Swedbank Mortgage AB
Annual report 2018

The financial year 2018 in brief

Full year 2018 (full year 2017)

- Operating profit for the full year of 2018 amounted to SEK 12 789m (11 764)
- Net interest income increased by SEK 396m to SEK 13 330m (12 934)
- Lending to the public increased by 4 per cent or SEK 41bn to SEK 1 009bn (968)
- Profit before impairments increased by SEK 1 086m to SEK 12 912m (11 826)
- Credit impairments amounted to SEK 123m (62)
- Return on equity was 22.1 per cent (21.1)
- Covered bonds totaling an amount of SEK 88bn (132) were issued during the year

SEKm	2018	2017
Net interest income	13 330	12 934
Other operating income	-154	-849
Total income	**13 176**	**12 085**
Total general administrative expenses	**264**	**259**
Profit before impairments	**12 912**	**11 826**
Credit impairments	123	62
Operating profit	**12 789**	**11 764**
Appropriations	-450	-618
Tax	2 913	2 728
Profit for the period	**10 326**	**9 654**

Operating profit 2018

SEK 12 789m

2017: SEK 11 764m

Market share, mortgages, November 2018

24.3 %

December2017: 24.4%

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 2014-2018

SEKm	2018 31 Dec	2017 31 Dec	2016 31 Dec	2015 31 Dec	2014 31 Dec
Profit					
Net interest margin, %	1.26	1.27	1.20	1.15	0.94
Average total assets	1 060 148	1 016 390	984 625	932 305	863 882
Return on equity, %	22.1	21.1	21.8	19.3	16.9
Average equity	46 770	45 683	39 165	36 416	33 889
Earnings per share, SEK	449.0	419.7	371.3	305.4	249.0
Equity					
Number of shares in issue at beginning/end of period, million	23	23	23	23	23
Equity per share, SEK	2 007.40	2 015.40	1 799.40	1 587.61	1 446.48
Credit quality					
Loans to the public	1 008 724	968 222	919 572	857 910	821 547
Loans to credit institutions	21 783	23 534	56 835	69 864	47 626
Credit impairments, net	123	62	20	30	37
Credit impairment ratio, %	0.01	0.00	0.00	0.00	0.00
Total provisions [1]	569	124	93	117	122
Share of Stage 3 loans, gross %	0.09				
Share of impaired loans, gross, loans to the public, %		0.02	0.02	0.03	0.03
Total credit impairment provision ratio, %	0.06				

[1] In 2018 IFRS 9 Financial instruments was adopted. Prior periods have not been restated. Refer to note 30 for further information.
For more information on definitions and calculation of key ratios, refer to page 63.

Business development

	2018 31 Dec	2017 31 Dec	2016 31 Dec	2015 31 Dec	2014 31 Dec
Lending to the public, SEKbn	1 009	968	920	858	822
- Private	793	753	712	658	619
- Corporate	156	153	147	140	143
- Forestry and Agricultural	60	62	61	60	60
Number of customers, thousands	1 122	1 128	1 134	1 123	1 130
Private lending					
Market share mortgages % [1)]	24.3	24.4	24.8	24.6	25.2
Market share new mortgages, full year % [1) 2)]	22.4	19.8	26.4	18.1	23.9
Volume growth mortgage market, full year %[1)]	5.7	7.2	7.6	8.5	6.3
Volume growth Swedbank Mortgage, full year % [1) 2)]	5.3	5.8	8.2	6.1	6,0
LTV total portfolio %	55	53	54	56	59
LTV new mortgages, actual year %	68	67	66	67	69
Share of total portfolio which amortises %	70	67	63	58	53
Share of portfolio which amortises, new mortgages, actual year %	89	87	82	75	68
Funding					
Issued during year					
Swedish market, SEKbn	69	108	108	109	80
Outside Sweden, SEKbn	19	24	17	49	12
Average maturity of outstanding issued covered bonds, months	43	39	36	36	35

1) Market share and volume growth as of November. 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

After exhibiting broad-based strength at the end of 2017, the global economy showed growing signs of a slowdown in 2018. While the US economy remained strong last year, Europe and most emerging markets were less robust. Risk factors such as Brexit, a potential trade war between the US and China, and Italy's financial situation had a negative effect during 2018.

Increased turbulence in the financial markets, as well as further indications of weaker economic prospects, did not however refrain the Federal Reserve from raising its benchmark interest rate in December, which for the fourth time in 2018. At about the same time the Riksbank announced a repo rate hike for the first time in over seven years, by 0.25 per cent to -0.25 per cent. In connection with the decision a possible second rate hike was delayed until the second half of 2019. The ECB is still holding steady and a rate hike is not expected until the second half of 2019 at the earliest.

The Swedish economy is expected to enter a period of slower growth after several strong years. GDP fell by 0.2 per cent in the third quarter of 2018, compared with the preceding quarter, though temporary factors had an effect. Although house prices stabilised since the downturn in autumn 2017, this had a negative impact on housing investment, which began to weigh on growth in late 2018. Swedish exports slowed slightly but found support from the still positive, but declining, economic conditions in Sweden's major export markets as well as a weak krona. Consumer optimism was held back by among other things uncertainty about the housing market and expectations of higher interest rates. Despite a strong labour market, household consumption therefore grew at a modest pace.

During 2018 house prices in Sweden were relatively stable with a growth rate of 0.8 per cent in November, according to Valueguard's total index. Swedish tenant-owned apartment prices fell 0.7 per cent, at the same time that single-family home prices rose 1.7 per cent. The mortgage amortisation requirement was tightened on 1 March 2018, which contributed to dampening housing prices. In the wake of a lower price level residential construction plans and housing starts slowed significantly, which is eventually expected to lead to less construction. According to Statistics Sweden, housing starts fell by just over 20 per cent in the first three quarters of 2018 compared with the same period in 2017. During the same period building permits fell nearly 35 per cent. A large number of previous housing starts are reaching the market, which coupled with the amortisation requirement and expectations of higher interest rates seem to be keeping a lid on prices.

In a survey by Swedbank and the Federation of Swedish Farmers (LRF) farmers pointed out the dry weather for much of the summer as a reason why they saw lower profitability this past autumn compared with spring 2018. They were more optimistic about profitability one year ahead and said that they felt consumers continued to have confidence in them as producers.

Important to note

Swedbank Mortgage adopted the new reporting standard IFRS 9 Financial Instruments as of the financial year 2018. IFRS 9 replaces IAS 39 and contains among other things new rules on the classification and measurement of financial instruments and hedge accounting. The application of IFRS 9 reduced equity by SEK 740m and had a negative effect on the Common Equity Tier 1 capital ratio of 0.68 percentage points between 31 December 2017 and 1 January 2018. According to the transition rules within Capital Requirement Regulation (CRR), which apply until the end of 2022, part of the increase in the reserve for credit impairments can be reported in Common Equity Tier 1 capital. The transition rules are not obligatory and Swedbank Mortgage has decided not to apply them. Historical comparative figures have not been restated. See note 30 for more information.

As of 2018 Swedbank Mortgage presents contractually accrued interest for financial instruments as part of the carrying amount for the asset or liability in the balance sheet. Previously, contractual interest was recognised in "Prepaid expenses and accrued income" and "Accrued expenses and prepaid income" in the balance sheet. The change positively affected loans to the public by SEK 1 101m and debt securities in issue by SEK 5 193m between 31 December 2017 and 1 January 2018, but did not affect the size of the total balance sheet. Historical comparative figures have not been restated. See note 30 for more information.

The annual report contains alternative performance measures that Swedbank Mortgage considers valuable information for the reader, since they are used by company management and executive management for internal governance and performance measurement as well as for comparisons between reporting periods. Further information on the alternative performance measures used in the annual report can be found on page 63.

The company's development

(Comparative figures refer to 31 December 2017, unless otherwise indicated)

Result
Operating profit increased to SEK 12 789m, compared with SEK 11 764m in 2017. The increase is due to stronger net interest income as well as higher net gains and losses on financial items.

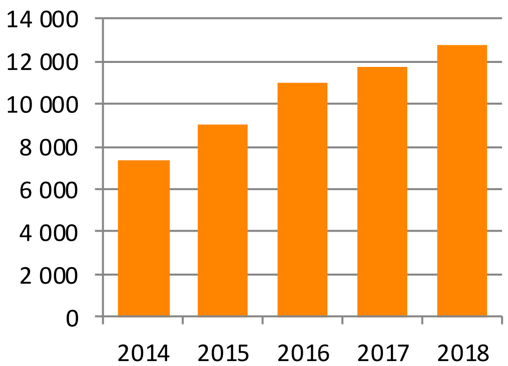
Net interest income increased by SEK 396m to SEK 13 330m (12 934). Increased margins due to lower interest expenses for funding and increased lending volumes positively contributed to net interest income. The resolution fund fee increased by SEK 306m to SEK 846m (540) and negatively affected net interest income.

Net gains and losses on financial items increased to SEK -185m (-855) as a result of a lower effect from covered bond repurchases and because parts of loans to the public are no longer recognised at fair value through profit and loss after the transition to IFRS 9 as of the financial year 2018. If the loans had continued to be recognised at fair value, net gains and losses on financial items would have been SEK 327m lower. At transition to IFRS 9 this amount affected equity, see further information in note 30.

Expenses increased to SEK 264m (259). Other expenses include part of the compensation paid to the savings banks and partly owned banks. This expense amounted to SEK 242m (242). No equivalent compensation is paid to Swedbank.

The credit quality of Swedbank Mortgage's lending remains very good and credit impairments were at a low level. Credit impairments, according to IFRS 9, increased to SEK 123m (SEK 62m according to IAS 39 2017). A provision was allocated for a large commitment in the second half of 2017, which increased credit impairments by SEK 37m. This provision was reversed in the first half of 2018. Provisions increased to SEK 569m (451). A specification of credit impairments and lending is provided in notes 4, 12 and 16.

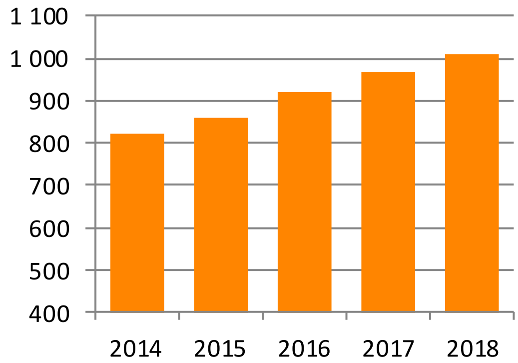
OPERATING PROFIT (SEKm)



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.

Loans to the public increased by 4.1 per cent or SEK 41bn to SEK 1 009 bn (968). The private segment accounted for SEK 793bn (753), the corporate segment accounted for SEK 156bn (153) and the forestry and agriculture segment for SEK 60bn (62).

LENDING TO THE PUBLIC (SEKbn)



Private
Growth in the Swedish mortgage market levelled off compared with the previous year but maintained a high annual rate of 5.7 per cent (7.2). Swedbank Mortgage lending within the private segment increased by 5.3 per cent, or SEK 40bn, to SEK 793bn (753). Swedbank Mortgage's share of the year's net mortgage growth was 22.4 per cent and the total market share was 24.3 per cent (24.4).

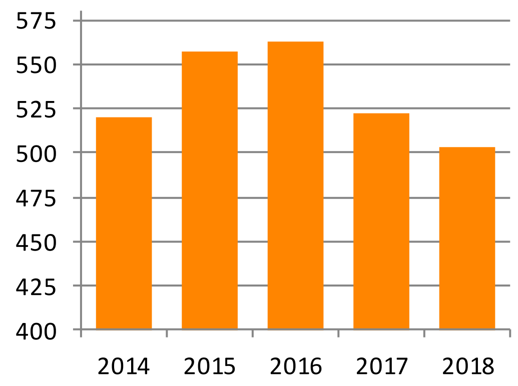
The Swedish Financial Supervisory Authority (SFSA) introduced a stricter mortgage amortisation requirement on 1 March 2018 that requires new borrowers with mortgage debt exceeding 4.5 times their gross income to amortise at least 1 per cent of their debt over and above the existing requirement. The goal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

Corporate
Swedbank Mortgage lending within the corporate segment increased by 2.0 per cent, or SEK 3bn, to SEK 156bn (153).

Forestry and agriculture
Swedbank Mortgage lending within the forestry and agriculture segment decreased by 3.2 per cent, or SEK 2bn, to SEK 60bn (62).

Funding and liquidity
Swedbank Mortgage funds its lending partially by issuing covered bonds on the Swedish and international capital markets and through loans from Swedbank AB.

