Swedbank Mortgage AB

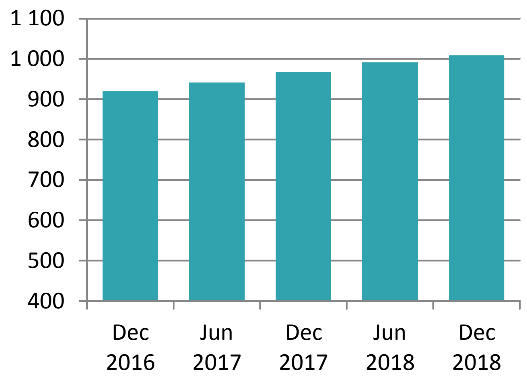
29 January 2019

Year-end report 2018

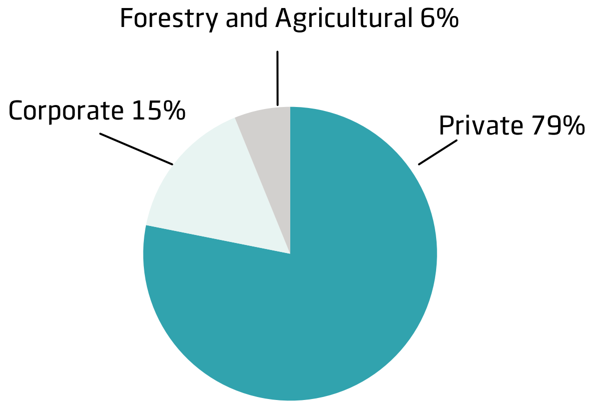
July – December 2018 (January – June 2018)

- Operating profit in the second half of 2018 amounted to SEK 6 243m (6 546)
- Net interest income decreased by SEK 94m to SEK 6 618m (6 712)
- Lending to the public increased by 1.7 per cent or SEK 17bn to SEK 1 009bn (992)
- Profit before impairments decreased by SEK 362m to SEK 6 275m (6 637)
- Credit impairments, net, according to IFRS 9, amounted to SEK 32m (91)
- Return on equity was 22.1 per cent (21.9)
- Covered bonds totalling SEK 22bn (66) were issued during the period

Lending to the public, SEK bn



Lending segments



Operating profit, July - December 2018

SEK 6 243m

Jan - Jun 2018: SEK 6 546m

Market share, mortgages, November 2018

24.3 %

June 2018: 24.4%

Business performance

	2018 31 Dec	2018 30 Jun	2017 31 Dec	2017 30 Jun	2016 31 Dec	2016 30 Jun	2015 31 Dec
Lending to the public, SEKbn	1 009	992	968	942	920	883	858
- Private	793	775	753	730	712	679	658
- Corporate	156	156	153	150	147	143	140
- Forestry and Agricultural	60	61	62	62	61	61	60
Number of customers, thousand	1 122	1 127	1 128	1 130	1 134	1 119	1 123
Private lending							
Market share mortgages % [1)]	24.3	24.4	24.4	24.5	24.8	24.5	24.6
Market share of net growth, full and half year % [1) 2)]	22.4	24.4	19.8	17.1	26.4	19.8	18.1
Volume growth market, ∆ 12-months % [1)]	5.7	6.8	7.2	7.2	7.6	8.8	8.5
Volume growth Swedbank Mortgage, ∆ 12-months % [1) 2)]	5.3	6.3	5.8	7.4	8.2	6.1	6.1
LTV total portfolio %	55	56	53	53	54	56	56
LTV new mortgages, current year	68	69	67	68	66	69	67
Share of total portfolio which amortises %	70	68	67	65	63	61	58
Share of portfolio which amortises, new mortgages, current year %	89	88	87	87	82	81	75
Funding							
Issued in last six months							
Swedish market, SEKbn	18	51	48	60	46	62	47
Outside Sweden, SEKbn	4	15	4	20	4	13	23
Average maturity of outstanding issued covered bonds, months	43	40	39	38	36	37	36

[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 acquisition of Sparbanken Öresund.

