable	873 294	875 541	-2 247	784 126	778 446	5 680
of which fair value through profit or loss	92 681	92 681		141 126	141 126	
Value change of interest hedged items in portfolio hedge	791	791		1 483	1 483	
Shares and participating interests				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**
Liabilities						
Financial liabilities, IAS 39						
Amounts owed to credit institutions	418 278	419 608	-1 330	376 659	374 741	1 918
of which other financial liabilities	418 278	419 608	-1 330	376 659	374 741	1 918
Debt securities in issue etc.	527 815	522 090	5 725	569 541	563 201	6 341
of which other financial liabilities	520 139	514 414	5 725	561 419	555 079	6 341
of which fair value through profit or loss	7 677	7 677		8 122	8 122	
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**	**8 735**

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 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 parties 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 latest 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 contained 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 have been sold in June 2017 to the same amount as previously reported as acquisition cost. There was no effect on the income statement.

See Note 3 in the Annual report 2017, "Critical accounting judgements and estimates". There were no transfers of financial instruments between valuation levels during the year.

SEKm	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Loans to the public		92 681		92 681		141 126		141 126
Shares and participating interests							1	1
Derivatives		18 602		18 602		27 982		27 982
Total		**111 283**		**111 283**		**169 108**	**1**	**169 109**
Liabilities								
Amounts owed to credit institutions								
Debt securities in issue	3 082	4 595		7 677	3 270	4 852		8 122
Derivatives		5 567		5 567		7 382		7 382
Total	**3 082**	**10 162**		**13 244**	**3 270**	**12 234**		**15 504**

Financial instruments at amortised cost

The following tables distribute fair value by the three different valuation levels for financial instruments at amortised cost.

SEKm	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Loans to credit institutions		23 534		23 534		56 835		56 835
Loans to the public		873 294		873 294		784 126		784 126
Total		**896 828**		**896 828**		**840 961**		**840 961**
Liabilities								
Amounts owed to credit institutions			418 278	418 278			376 659	376 659
Debt securities in issue	309 410	210 729		520 139	520 798	40 621		561 419
Subordinated liabilities						4 476		4 476
Total	**309 410**	**210 729**	**418 278**	**938 417**	**520 798**	**45 097**	**376 659**	**942 554**

30 Effects of changed reporting of mortgage compensation to savings banks

	New reporting		Previous reporting
SEKm	2016 Full year	Δ	2016 Full year
Interest income	**16 646**	**-827**	**17 473**
Interest expense	-4 996		-4 996
Negative yield on financial liabilities	160		160
Interest expense, including negative yield on financial liabilities	**-4 836**		**-4 836**
Net interest income	**11 810**	**-827**	**12 637**
Commission income	68		68
Commission expenses	-5		-5
Net commissions	**63**		**63**
Net gains and losses on financial items at fair value	-656		-656
Other income	6		6
Total income	**11 223**	**-827**	**12 050**
Other expenses	249	-827	1 076
Staff costs	4		4
Total expenses	**253**	**-827**	**1 080**
Profit before impairments	**10 970**		**10 970**
Credit impairments, net (note 5)	20		20
Operating profit	**10 950**		**10 950**
Tax	2 410		2 410
Profit for the period	**8 540**		**8 540**

SEKm	New reporting 2016 Private	Corporate	Forestry- and Agricultural	Total	Δ	Previous reporting 2016 Private	Corporate	Forestry- and Agricultural	Total
Net interest income	9 566	1 082	847	11 495	-827	10 247	1 129	947	12 323
Net commission income	49	10	4	63		49	10	4	63
Total income	**9 615**	**1 092**	**851**	**11 558**	**-827**	**10 296**	**1 139**	**951**	**12 386**
Total expense	214	3	23	240	-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

SEKm	2016 Total income	Total expense	Operating profit	2016 Total income	Total expense	Operating 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 losses 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**

31 Proposed distribution of profit

In accordance with the balance sheet for Swedbank Mortgage, the following profit after deduction for a paid Group contribution of SEK 10 570m are at the disposal of the annual general meeting:

SEKm	2017
Retained earnings earlier years	**22 312**
Fair value fund	-212
Profit for the year	9 654
Total at disposal	**31 754**
The Board proposes that the profit be carried forward to the next year	31 754
Total	**31 754**

32 Events after 31 December 2017

No important events have occurred.

33 Sustainability report

Swedbank Mortgage does not publish a statutory Sustainability Report according to Chapter 7, 31 a. Parent Company, Swedbank AB org. No. 502017-7753, which is based in Stockholm, publishes a Sustainability Report for the Group in which the company is included. The Group's sustainability report is available in Swedbank AB's annual report on page 174.

Definitions

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

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

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

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

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

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

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

Leverage ratio
Tier 1 capital in relation to the total exposure measure, where the exposure measure includes both on- and off-balance sheet items.

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

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

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

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

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

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

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

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 annual report includes a number of alternative performance measures, which provide more comparative information between 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.