OUTSTANDING COVERED BONDS (SEKbn)



Swedbank Mortgage has simplified its funding process through a number of standardised loan programmes that are adapted to the legal requirements of various types of markets and investors. Demand for Swedbank Mortgage's bonds was good. Swedbank Mortgage issued SEK 88bn (132) in covered bonds during the year. Maturities for the full-year were nominally SEK 62bn (70) calculated from the beginning of the year. As of 31 December outstanding funding through covered bonds amounted to SEK 503bn (522) at the same time that funding from Swedbank AB amounted to SEK 488bn (420).

Issuance plans are mainly affected by changes in available funding from Swedbank AB as well as 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 issuance in the Swedish bond market 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 51bn (93) was repurchased. The average maturity of all outstanding covered bonds was 43 months (39) at 31 December.

Risk management
Risk is inherent to 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. Swedbank Mortgage is a responsible financial partner, and it is in Swedbank Mortgage's interest that customers don't take unnecessary risks either. This is ensured by assessing each customer's financial situation, ability to repay and resilience in both the short and long term. Systematic analysis of retail credit exposures is done through continuous reviews of individual commitments. In the case of corporate customers', financial institutions' and sovereigns' exposures, these are re-assessed at least once a year.

Only developed properties with 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. The low portfolio risk was confirmed by internal and external stress test results.

The majority of Swedbank Mortgage's lending consists of mortgages to private customers in Sweden. Prices on the Swedish housing market stabilised after a downturn in autumn 2017. Market activity remained high. To ensure customers' 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 on tenant-owned apartments, the analysis includes a higher fee to the tenant-owner association. Swedbank Mortgage continuously re-evaluates its lending criteria.

The average loan-to-value ratio for loans to private customers was 55 per cent (53), based on property level. For new lending during the year the loan-to-value ratio was 68 per cent (67).

A specification of credit risks is provided in Note 4a.

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 and sensitivity to interest rate fluctuations are examples 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 calculations, 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 4c.

Operational risks
Swedbank Mortgage is exposed to operational risks in all its businesses. Increased regulation and digitisation are making it more complex to manage these risks, not least due to 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.

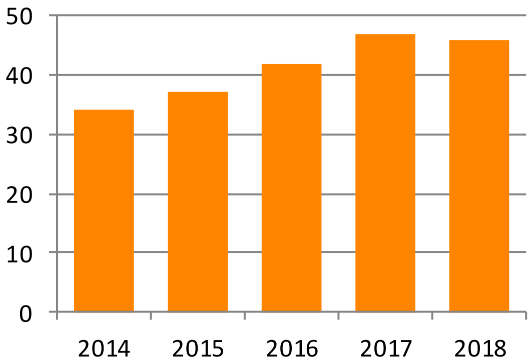
Operational risks are managed through self-assessments, incident management, and continuity and crisis management. When a new product, service or IT system is introduced or significant changes are made, a risk assessment is done.

Working consistently, on a daily basis, with operational risks is critical to maintaining low credit impairment levels. Losses related to operational risks remained very low and in 2018 no incidents occurred that significantly affected Swedbank Mortgage.

Capital adequacy
Swedbank Mortgage's legal capital requirement is based on the Capital Requirements Regulation (CRR), which sets the minimum requirement for Swedbank Mortgage as of 31 December 2018.

On 28 March 2018, the Swedish Financial Supervisory Authority published proposals for changes regarding the application of the risk weight floor for Swedish mortgages in order to maintain fair competition in the Swedish mortgage market. The proposal means that the risk weight floor, which had previously applied within the overall capital assessment in Pillar 2, was replaced by a minimum capital requirement in Pillar 1.
The measure, after approval at EU level, came into force on 31 December, 2018. For Swedbank Mortgage, this meant an increase in the risk exposure amount (REA) of SEK 208bn and thus a reduction of the reported common Tier 1 capital ratio and the capital requirement expressed as a percentage of REA.

COMMON EQUITY TIER 1 CAPITAL (SEKbn)



Swedbank Mortgage's Common Equity Tier 1 capital decreased by SEK 1bn during the year to SEK 46bn (47bn) on 31 December 2018, primarily due to the company's profit being transferred as a group contribution to Swedbank AB. The capital requirement was SEK 21 395m (4 585).

The risk exposure amount (REA) increased by SEK 210bn to SEK 267bn (57). The increase was mainly due to a change in the method used to apply the risk weight floor for Swedish mortgages, which meant an increase in REA of SEK 208bn because the risk weight floor was included as a supplement in Pillar 1 under Article 458 of the CRR. Capital adequacy is further 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 comprise revised standardised approaches to calculate capital requirements for credit, market, counterparty and operational risks. They also introduced a minimum leverage ratio requirement (Tier 1 capital in relation to the total exposure measure, where the exposure measure includes both assets and off-balance sheet items) and an aggregate capital floor based on proposed standardised approaches for banks that use internal models. The new regulatory framework will enter into force in 2022 and be fully implemented 2027.

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

Swedbank Mortgage's leverage ratio as of 31 December 2018 was 4.6 per cent (4.8).

Rating

Swedbank Mortgage is one of the largest players on the Swedish covered bond market with top ratings (Aaa/ AAA) from both Moody's Investors Service and S&P Global Ratings. Swedbank Mortgage has ratings of Aa2 from Moody's and AA- from S&P.

In April Moody's upgraded its rating on Swedbank Mortgage to Aa2 after it also upgraded Swedbank. S&P's rating was unchanged in 2018.

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

Events after 31 December 2018

No material events have occurred after 31 December 2018.

Corporate governance

Swedbank Mortgage is a wholly owned subsidiary of Swedbank AB. To create economies of scale with Swedbank, Swedbank Mortgage's operations 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 manage the company's operating activities. 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. The Board has during the year participated education within relevant areas. In addition, it will, on a regular basis, address and evaluate the company's current risks and risk management. The Board also has an audit committee.

Internal governance and control

The Board and the CEO are ultimately responsible for internal governance and control. 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 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 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 compliance plan.

Risk

The Chief Risk Officer (CRO) helps the Board, the CEO and other operations fulfil their responsibility for ensuring the business maintains adequate risk management and control 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 operations. The CRO operates independently and 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 and the CEO have the ultimately responsibility that the financial reporting complies with external regulations. The company has an internal regulation, Internal Control of Financial Reporting (ICFR), to manage this.
These regulations contain controls with the purpose to provide reasonable assurance of the reliability of the financial reporting.
Controls 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 and on quarterly basis to the Board. In addition, the compliance and risk organisation 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**	**2018**	**2017**	**2016**	**2015**	**2014**
Interest income	16 087	16 218	16 646	18 831	22 891
Interest expenses	-2 757	-3 284	-4 836	-8 124	-14 798
Net interest income	**13 330**	**12 934**	**11 810**	**10 707**	**8 093**
Net commission income	26	1	63	38	47
Other operating income	-180	-850	-650	-1 433	-496
Total income	**13 176**	**12 085**	**11 223**	**9 312**	**7 644**
Other operating expenses	**264**	**259**	**253**	**258**	**262**
Profit before impairments	**12 912**	**11 826**	**10 970**	**9 054**	**7 382**
Credit impairments	123	62	20	30	37
Operating profit	**12 789**	**11 764**	**10 950**	**9 024**	**7 345**
Appropriations	-450	-618			
Tax expense	2 913	2 728	2 410	2 000	1 618
Profit for the year	**10 326**	**9 654**	**8 540**	**7 024**	**5 727**

Balance sheet **SEKm**	**2018**	**2017**	**2016**	**2015**	**2014**
Assets					
Loans to credit institutions	21 783	23 534	56 835	69 864	47 626
Loans to the public	1 008 724	968 222	919 572	857 910	821 547
Other assets	23 045	21 247	30 893	33 440	38 681
Total assets	**1 053 552**	**1 013 003**	**1 007 300**	**961 214**	**907 854**
Liabilities and equity					
Liabilities					
Amount owed to credit institutions	488 240	419 608	374 741	335 590	322 387
Debt securities in issue	502 881	522 090	563 201	556 663	520 089
Other liabilities	16 262	24 951	23 971	28 391	28 109
Subordinated liabilities			4 000	4 000	4 000
Total liabilities	**1 007 383**	**966 649**	**965 913**	**924 644**	**874 585**
Equity	**46 169**	**46 354**	**41 387**	**36 570**	**33 269**
Total liabilities and equity	**1 053 552**	**1 013 003**	**1 007 300**	**961 214**	**907 854**

Financial statements and notes

Income statement

SEKm	Note	2018	2017
Interest income, including negative yield on financial assets		**16 087**	**16 218**
Interest expenses		-3 083	-3 390
Negative yield on financial liabilities		326	106
Interest expenses, including negative yield on financial liabilities		**-2 757**	**-3 284**
Net interest income	7	**13 330**	**12 934**
Commission income		61	63
Commission expenses		-35	-62
Net commission income	8	**26**	**1**
Net gains and losses on financial items at fair value	9	-185	-855
Other operating income		5	5
Total income		**13 176**	**12 085**
Total general administrative expenses	10,11	**264**	**259**
Profit before impairments		**12 912**	**11 826**
Credit impairments	12	123	62
Operating profit		**12 789**	**11 764**
Appropriations	23	-450	-618
Tax	13	2 913	2 728
Profit for the year		**10 326**	**9 654**
Of which attributable to the shareholders of the parent company		10 326	9 654
Earnings per share, before and after dilution, SEK	14	448.96	419.74

Statement of comprehensive income

SEKm	Note	2018	2017
Profit for the year - income statement		**10 326**	**9 654**
Items that may be reclassified to the income statement			
Cash flow hedges:			
Gains/losses for the period		5 366	-580
Reclassification adjustments to the income statement, net gains and losses		-5 313	
Reclassification adjustments to the income statement, net interest income			13
Foreign currency basis risk:			
Gains/losses arising during the period		-336	
Tax relating to components of other comprehensive income	15	59	125
Total comprehensive income for the year, attributable to shareholders of Swedbank Mortgage		**10 102**	**9 212**
Of which attributable to the shareholders of the parent company		10 102	9 212

Balance sheet

SEKm	Note	2018	2017
Assets			
Loans to credit institutions		21 783	23 534
Loans to the public	16	1 008 724	968 222
Value change of interest hedged items in portfolio hedge		760	791
Derivatives	17	21 702	18 602
Deferred tax assets		119	60
Other assets	18	464	693
Prepaid expenses and accrued income	19		1 101
Total assets		**1 053 552**	**1 013 003**
Liabilities and equity			
Liabilities			
Amounts owed to credit institutions		488 240	419 608
Debt securities in issue	20	502 881	522 090
Derivatives	17	2 551	5 567
Current tax liabilities	21	414	1 041
Other liabilities and provisions	21	12 602	11 953
Accrued expenses and prepaid income	22	695	5 940
Total liabilities		**1 007 383**	**966 199**
Untaxed reserves	23		**450**
Equity	24	**46 169**	**46 354**
Total liabilities and equity		**1 053 552**	**1 013 003**

Statement of changes in equity

SEKm	Restricted equity		Non-restricted equity			
	Share capital	Statutory reserve	Cash flow hedge reserve	Foreign currency basis reserve	Retained earnings	Total equity
Closing balance 31 December 2017	**11 500**	**3 100**	**-212**		**31 966**	**46 354**
Amendments due to the adoption of IFRS 9			**217**	**-217**	**-740**	**-740**
Opening balance 1 January 2018	**11 500**	**3 100**	**5**	**-217**	**31 226**	**45 614**
Group contributions paid					-12 240	-12 240
Tax reduction due to Group contributions paid					2 693	2 693
Total comprehensive income for the year			42	-266	10 326	10 102
of which reported through profit or loss			1			1
of which reported through other comprehensive income, before tax			52	-336		-284
of which income tax reported through other comprehensive income			-11	70		59
Closing balance 31 December 2018	**11 500**	**3 100**	**47**	**-483**	**32 005**	**46 169**
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 reported through profit or loss			13			13
of which reported through other comprehensive income, before tax			-580			-580
of which income tax reported through other comprehensive income			125			125
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	2018	2017
Operating activities		
Operating profit	12 789	11 764
Adjustments for non-cash items in operating activities	-5 860	-1 814
Taxes paid [1)]	-403	-639
Increase in loans to the public	-40 604	-49 729
Increase in amounts owed to credit institutions	68 631	44 868
Increase in other assets	-2	16
Increase in other liabilities	226	27
Cash flow from operating activities	**34 777**	**4 493**
Financing activities		
Issuance of interest-bearing securities	87 906	132 463
Redemption of interest-bearing securities	-113 864	-162 207
Shareholders´ contribution		4 000
Decrease in other funding		-4 000
Group contributions paid	-10 570	-8 050
Cash flow from financing activities	**-36 528**	**-37 794**
Cash flow for the period	**-1 751**	**-33 301**
Cash and cash equivalents at the beginning of the period	**23 534**	**56 835**
Cash flow for the period	-1 751	-33 301
Cash and cash equivalents at end of the period	**21 783**	**23 534**

[1)] Including also the tax effect of the Group contribution, amounting to SEK 2 693m.