Financial overview and key ratios

SEKm	2018 Jul-Dec	2018 Jan-Jun	%	2017 Jul-Dec	%	2018 Full-year	2017 Full-year	%
Net interest income	6 618	6 712	-1	6 522	1	13 330	12 934	3
Net commissions	13	13	0	11	18	26	1	
Net gains and losses on financial items at fair value	-218	33		-349	-38	-185	-855	-78
Other income	3	2	50	2	50	5	5	0
Total income	**6 416**	**6 760**	**-5**	**6 186**	**4**	**13 176**	**12 085**	**9**
Other expenses	135	118	14	125	8	253	251	1
Staff costs	6	5	20	3	100	11	8	38
Total general administrative expenses	**141**	**123**	**15**	**128**	**10**	**264**	**259**	**2**
Profit before impairments	**6 275**	**6 637**	**-5**	**6 058**	**4**	**12 912**	**11 826**	**9**
Credit impairments, net	32	91	-65	47	-32	123	62	98
Operating profit	**6 243**	**6 546**	**-5**	**6 011**	**4**	**12 789**	**11 764**	**9**
Appropriations	-450			-618	-27	-450	-618	-27
Tax	1 473	1 440	2	1 459	1	2 913	2 728	7
Profit for the period	**5 220**	**5 106**	**2**	**5 170**	**1**	**10 326**	**9 654**	**7**

SEKm	2018 31 Dec	2018 30 Jun	2017 31 Dec	2017 30 Jun	2016 31 Dec
Profit					
Net interest margin, %	1.26	1.28	1.27	1.28	1.20
Average total assets	1 060 148	1 051 801	1 016 390	999 504	984 625
Return on equity, %	22.1	21.9	21.1	20.1	21.8
Average equity	46 770	46 613	45 683	44 687	39 165
Earnings per share, SEK	449.0	222.0	419.7	195.0	371.3
Equity					
Number of shares in issue at beginning/end of period, million	23	23	23	23	23
Equity per share, SEK	2 007	2 002	2 015	2 040	1 799
Credit quality					
Loans to the public	1 008 724	992 415	968 222	942 232	919 572
Loans to credit institutions	21 783	74 290	23 534	57 476	56 835
Credit impairments, net	123	91	62	15	20
Credit impairment ratio, %	0.01	0.01	0.00	0.00	0.00
Total provisions	569	542	124	100	93
Share of Stage 3 loans, gross %	0.09	0.10			
Share of impaired loans, gross, loans to the public, %			0.02	0.02	0.02
Total credit impairment provision ratio, %	0.06	0.05			

For more information on definitions and calculation of key ratios, please see page 33 and the 2017 Annual Report, page 52. The 2018 results reflect the adoption of IFRS 9 Financial instruments and prior periods have not been restated. Refer to Note 1 for further information.

Overview

Market

Since the summer of 2018 the global economy has been more bifurcated than in 2017. The US economy has shown continued strength, while Europe has slowed slightly. The trend in most emerging markets has been downward after the dollar strengthened and oil prices fell last autumn. In China growth continued to decline during the year despite support from expansionary economic policy.

Increased turbulence in the financial markets, as well as further indications of weaker economic prospects, did not refrain the Federal Reserve from raising its benchmark interest rate in December, 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 potential 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 at the end of 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 have been relatively stable with a yearly 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 during 2018 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 2019, 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, however, 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. 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 Requirements 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. Comparative figures have not been restated. See note 15 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. Comparative figures have not been restated. See note 15 for more information.

The year-end report contains alternative performance measures that Swedbank Mortgage considers valuable information for the reader, since they are used by the Swedbank Mortgage executive management and the Swedbank Group executive management for internal governance and performance measurement as well as for comparisons between reporting periods. Further information on the alternative performance measures used in the interim report can be found on page 33.

The company's development

(Comparative figures for the balance sheet refer to 30 June 2018, unless otherwise indicated)

Result second half of 2018 compared with first half of 2018

Swedbank Mortgage reported operating profit of SEK 6 243m in the second half of 2018, compared with SEK 6 546m in the previous half year. The decrease is due to weaker net interest income and weaker net gains and losses on financial items at fair value.