Credit impairment ratio
Credit impairment on loans and other credit risk provisions, 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 income in relation to average total assets. The average is calculated based on monthly figures, including the previous year's financial statements.

Provision ratio for individually assessed 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 (calculated on month-end figures) shareholders' equity.

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.

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

Signatures of the Board of Directors and the CEO

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

Stockholm 22 February 2018

Leif Karlsson
Chairman

Magdalena Frostling
CEO

Gunilla Domeij-Hallros

Malin Hlawatsch

Johan Smedman

Eva de Falck

Auditor's report submitted on 22 February 2018
Deloitte AB

Malin Lüning
Authorised public accountant

Auditor's report

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

Report on the annual accounts

Opinions

We have audited the annual accounts of Swedbank Hypotek AB (publ) for the financial year 2017-01-01 - 2017-12-31 except for the corporate governance statement on page 9. The annual accounts of the company are included on pages 3-53 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on page 9. The statutory administration report is consistent with the other parts of the annual accounts.

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

Our opinions in this report on the the annual accounts are consistent with the content of the additional report that has been submitted to the parent company's Board of Directors in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

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

Judgments and estimates with respect to valuation of loan receivables

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

At December 31, 2017, gross loans to the public amounted to SEK 968 222 million, with loan loss provisions of SEK 124 million. Given the significance of loans to the public (representing 96% of total assets) as well as the impact from the inherent uncertainty and subjectivity involved in assessing loan loss provisions, we consider this to be a key audit matter for our audit.

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

Our audit procedures included, but were not limited to:

- We assessed key controls over the approval, recording and monitoring of loans and receivables, and evaluating the methodologies, inputs and assumptions used in determining and calculating the loan loss provisions.
- For provisions calculated on an individual basis we examined a selection of individual loan exposure in detail, and evaluated management assessment of the recoverable amount. We tested the assumptions underlying the impairment, including forecast of future cash flows, valuation of underlying collateral and estimates of recovery on default. We applied professional judgment in selecting the loan exposure for our detailed testing with an emphasis on exposures in sectors that pose an increased uncertainty for recovery in the current market circumstances.
- We examined, supported by our specialists, the sufficiency of the underlying models, assumptions

and data used to measure loan loss provisions for portfolios of loans with similar credit characteristics. Likewise we have examined the models, assumptions and data used for the collective impairment for incurred but not identified loss events.
- Finally, we assessed the completeness and accuracy of the disclosures relating to loan loss provision to assess compliance with disclosure requirements included in IFRS.

Valuation of complex or illiquid financial instruments

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

At December 31, 2017, financial instruments measured at fair value, comprised of assets of SEK 111 283 million and liabilities of SEK 13 244 million, referred to in note 29. For financial instruments that are actively traded and for which quoted market prices are available, there is a high level of objectivity in determining the market price (level 1 instruments). When observable market prices are not available, the fair value of such financial instrument is subject to significant estimation uncertainty (level 2 and 3 instruments). The valuation of such instruments is determined through different valuation techniques, which often includes significant judgments and estimates made by management. In our audit we had a specific focus on the instruments in level 2 and 3, where estimation uncertainty is particularly high, which is why these instruments are considered to be a key audit matter for our audit.

Refer to critical judgments and estimates in note 2 and 3 in the financial statement and related disclosures of financial instruments at fair value in note 29.

Our audit procedures included, but were not limited to:

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

IT-systems that support complete and accurate financial reporting

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

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

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

Modifications to the IT-environment

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

Our audit procedures included, but were not limited to:

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

Operations and monitoring of the IT-environment

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

Our audit procedures included, but were not limited to:

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

Information security

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

Our audit procedures included, but were not limited to:

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

Other information than the annual accounts

This document also contains other information than the annual accounts and is found on pages 1-2 and 58. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's Responsibility

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

A further description of our responsibilities for the audit of the annual accounts is located at the Swedish Inspectorate of Auditors website:

www.revisorsinspektionen.se/revisornsansvar.
This description forms part of the auditor´s report".

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Swedbank Hypotek AB (publ) for the financial year 2017-01-01 - 2017-12-31 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's Responsibility

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

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

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

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

A further description of our responsibilities for the audit of the management's administration is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description forms part of the auditor´s report.

The Auditor's Examination of the Corporate Governance Statement

The Board of Directors is responsible for that the corporate governance statement on page 9 has been prepared in accordance with the Annual Accounts Act.

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

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

Deloitte AB, was appointed auditor of Swedbank Hypotek AB by the general meeting of the shareholders on the on March 18, 2014 and has been the company's auditor since prior to June 17, 1994.

Stockholm, February 22, 2018

Deloitte AB

Malin Lüning
Authorised public accountant

For further information please contact:

Magdalena Frostling
CEO
Telephone (+46)8 585 921 59

Gregori Karamouzis
Head of Investor Relations
Telephone (+46)8 585 930 31

Swedbank Mortgage AB (publ)
Registration no: 556003-3283
Landsvägen 40
SE 105 34 Stockholm, Sweden
Telephone: (+46)8 585 900 00
www.swedbank.se/hypotek
info@swedbank.se