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 16 222m (15 966) and interest payments, including capitalised interest, of SEK 3 925m (4 069).

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	2018	2017
Unrealised fx effects, bonds in issue	7 379	831
Accrued income and prepaid expenses	138	252
Accrued expenses and prepaid income	-1 185	-721
Change in value of loans to the public and credit institutions	30	1 739
Change in value of funding and derivatives	-12 056	-3 382
Other items	-166	-533
Total	**-5 860**	**-1 814**

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.

1 Corporate information

The annual report for Swedbank Mortgage (publ) for the financial year 2018 was approved for issuance by the Board of Directors and the CEO on 19 February 2019. 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.

2 Accounting policies

Contents

1 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.

2 CHANGES IN ACCOUNTING POLICIES

The following adoption of accounting pronouncements and changes are applied in the financial reports during 2018.

Financial Instruments (IFRS 9)
On 1 January 2018, Swedbank Mortgage adopted IFRS 9 Financial Instruments. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and includes requirements for recognition, classification and measurement, impairment, derecognition and hedge accounting. The major changes from IAS 39 relate to classification and measurement, impairment and hedge accounting. The related accounting policies applied from 1 January 2018 are set out below in the significant accounting policies.

The classification, measurement and impairment requirements were applied retrospectively. The hedge accounting requirements were applied prospectively, except for the retrospective application of the exclusion of the currency basis spread component from cash flow hedging relationships. As permitted by IFRS 9, Swedbank Mortgage did not restate comparative periods and, accordingly, all comparative period information is presented in accordance with the accounting policies as set out below in the significant accounting policies. Furthermore, new or amended disclosures are presented for the current period according to IFRS 9, where applicable, while comparative period disclosures are consistent with those made in the prior year. Adjustments to carrying amounts of financial assets and liabilities at the date of initial application of 1 January 2018 were recognized in the opening equity in the current period. The adoption impacts are disclosed in note 30.

Revenue from contracts with customers (IFRS 15)

On 1 January 2018, Swedbank Mortgage adopted IFRS 15 Revenue from contracts with customers. The adoption did not have any impact on Swedbank Mortgage´s financial position, results or cash flows.

Other changes in IFRS and Swedish regulations

Other new or amended IFRSs or interpretations or Swedish regulations which have been adopted during 2018 have had no or immaterial impacts on Swedbank Mortgage´s financial position, results, cash flows or disclosures.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 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 executive 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 presents the statement of comprehensive income in the form of two statements. A separate income statement contains all revenue and expense items, provided that a special IFRS does not require or allow otherwise. Other revenue and expense items are recognised in other comprehensive income. The statement of comprehensive income contains the profit or loss recognised in the income statement as well as the components included in other comprehensive income.

Changed presentation of accrued interest

From 1 January 2018, the Swedbank Mortgage presents contractually accrued interest on financial assets and financial liabilities as part of the carrying amount of the related asset or liability the balance sheet. Previously, the contractually accrued interest was presented within Prepaid expenses and accrued income or Accrued expenses and prepaid income. The balance sheet as of 31 December 2017 adjusted for this changed presentation of accrued interest is presented in note 30. The balance sheets for comparative periods have not been restated.

3.2 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. Outstanding forward exchange contracts are translated at closing day forward rates. All gains and losses on the translation of monetary items, including the currency component in forward exchange contracts, and non-monetary items measured at fair value are recognised in the income statement in net gains and losses on financial items at fair value as changes in exchange rates.

3.3 Financial instruments 2018, (IAS 32, IFRS 9)

3.3.1 General

Financial instruments represent the largest part of Swedbank Mortgage's 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 and contractual rights to receive cash are examples of financial assets, 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 the Swedbank Mortgage becomes a party to the instrument's contractual pro- visions, with the exception of financial assets 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.

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 financial 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.

Swedbank Mortgage holds some financial liabilities at amortised cost with negative yields, which are presented as separate line within Net interest income in the income statement.

3.3.2 Classification and measurement

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. Accounting policies regarding credit impairment provisions are disclosed in section 3.3.3.

Financial assets at fair value through profit or loss

Financial assets classified as measured at fair value through profit or loss is comprised of derivative assets that are not designated for hedge accounting.
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-profits 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 are recognised through profit or loss in 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:

- 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 are analogous 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.

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.

3.3.3 Credit impairment

Credit impairment provisions are recognised on the following financial instruments: financial assets that are measured at amortised cost and irrevocable loan commitments issued. 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, the company 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.

The Swedbank Mortgage's IFRS 9 definitions of default and credit-impaired assets are aligned to the 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 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 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 have not experienced a significant increase in credit risk. Swedbank Mortgage applies this policy to financial instruments issued to sovereign and financial institutions 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. For the mortgage portfolio a behavioral life model is used which predicts the likelihood that an exposure will still be open and not defaulted at any point during its remaining life (accounting for the probability of early repayment).

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.

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.
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.

3.3.4 Hedge accounting (IFRS 9, IAS 39)

Fair value hedges (IFRS 9)

Hedge accounting at fair value is applied in certain cases when the interest rate exposure in a recognised financial asset or financial liability is 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 (IAS 39)

Portfolio hedge accounting at fair value is applied Swedbank Mortgage 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 (IFRS 9)

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, Swedbank Mortgage 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.

3.4 Financial instruments, 2017 (IAS 32, IAS 39)

3.4.1 General

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.

Presentation of 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.

3.4.2 Classification and measurement

The Swedbank Mortgage's 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 recognised 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 port-folio 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 late fees by a satisfactory margin.

Valuation category, other financial liabilities

Financial liabilities that are not recognised as financial instruments at fair value through profit or loss are initially recognised on the trade day at 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.

3.4.3 Hedge accounting (IFRS 9, IAS 39)

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.

3.5 Pensions (IAS 19)

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

3.6 Revenues, 2017 (IAS 18)

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

3.7 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.

3.8 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.

4 NEW STANDARDS AND INTERPRETATIONS

4.1 Standards issued but not yet adopted

The International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC) have issued new standards, amendments to standards and interpretations that apply in or after 2019. The IASB permits earlier application. For Swedbank Mortgage to apply them 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 any of these amendments in the 2018 annual report.
New or amended IFRSs or interpretations or Swedish regulations issued and not yet adopted are not expected to have a significant impact on the Swedbank Mortgage's financial position, results, cash flows or disclosures.

3 Critical accounting judgement and estimates

The presentation of consolidated financial statements in conformity with IFRS requires the 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. The 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. The 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.

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 funding portfolios the principle of fair value option accounting still applies since before 2009.

Estimates

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

Provision for credit impairments

The implementation of IFRS 9 resulted in a change in the estimates and assumptions related to credit impairment provisions. Consequently, the estimates and assumptions used for 2018 and 2017 are presented separately.

2018: Credit impairment provisions that are estimated using quantitative models incorporate inputs, assumptions and methodologies that involve a high degree of management judgement. In particular, the following can have a significant impact on the level of impairment provisions: the determination of a significant increase in credit risk and the incorporation of forward-looking macroeconomic scenarios. Incorporating forward-looking information requires significant judgment, both in terms of the scenarios to be applied and ensuring that only relevant forward-looking information is considered in the calculation of expected credit losses. An analysis of the sensitivity of credit impairment provisions in relation to significant increase in credit risk assumptions and in relation to the forward-looking macroeconomic scenarios is found on page 29.

Significant credit-impaired exposures (which are those where the borrower's or limit group's total group credit limit is SEK 50m or more), are assessed on an individual basis 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, of which at least one is a loss outcome. The possible outcomes consider both macroeconomic and non-macroeconomic (borrowerspecific) scenarios. The estimation of future cash flows takes into account a range of relevant factors such as the amount and sources of cash flows, the level and quality of the borrower's earnings, the realisable value of collateral, the Group's position relative to other claimants, the likely cost and duration of the work-out process and current and future economic conditions. The amount and timing of future recoveries depend on the future performance of the borrower and the valuation of collateral, both of which might be affected by future economic conditions; additionally, collateral may not be readily marketable. Judgements change as new information becomes available or as work-out strategies evolve, resulting in regular revisions to the credit impairment provisions. The change in credit impairment provisions recognized in the income statement in relation to individually assessed loans is SEK 21m.

The Swedbank Mortgage has not made changes in the estimation techniques or significant assumptions made during the reporting period.

2017: 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 similar activity will be used. When such prices or components of prices cannot be identified, the executive management must make its own assumptions. Note 29 shows financial instruments at fair value divided into three valuation levels: quoted prices (Level 1), valuation models with observable market inputs (Level 2) and valuation models with internal assumptions (Level 3). Swedbank Mortgage has no financial instruments measured at fair value within Level 3.

4 Risks

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. Individual CEO limits have been established for the types of risks to which the company is exposed. The CEO 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 and information risks.

Other risks
Include business risk, pension risk, strategic risk, reputational risk, environmental and sustainability 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, reputational risk, environmental and sustainability 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 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.
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 include corruption and environmental risks.

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

Risk measurement
Swedbank Mortgage's internal risk classification system is the basis for:
• Risk assessment and credit decisions
• Calculating risk-adjusted returns (including RAROC)
• Calculating portfolio provisions
• Monitoring and managing credit risks (including migrations)
• Reporting credit risks to the Board and CEO
• Developing credit strategies and associated risk management activities
• Calculating capital requirements and capital allocation

Risk class is assessed and assigned as part of each credit decision. The risk class also affects the scope of the analysis and documentation and how customers are monitored. In this way, low-risk transactions can be approved through a simpler and faster credit process. The risk classification is also a key part of the monitoring of individual credit exposures.

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 above 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

To ensure the most accurate internal rating possible, various risk classification models have been developed. There are primarily two types of models; one is based on statistical methods, requiring access to a large amount of information on counterparties and sufficient information regarding counterparties that have entered into default. In cases where statistical methods are not applied, models are created where the evaluation criteria are based on expert opinions.

The models are validated when new models are introduced and when major changes are made, as well as on a periodic basis (at least annually). The validation is designed to ensure that each model measures risk in a satisfactory manner. In addition, the models are evaluated to ensure that they work well in daily credit operations. The models normally produce a likelihood of default over a one-year horizon.

Measurement of expected credit losses

From 1 January 2018, Swedbank Mortgage adopted IFRS 9 and measures credit impairment provisions based on expected credit losses. Expected credit losses are measured based on the stage to which the individual asset is allocated at each reporting date. For financial assets with no significant increase in credit risk since initial recognition (Stage 1), impairment provisions reflect 12-month expected credit losses. For financial assets with a significant increase in credit risk (Stage 2) and those which are credit impaired (Stage 3), impairment provisions reflect lifetime expected credit losses. Such measurements are estimated using internally developed statistical models or individual assessments of expected contractual cash flows, both of which involve a high degree of management judgement. The key inputs used in the quantitative models are: probability of default, loss given default, exposure at default and expected lifetime. Expected credit losses reflect both historical data and probability-weighted forward-looking scenarios. The portfolios for estimating expected credit losses are segmented according to the same segmentation that is applied for regulatory purposes, with shared risk characteristics. This is based on homogeneous sub segments of the total credit portfolio, such as country, business area, or product group.

Probability of default (PD)

The 12-month and lifetime PDs of a financial instrument represent the probability of a default occurring over the next 12 months and over its expected lifetime respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.
Internal risk rating grades based on IRB PD models are an input to the IFRS 9 PD models and historic default rates are used to generate the PD term structure, covering the lifetime of assets. The developed PD models are segmented based on shared risk characteristics such as obligor type, country, product group and industry segment, and are used to derive both the 12-month and lifetime PDs. Segment and country specific credit cycle indexes are forecasted given the macroeconomic outlook and alternative scenarios. For each ingoing scenario, PD term structures are adjusted based on the correlation to the forecasted credit cycle indexes, to obtain forward-looking point-in-time PD estimates.
Consequently a worsening of an economic outlook or an increase in the probability of the downside scenario occurring results in higher 12-month and lifetime PDs, thus increasing the estimated expected credit losses as well as the number of loans migrating from Stage 1 to Stage 2.