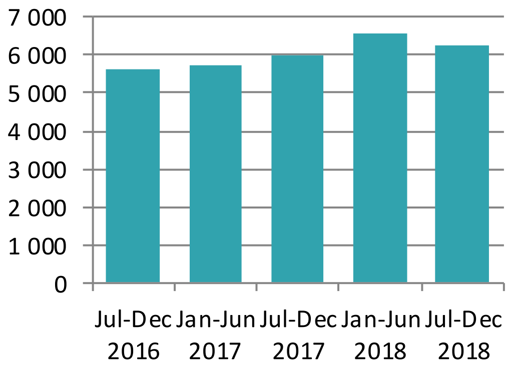
Net interest income decreased by SEK 94m to SEK 6 618m (6 712). Decreased margins due to increased interest expenses for funding negatively contributed to net interest income at the same time that lending continued to increase in the second half of 2018 and positively contributed to net interest income.

Net gains and losses on financial items decreased to SEK -218m (33) due to an increased negative effect from covered bond repurchases as well as negative effects on market valued instruments driven by movements in the fixed income and FX markets.

Expenses rose to SEK 141m (123) as a result of an increased supervisory fee from the Swedish Financial Supervisory Authority for 2018. Expenses include part of the compensation paid to the savings banks and partly owned banks. This expense amounted to SEK 121m (121). 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 decreased to SEK 32m (91). Provisions increased to SEK 569m (542). A specification of credit impairments and lending is provided in notes 5, 6 and 7.

OPERATING PROFIT (SEKm)



Result full-year 2018 compared with full-year 2017

Operating profit increased to SEK 12 789m, compared with SEK 11 764m in 2017. The increase is due to stronger net interest income and stronger 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 as well as 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.

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.

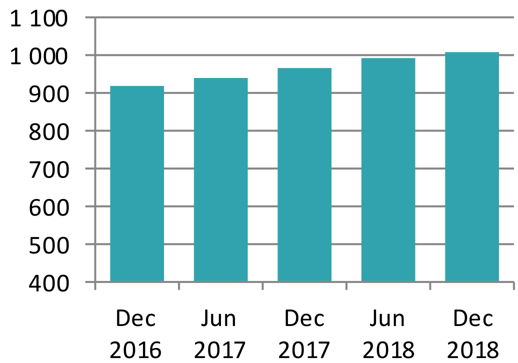
The credit quality of Swedbank Mortgage's lending remains very good and credit impairments were at a low level. Credit impairments, according to IFRS 9, increased to SEK 123m (SEK 62m according to IAS 39 in 2017). A provision was allocated for a large commitment in the second half of 2017, which increased 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 5, 6 and 7.

Lending

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

Loans to the public increased by 1.6 per cent, or SEK 16bn, in the second half of the year to SEK 1 009bn (992). The private segment accounted for SEK 793bn (775) and the forestry and agriculture segment for SEK 60bn (61). The corporate segment accounted for SEK 156bn (156).

LENDING TO THE PUBLIC (SEKbn)



Private

Growth in the Swedish mortgage market slowed compared with the previous year but maintained a high annual rate of 5.7 per cent as of 30 November 2018 (6.4). Swedbank Mortgage annual rate for the private segment was 5.3 per cent. Swedbank Mortgage lending within the private segment increased by 2.3 per cent, or SEK 18bn, in the second half of the year to SEK 793bn (775).

Swedbank's share of the year's net mortgage growth was 22.4 per cent as of 30 November 2018 and the total market share was 24.3 per cent as of 30 November 2018 (24.4).

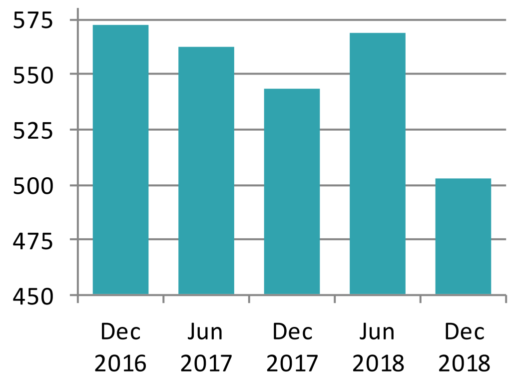
Corporate
Swedbank Mortgage lending within the corporate segment was unchanged in the second half of the year and amounted to SEK 156bn (156).

Forestry and agriculture
Swedbank Mortgage lending within the forestry and agriculture segment decreased by 1.6 per cent, or SEK 1bn, in the second half of the year to SEK 60bn (61).

Funding and liquidity

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

OUTSTANDING COVERED BONDS (SEKbn)



Swedbank Mortgage has simplified its funding process through a number of standardised loan programmes that are adapted to the legal requirements of various types of markets and investors.