Loss given default (LGD)

LGD represents an estimate of the loss arising on default, taking into account the probability and the expected value of future recoveries including realization of collateral, the length of the recovery period and the time value of money. LGD estimates are based on historical loss data segmented by geography, type of collateral, type of obligor, and product information. Forward-looking information is reflected in the LGD estimates by using forecasted collateral value indexes for each macroeconomic scenario to adjust future loan-to-value and recovery rates. An economic outlook with deteriorating collateral values decreases recovery rates and increases loan-to-value, and therefore increases LGD and expected credit losses.

Exposure at default (EAD)

The EAD represents an estimated exposure at a future default date, considering expected changes in the exposure after the reporting date. Swedbank Mortgage's modelling approach for EAD reflects current contractual terms of principal and interest payments, contractual maturity date and expected utilisation of undrawn limits on revolving facilities and irrevocable off-balance sheet commitments.

Expected lifetime

Swedbank Mortgage measures expected credit losses considering the risk of default over the expected life.

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 the compay. Swedbank Mortgage uses a behavioural life model which predicts the likelihood that an exposure will still be open and not defaulted at any point during its remaining life (accounting for the probability of early repayment).

Determination of significant increase in credit risk

Swedbank Mortgage uses both quantitative and qualitative indicators for assessing a significant increase in credit risk. The table on the next page shows the quantitative thresholds, namely changes in 12-month PD and internal risk rating grades, which have been applied for the portfolio of loans originated before 1 January 2018. Internal risk grades are assigned according to the risk management framework and the significance of changes was determined by expert credit judgement, based on historical rating migrations. For instance, for exposures originated with a risk grade between 0 and 5, a downgrade by 1 to 2 grades from initial recognition is assessed as a significant change in credit risk. Alternatively, for exposures originated with a risk grade between 13 and 21, a downgrade by 5 to 7 grades from initial recognition is considered significant. These limits reflect a lower sensitivity to change in the low risk end of the risk scale and a higher sensitivity to change in the high risk end of the scale.

Swedbank Mortgage has performed a sensitivity analysis on how credit impairment provisions would change if the 12-month PD thresholds applied were increased or decreased by 1 rating grade. A threshold lower by 1 grade would increase the number of loans that have migrated from Stage 1 to Stage 2 and also increase the estimated credit impairment provisions. A threshold higher by 1 grade would have the opposite effect. The table below discloses the impacts of this sensitivity analysis on the 31 December 2018 credit impairment provisions. Positive amounts represent higher credit impairment provisions that would be recognised.
Financial instruments originated on or after 1 January 2018 are excluded from the sensitivity analysis due to that the impact of changing lifetime PD thresholds in the assessment of significant increase in credit risk on those loans is insignificant due to a short period since origination.

Significant increase in credit risk - loans with initial recognition before 1 January 2018

Internal risk rating grade at initial recognition	PD band at initial recognition	Threshold, rating downgrade[1) 2) 3)]	Impairment provision impact of: Increase in threshold by 1 grade	Impairment provision impact of: Decrease in threshold by 1 grade	Recognised credit impairment provisions 31 December 2018	Share of total portfolio (%) in terms of gross carrying amount 31 December 2018
13-21	< 0.5%	3 - 7 grades	-14,6%	29,9%	164	71%
9-12	0.5-2.0%	1 - 2 grades	-32,8%	50,1%	136	9%
6-8	2.0-5.7%	1 - 2 grades	-13,9%	12,4%	39	3%
0-5	>5.7% and <100%	1 - 2 grades	-3,6%	0,0%	14	1%
			-21,1%	**34,5%**	**353**	**84%**
Financial instruments subject to the low credit risk exemption					-	0%
Stage 3 financial instruments					166	0%
Financial instruments with initial recognition after 1 January 2018					50	16%
Total provisions					**569**	**100%**

1) Downgrade by 2 grades corresponds to approximately 100% increase in 12-month PD.

2) Thresholds vary within given ranges depending on the borrower's segment and internal risk rating.

3) The threshold used in the sensitivity analyses is floored to 1 grade.

Incorporation of forward-looking macroeconomic scenarios

Forward-looking information is incorporated into both the assessment of significant increase in credit risk and calculation of expected credit losses.
From analyses of historical data, Swedbank Mortgage´s risk management function has identified and reflected in the models relevant macroeconomic variables that contribute to credit risk and losses for different portfolios based on geography, borrower, and product type. The most highly correlated variables are GDP growth, housing and property prices, unemployment, oil prices and interest rates. Swedbank Mortgage continuously monitors the global macroeconomic environment, with particular focus on Sweden. This includes defining forward-looking macroeconomic scenarios for different jurisdictions and translating those scenarios into macroeconomic forecasts. The macroeconomic forecasts consider internal and external information and are consistent with the forward-looking information used for other purposes such as budgeting and forecasting. The base scenario is based on the assumptions corresponding to the bank's budget scenario and alternative scenarios reflecting more positive as well as more negative outlook are developed accordingly. The Group considers at least three scenarios when estimating expected credit losses, which are incorporated into the PD and LGD inputs for model-based expected credit losses.

In general, a worsening of an economic outlook on forecasted macroeconomic variables for each scenario or an increase in the probability of the worst case scenario occurring will both increase the number of loans migrating from Stage 1 to Stage 2 and increase the estimated credit impairment provisions. In contrast, an improvement in the outlook on forecasted macroeconomic variables or an increase in the probability of the best case scenario occurring will have the opposite impact. It is not possible to meaningfully isolate the impact of changes in the various macroeconomic variables for a particular scenario due to the interrelationship between the variables as well as the interrelationship between the level of pessimism inherent in a particular scenario and its probability of occurring.
The following table presents the credit impairment provisions as at 30 September 2018 that would result from the downside and upside scenarios, which are considered reasonably possible, being assigned probabilities of 100%.

Scenario	Credit impairment provisions resulting from the scenario	Difference from the recognised probability-weighted credit impairment provisions, %
Downside scenario	671	18%
Upside scenario	527	-7%

Credit-impaired assets

Credit-impaired assets are those where it is unlikely that payments will be received in accordance with the contractual terms and there is a risk that the bank will not receive full payment. The criteria for defining credit-impaired are disclosed on page 20. Swedbank Mortgage estimates expected credit losses on significant credit-impaired exposures individually and without the use of modelled inputs. Significant exposures are those where the borrower's or limit group's total group credit limit of the borrower is SEK 50m or more. The credit impairment provisions for these exposures are established using the discounted expected cash flows and considering a minimum of two possible outcomes, one of which is a loss outcome. The possible outcomes consider both macroeconomic and non-macroeconomic (borrower-specific) scenarios. The estimation of future cash flows takes into account a range of relevant factors such as the amount and sources of cash flows, the level and quality of the borrower's earnings, the realisable value of collateral, the Swedbank Mortgage's position relative to other claimants, the likely cost and duration of the work-out process and current and future economic conditions.

IFRS 9 vs Regulatory capital framework

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

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

Gross carrying amount by credit risk rating

The table below presents the credit quality, gross carrying or nominal amount of financial instruments and stage, where the financial instruments are subject to the IFRS 9 impairment requirements. The associated credit impairment provisions are also presented. This credit quality information is at 31 December 2018 and the risk grade information is found on page 27.

Gross carrying amount by credit risk rating 2018	Not credit-impaired		Credit-impaired		
SEKm	Stage 1	Stage 2	Stage 3	Purchased or Originated	Total
Loans to the public					
Low risk	913 996	6 595	28	-	920 619
Normal risk	42 384	22 445	16	-	64 845
Augmented risk	5 510	11 013	50	-	16 573
High risk	449	5 923	143	-	6 515
Defaults	0	0	741	-	741
Non-rated exposures	0	0	0	-	0
Impairment provision	-50	-353	-166	-	-569
Total	962 289	45 623	812	-	1 008 724

Loans to the public and credit institutions, at amortised cost, carrying amount 2018

	Non credit-impaired						Credit impaired			**Total**
	Stage 1 12 month ECL			Stage 2 Life time ECL			Stage 3 Life time ECL			
SEKm	Gross carrying amount	Impair-ment provi-sion	Net	Gross carrying amount	Impair-ment provi-sion	Net	Gross carrying amount	Impair-ment provi-sion	Net	
Loans to credit institutions										
Banks	21 783		21 783							21 783
Loans to credit institutions	**21 783**		**21 783**							**21 783**
Loans to the public										
Private customers	853 791	21	853 770	32 241	131	32 110	784	133	651	886 531
Private, mortgage	760 359	16	760 343	30 971	119	30 852	765	132	633	791 828
Tenant ow ner associations	93 432	5	93 427	1 270	12	1 258	19	1	18	94 703
Private,other										
Corporate customers	108 548	29	108 519	13 735	222	13 513	194	33	161	122 193
Agriculture, forestry, fishing	45 037	8	45 029	6 324	85	6 239	86	10	76	51 344
Manufacturing	697		697	95	1	94	5	1	4	795
Public sector and utilities	2 072	1	2 071	174	4	170	3	1	2	2 243
Construction	2 894	1	2 893	501	7	494	19	1	18	3 405
Retail	1 036		1 036	169	3	166	2		2	1 204
Transportation	367		367	48	2	46				413
Shipping and offshore	2		2	3		3				5
Hotels and restaurants	694		694	117	2	115				809
Information and communications	236		236	16		16				252
Finance and insurance	816	1	815	13		13				828
Property management	51 321	16	51 305	5 538	104	5 434	67	17	50	56 789
Residential properties	38 520	11	38 509	3 861	58	3 803	57	17	40	42 352
Commercial	7 481	2	7 479	1 023	21	1 002	4		4	8 485
Industrial and Warehouse	982	2	980	119	12	107	4		4	1 091
Other	4 338	1	4 337	535	13	522	2		2	4 861
Professional services	2 102	1	2 101	517	7	510	8	2	6	2 617
Other corporate lending	1 274	1	1 273	220	7	213	4	1	3	1 489
Loans to the public	**962 339**	**50**	**962 289**	**45 976**	**353**	**45 623**	**978**	**166**	**812**	**1 008 724**
Loans to the public and credit institutions	**984 122**	**50**	**984 072**	**45 976**	**353**	**45 623**	**978**	**166**	**812**	**1 030 507**
of w hich accrued interest	**903**			**56**			**7**			**966**
Collateral held as security										
Residential properties including tenant-ow ner apartments	875 941	26	875 915	35 242	161	35 081	781	127	654	911 650
Other real estate	76 949	16	76 933	9 695	148	9 547	167	29	138	86 618
Municipalities guaranteed	134		134	39	2	37	1		1	172
Other collateral	9 315	8	9 307	1 000	42	958	29	10	19	10 284
Total	**962 339**	**50**	**962 289**	**45 976**	**353**	**45 623**	**978**	**166**	**812**	**1 008 724**
Credit institutions guaranteed by Sw edbank AB	21 783		21 783							21 783
Total loans to the public and credit institutions	**984 122**	**50**	**984 072**	**45 976**	**353**	**45 623**	**978**	**166**	**812**	**1 030 507**

Concentration risk, customer exposure

At end of 2018, Swedbank Mortgage did not have any exposures against individual counterparties that exceeded 10 per cent of the capital base.

Reconciliations of gross carrying amount and credit impairment provisions

The table below provides a reconciliation of the gross carrying amount and credit impairment provisions for loans to the public at amortised cost.