Demand for Swedbank Mortgage's bonds was good. Swedbank Mortgage issued SEK 22bn (66) in covered bonds in second half of the year. Maturities in the second half of the year were nominally SEK 47bn (16) calculated from the beginning of the year.

As of 31 December outstanding funding through covered bonds amounted to SEK 503bn (569) at the same time that funding from Swedbank AB amounted to SEK 488bn (471).

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. In the second half of the year SEK 35bn (16) was repurchased. The average maturity of all outstanding covered bonds was 43 months (40) at 31 December.

Risks

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

Capital adequacy

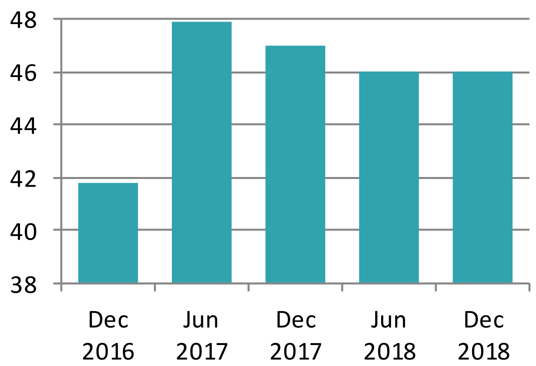
Swedbank Mortgage's legal capital requirement is based on the Capital Requirements Regulation (CRR).

On 28 March 2018 the Swedish Financial Supervisory Authority published proposed changes to the method for application of the risk weight floor for Swedish mortgages in order to maintain fair competition in the Swedish mortgage market. The proposal meant that the risk weight floor, which had previously applied in the overall capital assessment in Pillar 2, was replaced by a minimum capital requirement in Pillar 1. The measures, after approval at EU level, entered into force on 31 December 2018. For Swedbank Mortgage this meant an increase in REA of SEK 207.6bn and decrease in the reported Common Equity Tier 1 capital ratio and the capital requirement expressed as a percentage of REA.

Swedbank Mortgage's Common Equity Tier 1 capital ratio was 17.3 per cent on 31 December 2018 (74.6 per cent on 30 June 2018), compared with the requirement of 13.3 per cent.

Common Equity Tier 1 capital decreased by SEK 0.2bn in the second half of the year to SEK 46.2bn (46.4), mainly due to a group contribution transferred to the parent company. The risk exposure amount (REA) increased by SEK 205.1bn to SEK 267.4bn (62.3). 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 207.6bn 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 14.

COMMON EQUITY TIER 1 CAPITAL (SEKbn)



In December 2017 the Basel Committee agreed on the final Basel 3 rules, commonly called Basel 4. The rules were reviewed to improve the comparability of banks' capital ratios and 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 will be fully implemented 2027.
Until an assessment of the new regulatory framework'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 (4.6).

Credit and asset quality

Swedbank Mortgage's credit impairments and impaired loans remain at very low levels. Strong economic growth in Sweden contributed to the generally low risk in the credit portfolio. The low portfolio risk was reaffirmed by internal and external stress tests results. For more information on asset quality, see the Factbook for the Group and Swedbank Mortgage's Pillar 3 report.

The majority of Swedbank Mortgage's lending consists of mortgages to private customers in Sweden. House prices in Sweden have stabilised at a lower level after declining in the fourth quarter of 2017.

The average loan-to-value ratio for loans to private customers was 55 per cent (56), based on property level. For new lending in the half-year the loan-to-value ratio was 68 per cent (69).

Operational risks

No incidents occurred in the second half of 2018 that significantly affected Swedbank Mortgage. Losses related to operational risks remained very low.

Rating

Swedbank Mortgage is one of the largest players on the Swedish covered bond market with top ratings (Aaa/ AAA) from both Moody's 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.