Loans to the public and credit institutions

	Non Credit-Impaired		Credit-Impaired	
SEKm	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Gross carrying amount as of 1 January 2018	**949 019**	**42 144**	**1 196**	**992 359**
Gross carrying amount as of 31 December 2018	**984 122**	**45 976**	**978**	**1 031 076**
Credit impairment provisions				
Credit impairment provisions as of 1 January 2018	**41**	**259**	**151**	**451**
Movements affecting Credit impairments line				
New and derecognised financial assets, net	9	1	-23	-13
Changes in risk factors (EADF, PD, LGD)	22	-39	32	15
Changes in macroeconomic scenarios	6	21	8	35
Changes due to expert credit judgement (manual adjustments and individual assessments)			24	24
Stage transfers	-28	111	-26	57
from stage 1 to stage 2	-23	162		139
from stage 1 to stage 3	-7		9	2
from stage 2 to stage 1	2	-36		-34
from stage 2 to stage 3		-22	25	3
from stage 3 to stage 2		7	-28	-21
from stage 3 to stage 1			-32	-32
Other			-3	-3
Total	9	94	12	115
Movements recognised outside Credit impairments line	0	0	3	3
Discount unwind (presented in Interest income)	0	0	3	3
Credit impairment provisions as of 31 December 2018	**50**	**353**	**166**	**569**
Carrying amount				
Opening balance as of 1 January 2018	**948 978**	**41 885**	**1 045**	**991 908**
Closing balance as of 31 December 2018	**984 072**	**45 623**	**812**	**1 030 507**

Forborne loans

Forborne loans refer to loans where the contractual terms have been revised due to the customer's financial difficulties. The purpose of the forbearance measure is to enable the borrower to make full payments again, or when this is not considered possible, to maximise the repayment of outstanding loans. Revisions to contractual terms include various forms of concessions such as amortisation suspensions, reductions in interest rates to below market rates, forgiveness of all or part of the loan, or issuance of new loans to pay overdue amounts or avoid default. Revisions to contractual terms which are non-performing forbearance measures result in that the loan is also considered credit-impaired. Before a forborne loan ceases to be reported as forborne, all the criteria set by the European Banking Authority must be met. The following table shows the carrying amounts of forborne loans by credit impairment stage.

Loan write-offs

Loans are written off when the loss amount is ultimately established or after the disposal of credit-impaired loans. The remaining loan amount for those that are partially written off is still included in credit-impaired (stage 3) loans or and forborne loans. Previous provisions are utilised in connection with the write-off. The loss amount is ultimately determined when a receiver has presented a bankruptcy distribution, when a bankruptcy settlement has been reached, when a concession has been granted, or when the Swedish Enforcement Agency, or a collection company Swedbank Mortgage partners with, has reported that an individual has no distrainable assets. A write-off normally does not mean that the claim against the borrower has been forgiven. Generally, a proof of claim is filed against the borrower or guarantor after the write-off. A proof of claim is not filed when a legal entity has ceased to exist due to a bankruptcy, when a bankruptcy settlement has been reached or when receivables have been completely forgiven. The contractual amount outstanding on loans that were written off during 2018 and are still subject to enforcement activity is SEK 14m.

Gross carrying amount of forborne loans 2018

SEKm	2018
Performing (Not-credit impaired)	56
Non-Performing (Credit-impaired)	7
Total	**63**

Credit risk (2017)

The tables presented hereafter were included in the Annual and Sustainability Report 2017 and are presented according to IAS 39. As a result of the implementation of IFRS 9 on 1 January 2018, these tables are not directly comparable to the 2018 tables and are therefore presented separately.

Loans to the public and credit institutions, carrying amount 2017

	Loans individually assessed as not impaired				Loans individually assessed as impaired			
	Carrying amount before provisions		Portfolio provisions	Carrying amount after portfolio 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								
Sector/Industry [1)]								
Private customers	752 133	492	-36	752 589	95	-7	88	752 677
Tenant-ow ner 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 communicatio	251			251				251
Finance and insurance	796			796				796
Property management, housin	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-ow ner	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 Sw edbank 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

Impaired loans, historical values IAS 39

Impaired, past due and forborne loans

SEKm	2017
Impaired loans	
Carrying amount before provisions	270
Provisions for the year	-52
Book value after provisions	218
Net impaired loans ratio, %	0.02
Gross impaired loans ratio, %	0.03
Carrying amount of impaired loans that returned to normal status	25
Past due loans that are not impaired	
Valutation category, loans receivable	
Loan past due expired amount	
Loans past due, 5-30 days	44
Loans past due, 31-60 days	224
Loans past due, 60 days more than	240
Valutation category, fair value through profit and loss	
Loan past due expired amount	
Loans past due, 5-30 days	54
Loans past due, 31-60 days	31
Loans past due, 60 days more than	77
Total	**670**
Provisions	
Opening balance	**93**
Provisions for the year	49
Recoveries of previous provisions	-20
Provisions for loans that are not impaired	2
Closing Balance	**124**
Total provision ratio for impaired loans, % [1)]	45.80
Provision ratio for individually identified impaired loans, %	19.10

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

Impaired loans are loans where it is unlikely that the payments will be received in accordance with the contractual terms and that there is a risk that the bank will not receive full payment. A loan is considered as an impaired loan when there is objective proof that a loss event has occurred on an individual level following the first reporting date of the loan, and that a risk of loss arises when the loan's anticipated future cash flows differ from the contractual cash flows (both discounted by the loan's original effective interest rate). A loan in default is also always considered as an impaired loan. Loss events on an individual level arise when a borrower incurs significant financial difficulties, when it is likely that the borrower will go into bankruptcy or liquidation, when the borrower is facing a financial reconstruction, a breach of contract such as late or non-payment of interest or principal, or various concessions due to the borrower's financial difficulties. Exposures that are overdue by more than 90 days or exposures where the terms have changed in a significant manner due to the borrower's financial difficulties are automatically considered as an impaired loan and as being in default. Impaired loans correspond to loans in stage 3 according to the accounting framework IFRS9. The provisioning level can either be assessed automatically by systems implemented by the bank or through individual assessment and decisions from authorised credit committee.

Credit risk exposure on loans to the public according to the internal risk classification1)

		2017			
Exposure at default	**Risk scales**	Private	Corporate	Forestry & Agriculture	Total
Default	Defaulted	488	76	493	1 057
High risk	0-5	3 270	1 036	1 326	5 632
Heightened risk	6-8	5 479	5 008	4 219	14 706
Normal risk	9-12	20 267	25 965	15 590	61 822
Low risk	13-21	680 122	163 899	40 441	884 462
Non-risk rated					
Total [2]		**709 626**	**195 984**	**62 069**	**967 679**

[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.

The Board of Directors determines Swedbank Mortgages overall risk appetite for liquidity and has therefore established limits for the Survival Horizon as well as a limit on the minimum of unutilised capacity in the cover pool for issuance of covered bonds (Over Collateralisation, OC).

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.

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.

Undiscounted contractual cash flows, remaining maturity

SEKm

2018	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	21 783							21 783
Loans to the public		3 802	12 053	62 918	77 811	850 562	1 578	1 008 724
Derivatives		779	2 436	14 084	3 432	655	316	21 702
Other assets							1 343	1 343
Total assets	**21 783**	**4 581**	**14 489**	**77 002**	**81 243**	**851 217**	**3 237**	**1 053 552**
Liabilities								
Amounts owed to credit institutions		5 506	481 923	1 487			-676	488 240
Debt securities in issue		1 178	31 103	428 843	32 516	24 223	-14 982	502 881
Derivatives		389	1 034	1 015	385	488	-760	2 551
Other liabilities							13 711	13 711
Total liabilities		**7 073**	**514 060**	**431 345**	**32 901**	**24 711**	**-2 707**	**1 007 383**

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

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
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

4c Market risk - Interest rate risk

Definition

Interest rate risk refers to the risk that Swedbank Mortgage's results, equity or value will be negatively affected by changes in interest rates or other relevant risk factors. The majority of the Swedbank Mortgage's interest rate risks is structural and arises within the banking operations when there is a mismatch between the interest fixing periods of assets and liabilities, including derivatives. The interest rate risk in fixed rate assets, primarily customer loans, accounts for the large part of this risk and is hedged through fixed-rate funding or by entering into various types of swap agreements with Swedbank AB. An increase in all market interest rates of one percentage point would have reduced the value of the Swedbank Mortgage's assets and liabilities, including derivatives by SEK -571m (-551) as of 31 December 2018.

Net gains and losses on financial items, before taking into account cash flow hedges, would have increased by SEK 146m (decreased 129) for the portion of Swedbank Mortgage's balance sheet measured at fair value through the income statement. This would have increased equity by SEK 114m (decreased 101).

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

2018

	< 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	-11	-7	-23	-74	-99	-96	-43	-6	-5	-364
Foreign currency	0	0	-9	-25	-24	-15	-28	-49	-57	-207
Total	**-11**	**-7**	**-32**	**-99**	**-123**	**-111**	**-71**	**-55**	**-62**	**-571**

of which financial instruments measured at fair value through profit and loss

	< 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	32	16	86	36	24	0	0	0	0	194
Foreign currency	-28	-2	-11	-3	4	0	0	-7	-1	-48
Total	**4**	**14**	**75**	**33**	**28**	**0**	**0**	**-7**	**-1**	**146**

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		-232	-170	-14	31	1	-102	76	-551
Foreign currency										
Total	**-141**		**-232**	**-170**	**-14**	**31**	**1**	**-102**	**76**	**-551**

of which financial instruments measured at fair value through profit and loss

	< 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	196	8	-238	-82	-22	-10	-36	33	22	-129
Foreign currency										
Total	**196**	**8**	**-238**	**-82**	**-22**	**-10**	**-36**	**33**	**22**	**-129**

4d Market risk – Currency risk

Definition

Currency risk refers to the risk that the value of the Swedbank Mortgage's assets and liabilities, including derivatives, will be negatively affected by changes in exchange rates or other relevant risk factors. 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

2018

SEKm	SEK	EUR	USD	GBP	NOK	Other	Total
Assets							
Loans to credit institutions	21 783						21 783
Loans to the public	1 008 724						1 008 724
Other assets, not distributed	23 045						23 045
Total	**1 053 552**						**1 053 552**
Liabilities							
Amounts owed to credit institutions	488 240						488 240
Debt securities in issue	332 774	144 150	8 992	8 061	5 378	3 526	502 881
Other liabilities, not distributed	16 262						16 262
Total	**837 276**	**144 150**	**8 992**	**8 061**	**5 378**	**3 526**	**1 007 383**
Other assets and liabilities, including derivative positions		**144 150**	**8 992**	**8 061**	**5 378**	**3 526**	
Net position in currencies		**0**	**0**	**0**	**0**	**0**	

2017

SEKm	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**	

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, is 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, which sets the minimum requirement for Swedbank Mortgage as of 31 December 2018.

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.

Until 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, 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 Regulation (EU) No 575/2013 of the European Parliament and the Council on supervisory requirements for credit institutions as well as Implementing Regulation (EU) No 1423/2013 of the European Commission can be found in the Swedbank Group´s report on Swedbank's website: https://www.swedbank.com/investor-relations/financial-information-and-publications/risk-report/

Capital adequacy

SEKm	2018	2017
Shareholders' equity according to the balance sheet	46 169	46 354
Share of capital in tax allocation		351
Unrealised value changes in own financial liabilities due to changes in own credit valuation	18	46
Cash flow hedges	-47	212
Additional valuation adjustments [1)]	-4	-16
Net provisions for reported IRB credit exposures		-375
Common Equity Tier 1 capital	**46 136**	**46 572**
Total Tier 1 capital	**46 136**	**46 572**
Tier 2 capital	98	
Total own funds	**46 234**	**46 572**
Minimum capital requirement for credit risks, standardised approach	24	12
Minimum capital requirement for credit risks, IRB	3 371	3 340
Minimum capital requirement for operational risks	1 359	1 201
Additional minimum capital requirement, Article 3 CRR	32	32
Additional minimum capital requirement, Article 458 CRR [4)]	16 609	
Minimum capital requirement [2)]	**21 395**	**4 585**
Risk exposure amount credit risks, standardised approach	297	149
Risk exposure amount credit risks, IRB	42 135	41 756
Risk exposure amount operational risks [3)]	16 986	15 011
Additional risk exposure amount, Article 3 CRR	403	403
Additional risk exposure amount, Article 458 CRR [4)]	207 615	
Risk exposure amount	**267 436**	**57 319**
Common Equity Tier 1 ratio, %	17.3	81.3
Tier 1 capital ratio, %	17.3	81.3
Total capital ratio, %	**17.3**	**81.3**

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

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

[3)] According to standardised method, retail bank

[4)] Additional risk exposure amount and minimum capital requirement following the changed application of the risk weight floor for Swedish mortgages according to decision from the SFSA

Leverage ratio	**2018**	**2017**
Tier 1 capital, SEKm	46 136	46 572
Leverage ratio exposure measure, SEKm	1 015 054	970 475
Leverage ratio, %	4.6	4.8

Credit risks, IRB

SEKm	2018 Exposure amount	2018 Average risk weight, %	2018 Minimum capital rqmnt.	2017 Exposure amount	2017 Average risk weight, %	2017 Minimum capital rqmnt.
Central government or central banks exposures	6 094	4	19	7 362	4	22
Institutional exposures	217	32	6			
Corporate exposures	46 172	22	822	41 869	23	777
Retail exposures	963 050	3	2 524	921 590	3	2 538
Non-credit obligations	45	13	0	94	49	3
Total credit risks according to IRB approach	1 015 578	4	3 371	970 915	4	3 340
Total credit risks according to standardised approach	56 603	1	24	53 397	0	12
Total	**1 072 181**	**4**	**3 395**	**1 024 312**	**4**	**3 352**