Income statement, condensed

SEKm	2018 Jul-Dec	2018 Jan-Jun	%	2017 Jul-Dec	%	2018 Full-year	2017 Full-year	%
Interest income	**8 064**	**8 023**	**1**	**8 067**		**16 087**	**16 218**	**-1**
Interest expense	-1 573	-1 510	4	-1 602	-2	-3 083	-3 390	-9
Negative yield on financial liabilities	127	199	-36	57		326	106	
Interest expense, including negative yield on financial liabilities	**-1 446**	**-1 311**	**10**	**-1 545**	**-6**	**-2 757**	**-3 284**	**-16**
Net interest income (note 3)	**6 618**	**6 712**	**-1**	**6 522**	**1**	**13 330**	**12 934**	**3**
Commission income	30	31	-3	31	-3	61	63	-3
Commission expenses	-17	-18	-6	-20	-15	-35	-62	-44
Net commissions	**13**	**13**		**11**	**18**	**26**	**1**	
Net gains and losses on financial items at fair value (note 4)	-218	33		-349	-38	-185	-855	-78
Other income	3	2	50	2	50	5	5	0
Total income	**6 416**	**6 760**	**-5**	**6 186**	**4**	**13 176**	**12 085**	**9**
Total general administrative expenses	**141**	**123**	**15**	**128**	**10**	**264**	**259**	**2**
Profit before impairments	**6 275**	**6 637**	**-5**	**6 058**	**4**	**12 912**	**11 826**	**9**
Credit impairments, net (note 5)	32	91	-65	47	-32	123	62	98
Operating profit	**6 243**	**6 546**	**-5**	**6 011**	**4**	**12 789**	**11 764**	**9**
Appropriations (note 10)	-450			-618	-27	-450	-618	-27
Tax	1 473	1 440	2	1 459	1	2 913	2 728	7
Profit for the period	**5 220**	**5 106**	**2**	**5 170**	**1**	**10 326**	**9 654**	**7**

Statement of comprehensive income, condensed

SEKm	2018 Jul-Dec	2018 Jan-Jun	%	2017 Jul-Dec	%	2018 Full-year	2017 Full-year	%
Profit for the period reported via income statement	**5 220**	**5 106**	**2**	**5 170**	**1**	**10 326**	**9 654**	**7**
Items that may be reclassified to the income statement								
Cash flow hedges:								
Gains and losses arising during the period	-2 361	7 727		158		5 366	-580	
Reclassification adjustments to income statement, net gains and losses	2 338	-7 651				-5 313		
Reclassification adjustments to income statement, net interest income				7	-100		13	-100
Foreign currency basis risk:								
Gains/losses arising during the period	136	-472				-336		
Tax relating to components of other comprehensive income	-28	87		-36	-22	59	125	-53
Total comprehensive income attributable to shareholders of Swedbank Mortgage AB	**5 305**	**4 797**	**11**	**5 299**	**0**	**10 102**	**9 212**	**10**

Balance sheet, condensed

SEKm	2018 31 Dec	2018 30 Jun	Δ SEKm	%	2017 31 Dec	%
Assets						
Loans to credit institutions (note 6)	21 783	74 290	-52 507	-71	23 534	-7
Loans to the public (note 6)	1 008 724	992 415	16 309	2	968 222	4
Value change of interest hedged items in portfolio hedge	760	1 416	-656	-46	791	-4
Derivatives (note 8)	21 702	25 649	-3 947	-15	18 602	17
Deferred tax assets	119	147	-28	-19	60	98
Other assets	464	2 192	-1 728	-79	693	-33
Prepaid expenses and accrued income		435	-435	-100	1 101	-100
Total assets	**1 053 552**	**1 096 544**	**-42 992**	**-4**	**1 013 003**	**4**
Liabilities and equity						
Liabilities						
Amounts owed to credit institutions	488 240	471 196	17 044	4	419 608	16
Debt securities in issue (note 9)	502 881	568 902	-66 021	-12	522 090	-4
Derivatives (note 8)	2 551	3 163	-612	-19	5 567	-54
Current tax liabilities	414	402	12	3	1 041	-60
Accrued expenses and prepaid income	695	707	-12	-2	5 940	-88
Other liabilities	12 602	5 679	6 923		11 953	5
Total liabilities	**1 007 383**	**1 050 049**	**-42 666**	**-4**	**966 199**	**4**
Untaxed reserves (note 10)		450	-450	-100	450	-100
Equity	46 169	46 045	124		46 354	
Total liabilities and equity	**1 053 552**	**1 096 544**	**-42 992**	**-4**	**1 013 003**	**4**