Capital buffer requirement [1],%

	2018	2017
CET 1 capital requirement including buffer requirements	9.0	9.0
of which minimum CET 1 requirement	4.5	4.5
of which capital conservation buffer	2.5	2.5
of which countercyclical capital buffer	2.0	2.0
CET 1 capital available to meet buffer requirement [2]	9.3	73.3

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

[2] Calculated as CET capital ratio, less minimum requirement of 4.5% (excluding buffer requirements) and less any CET1items used to meet the Tier 1 and total capital requirements

Exposure amount, risk exposure amount and minimum capital requirement	2018			2017		
SEKm	Exposure amount	Risk exposure amount	Minimum capital rqmnt.	Exposure amount	Risk exposure amount	Minimum capital rqmnt.
Credit risks, standardised approach	**56 603**	**297**	**24**	**53 397**	**149**	**12**
Institutional exposures	56 484			53 337		
Equity exposures	119	297	24	60	149	12
Credit risks, IRB	**1 015 578**	**42 135**	**3 371**	**970 915**	**41 756**	**3 340**
Central government or central banks exposures	6 094	233	19	7 362	273	22
Institutional exposures	217	70	6			
Corporate exposures	46 172	10 277	822	41 869	9 708	777
Retail exposures	963 050	31 548	2 524	921 590	31 729	2 538
of which mortgage lending	958 011	31 381	2 511	921 590	31 729	2 538
of which other lending	5 039	167	13			
Non-credit obligations	45	7	0	94	46	3
Operational risks		**16 986**	**1 359**		**15 011**	**1 201**
of which standardised approach		16 986	1 359		15 011	1 201
Additional risk exposure amount according to article 3 CRR		**403**	**32**		**403**	**32**
Additional risk exposure amount according to article 458 CRR		**207 615**	**16 609**			
Total	**1 072 181**	**267 436**	**21 395**	**1 024 312**	**57 319**	**4 585**

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.

The models that serve as the basis for the internal capital assessment measure the need for economic capital over a one year horizon with a 99.9 per cent confidence interval for each risk type. Diversification effects between risk types are not taken into consideration in the calculation of economic capital.

Risk types

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

- Credit risk
- Concentration risk
- Market risk
- Market risk: Interest risk in banking book
- 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

Swedbank Mortgage's internal capital requirement as of 31 December 2018 amounted to SEK 5.6bn. The capital that meets this requirement, i.e. the capital base, amounted to SEK 46.2bn.

6 Operating segments

SEKm	2018				2017			
	Private	Corporate	Forestry and Agriculture	Total	Private	Corporate	Forestry and Agriculture	Total
Net interest income	10 869	1 380	875	13 124	10 573	1 205	911	12 689
Net commissions	20	4	2	26	1	0	0	1
Total income	**10 889**	**1 384**	**877**	**13 150**	**10 574**	**1 205**	**911**	**12 690**
Total cost	217	3	22	242	217	3	23	243
Profit before impairments	**10 672**	**1 381**	**855**	**12 908**	**10 357**	**1 202**	**888**	**12 447**
Credit impairments	67	62	-6	123	15	2	45	62
Operating profit, segment	**10 605**	**1 319**	**861**	**12 785**	**10 342**	**1 200**	**843**	**12 385**
Loans to the public	792 654	155 756	60 314	1 008 724	753 350	152 763	62 109	968 222

Reconcilitation of segment reporting and income statement

SEKm	2018					2017				
	Net interest income	Total income	Total expenses	Credit impair-ments	Opera-ting profit	Net interest income	Total income	Total expenses	Credit impair-ments	Opera-ting profit
Total segments	13 124	13 150	242	123	12 785	12 689	12 690	243	62	12 385
Return on legal equity	206	206			206	245	245			245
Net gains and losses on financial items		-185			-185		-855			-855
Other income		5			5		5			5
Other expenses			22		22			16		16
Operating profit according to income statement	**13 330**	**13 176**	**264**	**123**	**12 789**	**12 934**	**12 085**	**259**	**62**	**11 764**

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. The commission income in net commissions are services provided point in time and are related to payment processing commissions. The alloction to segments is based on business volume.
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. Sw edbank Mortgage does not have any single customer that generates 10% or more of the Company´s total income.

7 Net interest income

SEKm	2018	2017
Interest income		
Loans to credit institutions	8	8
Loans to the public	16 079	16 210
Total interest income	**16 087**	**16 218**
Interest expense		
Amounts owed to credit institutions	244	-153
Debt securities in issue	-5 555	-6 518
Derivatives	3 400	3 942
Subordinated debt		-13
Other	-846	-542
of which resolution fee	-846	-540
Total interest expense including negative yield on financial liabilities according to income statement	**-2 757**	**-3 284**
Total net interest income	**13 330**	**12 934**
Average balance		
Loans to credit institutions	45 166	47 585
Loans to the public	990 010	942 667
Amount owed to credit institutions	460 257	394 733
Debt securities in issue	540 438	553 041
Interest income on financial assets at amortised cost	16 087	13 802
Interest expense on financial liabilities at amortised cost	5 889	6 916
Interest income on Stage 3 loans (impaired loans in 2017)	18	4

8 Net commission income

SEKm	2018	2017
Commission income		
Payment processing	**61**	63
Total	**61**	**63**
Commission expenses		
Fees to the Swedish National Board of Housing, Building and Planning	0	-1
Market maker fees	-35	-61
Total	**-35**	**-62**
Total net commission income	**26**	**1**

Commission income are services provided point in time. Allocation to operating segments is based on business volume.

9 Net gains and losses on financial items

SEKm	2018	2017
Fair value through profit and loss		
Debt securities in issue	260	267
Derivatives	-309	155
Lending to the public		-1 021
Total fair value through profit and loss	**-49**	**-599**
Hedge accounting		
Ineffective part in hedge accounting at fair value	-14	75
of which hedging instruments	-301	4 483
of which hedged items	287	-4 408
Ineffective part in portfolio hedge accounting at fair value	-38	-34
of which hedging instruments	-8	-692
of which hedged items	-30	658
Ineffective part in cash flow hedge	2	
Total hedge accounting	**-50**	**41**
Derecognition gain or loss for financial liabilities at amortised cost	**-255**	**-383**
Derecognition gain or loss for loans at amortised cost	**116**	**112**
Change in exchange rates	**53**	**-26**
Total net gains and losses on financial items at fair value	**-185**	**-855**

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	2018	2017
President		
Salaries and other remuneration	1.1	1.0
Pension costs	0.5	0.5
Social insurance charges	0.4	0.3
Other employees		
Salaries and other remuneration	5.1	4.2
Pension costs	2.0	1.0
Social insurance charges	1.9	1.5
Other staff costs	0.0	0.0
Total	**11.0**	**8.5**
of which profit-based staff costs	0.0	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	2018	2017
Loans to the President	3	3
Loans to Board members	14	17
No. of employees with loans	7	7

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 number of persons	2018	2017
Board of Directors	5	5
of which men	2	2
of which women	3	3

11 Other expenses

SEKm	2018	2017
Purchased services	242	246
of which Deloitte AB [1)]		
Statutory audit	2	2
Other audit	1	1
Other	8	5
Total	**253**	**251**

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

12 Credit impairments

SEKm	2018 (IFRS 9)
Loans at amortised cost	
Credit impairment provisions - Stage 1	9
Credit impairment provisions - Stage 2	94
Credit impairment provisions - Stage 3	12
Total	**115**
Write-offs	14
Recoveries	-6
Total	**8**
Total loans at amortised cost	**123**
Total Credit impairments	**123**
Credit impairment ratio, %	**0.01**

SEKm	2017 (IAS 39)
Provisions for loans individually assessed as impaired	
Provisions	49
Reversal of previous provisions	-7
Provisions for homogenous groups of impaired loans, net	0
Total	**42**
Portfolio provisions for loans individually assessed as not impaired	**2**
Write-offs	
Established losses	35
Utilisation of previous provisions	-13
Recoveries	-4
Total	**18**
Credit impairments, net	**62**
Credit impairments by valuation category	
Loans recievable	56
Fair value through profit and loss	6
Total	**62**
Credit impairments by borrower category	
General public	
Write-off and provisions	86
Recoveries from previous years' actual credit impairments	-24
Total	**62**

13Tax

SEKm	2018	2017
Tax expense		
Tax related to previous years	0	0
Current tax	2 913	2 728
Total	**2 913**	**2 728**

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

	SEKm	%	SEKm	%
Result	2 913	22	2 728	22
Prevailing tax rate	2 913	22	2 724	22
Difference	**0**	**0**	**4**	**0**

14 Earnings per share

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

SEKm	2018	2017
Profit attributable to the shareholders of Sw edbank Mortgage, SEKm	10 326	9 654
Average number of shares outstanding, million	23	23
Earnings per share, SEK	**448.96**	**419.74**

15 Tax for each component in other comprehensive income

SEKm	2018		
	Amount before tax	Deferred tax	Amount after tax
Cash flow hedges	53	-11	42
Foreign currency basis risk reserve	-336	70	-266
Other comprehensive income	**-283**	**59**	**-224**

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

16 Loans to the public

SEKm	2018	2017
Loans to the public	1 008 724	968 222
Total loans to the public	**1 008 724**	**968 222**
Number of loans	1 636 265	1 633 011

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

17 Derivatives

Swedbank Mortgage trades in derivatives for the purpose of hedging certain positions that are exposed to interest rate and currency risks. Interest rate swaps that hedge the interest rate risk component in loan portfolios or in certain debt securities in issue are sometimes recognized as hedging instruments in hedge accounting at fair value. The derivatives are recognized at fair value with changes in value through profit or loss in the same manner as for other derivatives.

SEKm	2018				2017	2018	2017	2018	2017
	Remaining contractual maturity, nominal amount					Positive market values		Negative market values	
SEKm	<1 year	1-5 year	> 5 year	Total	Total				
Derivatives in hedge accounting									
Fair value hedge									
Interest-rate swaps	18 025	327 199	47 620	392 844	373 537	9 212	9 563	258	479
Portfolio fair value hedge									
Interest-rate swaps	77 050	246 405	12 350	335 805	240 905	207	277	1 401	1 392
Cash flow hedge									
Currency swaps	1 992	89 452	41 895	133 339	110 983	9 951	5 484	271	815
Total	**97 067**	**663 056**	**101 865**	**861 988**	**725 425**	**19 370**	**15 324**	**1 930**	**2 686**
Other derivatives									
Interest-rate related contracts									
Swaps	30 383	25 983	103	56 469	93 495	315	693	113	569
Currency-related contracts									
Swaps	2 754	27 537	669	30 960	49 492	2 017	2 585	508	2 312
Total	**33 137**	**53 520**	**772**	**87 429**	**142 987**	**2 332**	**3 278**	**621**	**2 881**
Grand total	**130 204**	**716 576**	**102 637**	**949 417**	**868 412**	**21 702**	**18 602**	**2 551**	**5 567**

Fair value hedge

Swedbank Mortgage´s approach to managing market risk, including interest rate risk, and its exposure to those risks are presented in note 4. The risk of changes in interest rates on the fair value of certain fixed rate financial instruments is mitigated in accordance with the Swedbank Mortgag´s risk management strategy by using interest rate swaps. Where hedge accounting is applied, interest rate risk on fixed rate loans to the public is hedged on a portfolio basis whereas debt securities in issue are identified and hedged on an issuance by issuance basis. Interest rate swaps designated as the hedging instruments are reported in the balance sheet in the Derivatives line.
Designated fair value hedge relationships are used to hedge the benchmark interest rate risk, which is an observable and reliably measurable component of the interest rate risk and of the fair value. Where hedge accounting is applied, Swedbank Mortgage ensures that the relationships meet the criteria outlined in note 2 including the effectiveness requirements.
Hedge ineffectiveness is reported in the income statement as Net gains and losses on financial items. Potential sources of hedge ineffectiveness are primarily related to different discount curves applied for the valuation of the respective hedged item and the interest rate swaps.

One-to-one hedges – effectiveness assessment under IFRS 9

The economic relationship between the debt securities and the interest rate swap are assessed using a qualitative analysis of the critical terms. The critical terms are matched between the financial instruments, particularly regarding currencies and tenors. The fair values of the instruments are expected to move in opposite directions as a result of changes in the hedged benchmark interest rate risk. The hedge ratio is 1:1 as the nominal amount of the interest rate swap matches the issued amount of the hedged debt securities or subordinated liabilities. Swedbank Mortgage assesses hedge effectiveness by comparing the changes in fair value of the debt securities resulting from movements in the benchmark interest rate with the changes in fair value of the designated interest rate swaps.

Portfolio hedges– effectiveness test under IAS 39

Mortgage loans are grouped into quarterly time buckets based on the next interest rate fixing dates. Each time bucket position is hedged using interest rate swaps with a nominal amount covering a portion of the total loans. A specified loan amount in each time bucket is therefore designated as the hedged item. The portfolio fair value hedges are assessed for effectiveness both prospectively and retrospectively. The prospective assessment is performed using a qualitative analysis of the critical terms of the hedged item and the interest rate swap. The retrospective assessment is performed daily on cumulative basis by using of the dollar offset method. The changes in fair value of the mortgage loans due resulting from movements in the benchmark interest rate are compared with the changes in fair value of the designated interest rate swaps. The tables below provide information relating to the hedged items and hedging instruments in qualifying fair value hedge relationships.

Hedging instruments and hedge ineffectiveness

		Carrying amount [1]			
	Nominal amount	Assets	Liabilities	Change in fair value used for measuring hedge ineffectiveness (for the period)	Ineffectiveness recognised in Profit or loss [2]
Interest rate risk					
Interest rate swap, Portfolio hedge	335 805	207	1 401	-8	-38
Interest rate swap, Debt securities in issue	392 844	9 212	258	-301	-14
Total	**728 649**	**9 419**	**1 659**	**-309**	**-52**

[1] Hedging instrument are presented on the balance sheet line derivatives

[2] Ineffectiveness in hedge accounting are presented on line Net gains and losses in the income statement

Hedged items

	Carrying amount		fair value hedge		
	Assets	Liabilities	Assets	Liabilities	Change in value used for measuring hedge ineffectiveness (for the period)
Portfolio hedge, Loans to the public	336 565		760		-30
Debt securities in issue		407 408		7 566	287
Total	**336 565**	**407 408**	**760**	**7 566**	**257**

Maturity profile and average price, Fair value hedges of interest rate risk

	Remaining contractual maturity		
	<1 yr	**1-5 yrs.**	**>5 yrs.**
Portfolio hedge			
Nominal amount (m SEK)	77 050	246 405	12 350
Average fixed interest rate %	-0.11	0.21	0.93
Fair value hedges			
Nominal amount (m SEK)	18 025	327 199	47 620
Average fixed interest rate %	1.06	0.46	2.13

Cash flow hedge

Swedbank Mortgage´s approach to managing market risk, including currency risk, and its exposure to those risks are presented in note 4. In accordance with Swedbank Mortgage's risk management strategy, currency swaps are entered into to mitigate the foreign currency risk on future principal and interest payments of foreign currency debt securities. The hedged items are the aggregate exposures of foreign currency fixed rate debt securities in issue and interest rate swaps in the same foreign currency. The hedging instruments are currency swaps, which convert the foreign currency cash flows into SEK. The foreign currency basis spread in the currency swaps is excluded from the hedge accounting relationship and is accounted for as described in note 2. Currency swaps designated as hedging instruments are reported in the balance sheet in the Derivatives line.

Designated cash flow hedge relationships are used to hedge against movements in foreign currency. Where hedge accounting is applied, Swedbank Mortgage ensures that the relationships meet the criteria outlined in note 2. Swedbank Mortgage ensures that designated hedge relationships fulfil the effectiveness requirements. The economic relationship between the aggregate exposure and the currency swap are assessed using a qualitative analysis of the critical terms, which are matched. The fair values of the instruments are expected to move in opposite directions as a result of a change in the foreign currency rate. The hedge ratio is 1:1 as the nominal amount of the currency swap matches the nominal amount of the hedged aggregate exposure.

Swedbank Mortgage assesses hedge effectiveness by comparing the changes in fair value of the aggregate exposure due to movements in the foreign currency rate with the changes in fair value of the designated part of the currency swaps. The changes in fair value of the aggregate exposure are calculated using a hypothetical derivative, which reflects the terms of the aggregate exposure. Hedge ineffectiveness is reported in the income statement as Net gains and losses on financial items. Potential sources of hedge ineffectiveness are primarily related to different discount curves applied for the valuation of the respective hedged item and the interest rate swaps.

The tables below provide information relating to the hedged items and hedging instruments in qualifying cash flow hedge relationships.

Hedging instruments and hedge ineffectiveness

		Carrying amount [1]					
	Nominal amount	Assets	Liabilities	Change in fair value used for measuring hedge ineffective-ness (for the period)	Change in value of the hedging instrument recognised in Cash flow hedge reserve	Ineffective-ness recognised in Profit or loss [2]	Amount reclassified from the Cash flow hedge reserve to Profit or loss [3]
Foreign currency risk							
Cross currency swaps, EUR/SEK	133 339	9 951	271	5 367	53	1	5 313

[1] Hedging instruments are presented on the balance sheet line derivatives

[2] Ineffectiveness in hedge accounting is presented on line Net gains and losses in the income statement

[3] Reclassification affects line Net gains and lossis in the income statement

Hedged items

	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve
Foreign currency risk		
EUR Debt securities in issue and Interest rate swaps	-5 377	59

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

	< 1 yr	1-3 yrs	3-5 yrs	5-10 yrs	>10 yrs
Negative cash flows	1 885	56 255	34 271	28 793	17 353

Future cash flows above, expressed in SEKm, are exposed to variability attributable to changed interest rates and/or changed currency rates.
These future cash flows are hedged with derivatives, recognised as cash flow hedges, with opposite cash flows that eliminate the variability.

Maturity profile and average price, Cash flow hedges of foreign currency denominated Debt securities in issue

	Remaining contractual maturity		
	<1 yr	1-5 yrs.	>5 yrs.
Foreign currency risk			
Nominal amount (m SEK)	1 992	89 452	41 895
Average EUR FX rate	10.41	9.32	9.77

18 Other assets

SEKm	2018	2017
Security settlement claims		
Tax account	414	645
Other assets	50	48
Total	**464**	**693**

19 Prepaid expenses and accrued income

SEKm	2018	2017
Accrued interest income		1 101
Other		0
Total		**1 101**

20 Debt securities in issue and subordinated liabilities

SEKm	2018	2017
Covered bonds	495 315	514 318
Change in value due to hedge accounting at fair value	7 566	7 772
Total debt securities in issue	**502 881**	**522 090**

Turnover during the period

SEKm	2018	2017
Closing balance	**522 090**	**567 201**
Changed presentation of accrued interest [1)]	**5 193**	
Opening balance	**527 283**	
Issued	87 906	132 463
Repurchased	-51 378	-93 421
Prepaid subordinated loan		-4 000
Repaid	-62 486	-70 036
Change in market value or in hedged item in fair value hedge accounting	-5 311	-10 550
Changes in exchange rates	8 000	433
Change in accrued interest	-1 133	
Closing balance	**502 881**	**522 090**

[1)] See further information in note 30

21 Other liabilities

SEKm	2018	2017
Security settlement liabilities		1 250
Current tax liabilities	414	1 041
Debt to group entity	12 240	10 570
Other liabilities	362	133
Total	**13 016**	**12 994**

22 Accrued expenses and prepaid income

SEKm	2018	2017
Accrued interest expense		5 227
Other	695	713
Total	**695**	**5 940**

23 Appropriations

SEKm	2018	2017
Tax allocation reserve		450
Total		**450**

Tax allocation reserve from 2012, amounting to SEK 450m, has been reversed to the income statement during 2018. No new allocation has been made.

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

SEKm	2018	2017
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	9 745
Cash flow hedge reserve	47	-212
Foreign currency basis reserve	-483	
Other retained earnings	19 860	19 821
Total	**31 569**	**31 754**
Total equity	**46 169**	**46 354**
Changes in equity during the period are reported in the statement of changes in equity	555	4 967
Number of shares		
Approved and issued, million	23	23

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

25 Pledged assets, contingent liabilities and commitments

SEKm	2018	2017
Assets pledged		
Loans receivable pledged for covered bonds 1)	497 691	518 805
Repos 2)	4 456	2 721
Commitments	13 525	9 959
Total	**515 672**	**531 485**

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.

26 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	2018	2017
Group receivables		
Loans to credit institutions	21 783	23 534
Derivatives	21 702	18 602
Other assets	23	23
Total	**43 508**	**42 159**
Group liabilities		
Amounts owed to credit institutions [1)]	488 240	419 608
Debt securities in issue	4 945	2 244
Derivatives	2 551	5 567
Other liabilities	12 283	10 606
Total	**508 019**	**438 025**
Statement of comprehensive income		
Interest income	8	8
Interest expense	3 633	3 757
Other expenses	-16	-19
Total	**3 625**	**3 746**

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.

SEKm	2018	2017
Group receivables		
Other assets	17	7
Total	**17**	**7**
Group liabilities		
Debt securities in issue		
Accrued expenses and prepaid income	9	9
Total	**9**	**9**
Statement of comprehensive income		
Commission expense	-18	-19
Interest income	24	8
Interest expense		
Total	**6**	**-11**

Senior executives

See note 10 for further information.

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

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

SEKm	2018	2017
Assets		
Financial assets, which have not been offset or are subject to netting or similar agreements	0	0
Financial assets, which have been offset or are subject to netting or similar agreements	21 702	18 602
Carrying amount presented in the balance sheet	**21 702**	**18 602**
Related amount not offset in the balance sheet		
Derivatives, netting agreements	2 551	5 567
Net amount - assets	**19 151**	**13 035**
Liabilities		
Financial liabilities, which have not been offset and not subject to netting or similar agreements		
Financial liabilities, which have been offset or are subject to netting or similar agreements	2 551	5 567
Carrying amount presented in the balance sheet	**2 551**	**5 567**
Related amount not offset in the balance sheet		
Derivatives, netting agreements	2 551	5 567
Net amount - liabilities	**0**	**0**

28 Valuation categories of financial instruments

Financial assets	2018			
	Fair value through profit or loss	Hedging Instruments	Amortised cost	Total
	Mandatorily			
Carrying Amount in SEKm	Trading			
Loans to credit institutions			21 783	21 783
Loans to the public			1 008 724	1 008 724
Derivatives	2 332	19 370		21 702
Other financial assets			464	464
Total	**2 332**	**19 370**	**1 030 971**	**1 052 673**

Financial liabilities	2018					
	Fair value through profit or loss		Total	Hedging Instruments	Amortised cost	Total
Carrying Amount in SEKm	Trading	Designated				
institutions					488 240	488 240
Debt securites in issue [1)]		4 004	4 004		498 877	502 881
Derivatives	621		621	1 930		2 551
Other financial liabilities					13 297	13 297
Total	**621**	**4 004**	**4 625**	**1 930**	**1 000 414**	**1 006 969**

[1)] Nominal amount of debt securities designated at fair value through profit or loss was SEK 3 680m

Financial assets	1/1/2018			
	Fair value through profit or loss	Hedging Instruments	Amortised cost	Total
	Mandatorily			
Carrying Amount in SEKm	Trading			
Loans to credit institutions			23 534	23 534
Loans to the public			968 375	968 375
Derivatives	3 278	15 324		18 602
Other financial assets			693	693
Total	**3 278**	**15 324**	**992 602**	**1 011 204**

Financial liabilities	1/1/2018					
	Fair value through profit or loss			Hedging Instruments	Amortised cost	Total
Carrying Amount in SEKm	Trading	Designated	Total			
institutions					419 642	419 642
Debt securites in issue [1)]		7 829	7 829		519 454	527 283
Derivatives	2 881		2 881	2 686		5 567
Other financial liabilities					12 666	12 666
Total	**2 881**	**7 829**	**10 710**	**2 686**	**951 762**	**965 158**

[1)] Nominal amount of debt securities designated at fair value through profit or loss was SEK 6 897m

Financial assets	**2017**				
	Fair value through profit or loss		**Hedging Instruments**	**Amortised cost**	**Total**
SEKm	**Trading**	**Designated**			
Loans to credit institutions				23 534	23 534
Loans to the public		92 681		875 541	968 222
Derivatives	3 278		15 324		18 602
Other financial assets				1 794	1 794
Total					**1 012 152**

Financial liabilities	**2017**				
	Fair value through profit or loss		**Hedging Instruments**	**Amortised cost**	**Total**
SEKm	**Trading**	**Designated**			
institutions				419 608	419 608
Debt securites in issue [1)]		7 677		514 413	522 090
Derivatives	2 881		2 686		5 567
Other financial liabilities				18 934	18 934
Total					**966 199**

[1)] Nominal amount of debt securities designated at fair value through profit or loss w as SEK 6 897m

29 Fair value of financial instruments

Carrying amounts and fair values of financial instruments

A comparison between the carrying amount and fair value of financial assets and financial liabilities is presented below.

SEKm	2018			2017		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Financial assets, IAS 39						
Loans to credit institutions	21 783	21 783		23 534	23 534	
of which measured at amortised cost	21 783	21 783		23 534	23 534	
Loans to the public	1 011 852	1 008 724	3 128	965 975	968 222	-2 247
of which measured at amortised cost	1 011 852	1 008 724	3 128	873 294	875 541	-2 247
of which measured at fair value through profit or loss				92 681	92 681	
Value change of interest hedged items in portfolio hedge	760	760		791	791	
Derivatives	21 702	21 702		18 602	18 602	
Other financial assets	464	464		1 794	1 794	
Total	**1 056 561**	**1 053 433**	**3 128**	**1 010 696**	**1 012 943**	**-2 247**
Non-financial assets		**119**			**60**	
Total		**1 053 552**			**1 013 003**	
Liabilities						
Financial liabilities, IAS 39						
Amounts owed to credit institutions	489 617	488 240		418 278	419 608	-1 330
of which measured at amortised cost	489 617	488 240	1 377	418 278	419 608	-1 330
Debt securities in issue etc.	505 790	502 881	2 909	527 815	522 090	5 725
of which measured at amortised cost	501 786	498 877	2 909	520 139	514 414	5 725
of which measured at fair value through profit or loss	4 004	4 004		7 677	7 677	
Derivatives	2 551	2 551		5 567	5 567	
Other financial liabilities	13 297	13 297		18 934	18 934	
Total	**1 011 255**	**1 006 969**	**4 286**	**970 594**	**966 199**	**4 395**
Non-financial liabilities		**414**				
Total		**1 007 383**			**966 199**	

Determination of fair value of financial instruments

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

The methods are divided into three different levels:

• Level 1: Unadjusted, quoted price on an active market

• Level 2: Adjusted, quoted price or valuation model with valuation parameters derived from an active market

• Level 3: Valuation model where significant valuation parameters are non-observable and based on internal assumptions.

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

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

Financial instruments recognised at fair value

The below table shows assets and liabilities that are recongnised at fair value disaggregated by valuation technique (fair value hierarchy).
Level 1 contains debt securities in issue that are traded on an active market. Fair values are determined using unadjusted quoted market prices.
Level 2 contains derivatives and debt securities in issue that are not traded on an active market. Fair value of these instruments is determined based on discounted cash flow models using market implied curves. The change in the value of debt securities in issue in Level 2, which are measured according to the fair value option and attributable to changes in own creditworthiness, amounted to SEK 23m (3) during the period. The value change is recognised in net gains and losses on financial items at fair value. Cumulative value changes amounted to SEK -23m (–46). The change due to own credit risk has been determined by calculating the difference in value based on current prices from external dealers for own credit risk in its own unquoted issues and the value based on prices of its own credit risk for its own unquoted issues on the origination date.

Swedbank Mortgage designated a portfolio of loans at fair value through profit or loss under IAS 39, primarily to avoid an accounting mismatch. Upon the application of IFRS 9 on 1 January 2018, the Group mandatorily revoked previous designations made under IAS 39 for loans to the public of SEK 92 803m, due to that there was no longer an elimination or significant reduction of an accounting mismatch. These loans to the public were reclassified to amortised cost under IFRS 9. Changes in the fair value of loans to the public, measured according the fair value option and attributable to changes in credit risk, amounted to SEK –6m during 2017 and were recognised as credit impairments. Cumulative value changes of that kind amounted to SEK –12m as of 31 December 2017. The amount is determined as the difference between current estimated creditworthiness and estimated creditworthiness of the borrower on the lending date. Other changes in fair value are considered to be attributable to changes in market risks.

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

Swedbank Mortgage has no financial instruments that are carried at fair value within Level 3.

mkr	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Loans to the public						92 681		92 681
Derivatives		21 702		21 702		18 602		18 602
Total		**21 702**		**21 702**		**111 283**		**111 283**
Liabilities								
Debt securities in issue	58	3 946		4 004	3 082	4 595		7 677
Derivatives		2 551		2 551		5 567		5 567
Total	**58**	**6 497**		**6 555**	**3 082**	**10 162**		**13 244**

Financial instruments at amortised cost

The following table summarises the fair value disaggregated into the three fair value levels for financial assets and liabilities measured at amortised cost on the balance sheet.

mkr	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Loans to credit institutions		21 783		21 783		23 534		23 534
Loans to the public		1 011 852		1 011 852		873 294		873 294
Total		**1 033 635**		**1 033 635**		**896 828**		**896 828**
Liabilities								
Amounts owed to credit institutions			489 617	489 617			418 278	418 278
Debt securities in issue	327 062	174 724		501 786	309 410	210 729		520 139
Total	**327 062**	**174 724**	**489 617**	**991 403**	**309 410**	**210 729**	**418 278**	**938 417**

For floating rate loans, the carrying amount is considered a good approximation of fair value. Fair value of fixed rate loans is derived from discounting expected cash flows in a way that reflects the current product margins for lending to borrowers of similar credit quality.

Fair values of amounts owned to credit institutions, which consist of loans owed to the parent company, are estimated using discounted cash flows, where risk-free interest rates are used.
For valuation techniques of debt securities in issue, see section "Financial instruments at fair value" above.

30 Effects of changes in accounting policies, IFRS 9

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

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

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

Reclassification of financial assets at transition to IFRS 9

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

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

Loans to the public

Swedbank Mortgage designated a portfolio of mortgage loans at fair value through profit or loss under IAS 39, primarily to avoid an accounting mismatch. Upon the application of IFRS 9, Swedbank Mortgage mandatorily revoked previous designations made under IAS 39 for loans to the public of SEK 92 681m, due to that there was no longer an elimination or significant reduction of an accounting mismatch. These loans to the public were reclassified to amortised cost under IFRS 9, as the business model is "hold to collect" and the cash flow characteristics assessments were met. The effect of the reclassification on operating profit for 2018 is presented in the table below.

SEKm	**2018**
Loans to the public	
From Fair value through profit or loss, Designated under IAS 39	
Fair value at 31 December 2018	82 204
Fair value loss that w ould have been recognised during 2018 in operating profit if the loans had not been reclassified	-327
Effective interest rate on initial application of IFRS 9	2.03%
Interest income recognised during 2018	1 714

Impairment provisions according to IAS 39 compared to IFRS 9

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

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

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

Impact of adopting IFRS 9 to equity

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

SEKm	Impact from transition to IFRS 9
Cash flow hedge reserve	
Closing balance under IAS 39 (31 December 2017)	-212
Reclassification to Foreign currency basis risk reserve, before taxes	278
Income tax reported through other comprehensive income	-61
Opening balance under IFRS 9 (1 January 2018)	**5**
Foreign Currency basis risk reserve	
Closing balance under IAS 39 (31 December 2017)	
Reclassification from cash flow hedges, before taxes	-278
Income tax reported through other comprehensive income	61
Opening balance under IFRS 9 (1 January 2018)	**-217**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	31 966
Reclassifications under IFRS 9	-624
Income taxes, reclassifications under IFRS 9	137
Remeasurements under IFRS 9	-324
Income taxes, remeasurements under IFRS 9	71
Opening balance under IFRS 9 (1 January 2018)	**31 226**

Swedbank Mortgage has elected to retrospectively apply the exclusion of the currency basis spread component from its cash flow hedging relationships. The primary impact is a reclassification from the cash flow hedge reserve to the new foreign currency basis spread reserve within equity.

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 12 240m are at the disposal of the annual general meeting:

SEKm	2018
Retained earnings earlier years	**21 679**
Fair value fund	-436
Profit for the year	10 326
Total at disposal	**31 569**
The Board proposes that the profit be carried forward to the next year	31 569
Total	**31 569**

32 Events after 31 December 2018

No material 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 188.

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.

Share of stage 3 loans, gross
Carrying amount of stage 3 loans, gross, in relation to the carrying amount of loans to credit institutions and the public, excluding provisions.

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 19 February 2019

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

Auditor's report submitted on 19 February 2019
Deloitte AB

Patrick Honeth
Authorised public accountant

Auditor’s report

To the general meeting of the shareholders of Swedbank Mortgage AB (publl) 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 2018 except for the corporate governance statement on page 9. The annual accounts of the company are included on pages 3-62 and 64 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 2018 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 audit committee 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 IFRS 9 is a complex area with significant impact on Swedbank Hypotek AB's business and financial reporting. IFRS 9 is a new and complex accounting standard which requires significant judgment to determine the loan loss provision.

Key areas of judgment include:

- The interpretation of the requirements to determine loan loss provisions under application of IFRS 9, which is reflected in Swedbank Hypotek AB’s expected credit loss model.
- The identification of exposures with a significant deterioration in credit quality.
- Assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices).

At December 31, 2018, loans to the public amounted to SEK 1 008 724 million, with loan loss provisions of SEK 569 million. Given the significance of loans to the public (representing 96% of total assets), the impact from the inherent uncertainty and subjectivity involved in assessing loan loss provisions, as well as the extensive disclosures required under IFRS 9, we consider this to be a key audit matter for our audit.

Refer to critical judgments and estimates in note 3 in the financial statements and related disclosures of credit risk in note 4 and 12.

Our audit procedures included, but were not limited to:

- We evaluated key controls within the loan loss provision process to verify if they are appropriately designed and operated effectively during the year; including key controls for approval, recording and monitoring of loans, input, accuracy, completeness and approval of loan loss provision. We also obtained an understanding of the process for key decisions from management and committee meetings that form part of the approval process for loan loss provisions.

- We involved our IT specialists and designed tests to verify if the key controls operated effectively during the year for the IT application used in the credit impairment process and verified the integrity of data used as input to the models including the transfer of data between source systems and the impairment models. We obtained an understanding of system-based and manual controls over the recognition and measurement of loan loss provisions and for key controls designed tests to verify if the controls operated effectively during the year.

- We assessed, supported by our credit risk modelling specialists, the modelling techniques and model methodologies against the requirements of IFRS 9. We assessed the sufficiency of a selection of the underlying models developed for loan loss provisions. We involved our credit risk modelling specialists in the consideration of principal credit risk modelling decisions against requirements of IFRS 9 and industry practice. We evaluated key assumptions, evaluated the calculation methodology and traced a sample of loans back to source data. We re-performed certain model calculations to evaluate the risk parameter inputs and outputs and ECL (Expected Credit Loss) amounts for appropriateness. We evaluated key assumptions such as thresholds used to determine SICR (Significant Increase in Credit Risk) and forward looking macroeconomic scenarios including the related weighting.

- For loan loss provision assessed 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 loan loss provision, including forecast of future cash flows, valuation of underlying collateral and estimates of recovery on default.

- 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, 2018, financial instruments measured at fair value, comprised of assets of SEK 21 702 million and liabilities of SEK 6 555 million. 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 (since the company has no instruments in level 3), where there is significant estimation uncertainty, which is why these instruments are considered to be a key audit matter for our audit.

Refer to critical judgments and estimates in note 3 and in the financial statement and related disclosures of financial instruments at fair value in note 28 and 29.

Our audit procedures included, but were not limited to:

- We obtained an understanding of the key controls in the valuation process, and designed tests to verify if the controls operated effectively during the year, which included controls over data inputs into valuation models, validation of valuation models and changes to existing models.
- For the level 2 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 Swedbank Hypotek AB's valuations.
- 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 obtained an understanding and tested key controls to verify if they operated effectively during the year over;

- management's principles and processes for modifications to the IT-environment,
- management's testing and monitoring of modifications in the IT-environment,
- management's procedures to segregate duties or monitor changes involving personnel working with development and production environments.

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 obtained an understanding of and tested key controls to verify if they operated effectively during the year over;

- IT-System job scheduling and alarm configuration capabilities,
- 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 obtained an understanding and tested key controls to verify if they operated effectively during the year over;

- the process for identity and access management, including access granting, change and removal,
- processes and tools to ensure availability of data as per user requests and business requirements, including data back-up and restore procedures,
- 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, 63 and 69. 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.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

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 2018 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, 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 28, 2018 and has been the company's auditor since prior to June 17, 1994.

Stockholm February 19, 2019

Deloitte AB

Patrick Honeth
Authorised public accountant

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