Statement of changes in equity, condensed

SEKm	Restricted equity		Non-restricted equity			
	Share capital	Statutory reserve	Cash flow hedges	Foreign currency basis risk reserve	Retained earnings	Total equity
Closing balance 31 December 2017	**11 500**	**3 100**	**-212**		**31 966**	**46 354**
Amendments due to the adoption of IFRS 9			**217**	**-217**	**-740**	**-740**
Opening balance 1 January 2018	**11 500**	**3 100**	**5**	**-217**	**31 226**	**45 614**
Group contributions paid					-12 240	-12 240
Tax on group distributions paid					2 693	2 693
Total comprehensive income for the year			42	-266	10 326	10 102
Closing balance 31 December 2018			**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 on group distributions paid					2 325	2 325
Shareholders' contribution					4 000	4 000
Total comprehensive income for the year			-442		9 654	9 212
Closing balance 31 December 2017	**11 500**	**3 100**	**-212**		**31 966**	**46 354**
of which, conditional shareholders' contributions					2 400	2 400

Cash flow statement, condensed

SEKm	2018 Full-year	2017 Full-year
Operating activities		
Operating profit	12 789	11 764
Adjustments for non-cash items in operating activities	-5 860	-1 814
Taxes paid	-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/decrease 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 and repurchase of interest-bearing securities	-113 864	-162 207
Shareholders' contribution		4 000
Prepaid subordinated loan	0	-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**
Liquid funds with banks and equivalent institutions	21 783	23 534
Loans to credit institutions	21 783	23 534

Notes

The interim report has been prepared on a going concern basis.
On 28 January 2019, the Board of Directors and the CEO approved the interim report for publication. Swedbank Mortgage, which maintains its registered office in Stockholm, Sweden, is a wholly owned subsidiary of Swedbank (publ). All amounts in the notes are in millions of Swedish kronor (SEKm) and at book value unless otherwise indicated.

Note 1 Accounting policies

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

The accounting policies applied in the interim report conform to those applied in the Annual Report for 2017, which was prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpretations thereof. There have been no significant changes to Swedbank Mortgage's accounting policies set out in the 2017 Annual Report, except for the new standards and change as set out below.

Financial Instruments (IFRS 9)
On 1 January 2018, Swedbank Mortgage adopted IFRS 9 *Financial Instruments.* IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and includes requirements for recognition, classification and measurement, impairment, derecognition and hedge accounting. The major changes from IAS 39 relate to classification and measurement, impairment and hedge accounting. The related accounting policies applied from 1 January 2018 are set out in the 2017 Annual Report, page 21.

The classification, measurement and impairment requirements were applied retrospectively. The hedge accounting requirements were applied prospectively, except for the retrospective application of the exclusion of the currency basis spread component from cash flow hedging relationships, which will be applied retrospectively. As permitted by IFRS 9, Swedbank Mortgage did not restate comparative periods and, accordingly, all comparative period information is presented in accordance with the accounting policies as set out in the 2017 Annual Report. Furthermore, new or amended interim disclosures are presented for the current period according to IFRS 9, where applicable, while comparative period disclosures are consistent with those made in the prior year. Adjustments to carrying amounts of financial assets and liabilities at the date of initial application of 1 January 2018 were recognized in the opening equity in the current period. The adoption impacts are disclosed in note 15.

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

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

Note 2 Business segments

SEKm	2018 Full-year Private	2018 Full-year Corporate	2018 Full-year Forestry and Agricultural	2018 Full-year Total	2017 Full-year Private	2017 Full-year Corporate	2017 Full-year Forestry and Agricultural	2017 Full-year 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, segments	**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

Reconciliation of segment reporting and income statement, condensed

SEKm	2018 Full-year Total income	2018 Full-year Total expenses	2018 Full-year Credit impairments	2018 Full-year **Operating profit**	2017 Full-year Total income	2017 Full-year Total expenses	2017 Full-year Credit impairments	2017 Full-year **Operating profit**
Total segments	13 150	242	123	12 785	12 690	243	62	12 385
Return on legal equity	206			206	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 income according to income statement	**13 176**	**264**	**123**	**12 789**	**12 085**	**259**	**62**	**11 764**

Results and balance in the Private segment relate to consumer loans to finance residential housing. The corresponding items for Corporate relate to loans to municipal housing companies and tenant-owner associations with underlying collateral in multi-family housing. The Forestry and Agricultural segment comprises loans to finance forest and agricultural properties. Items in operating profit that are not included in the segments consist of changes in the value of financial instruments, the return of legal equity and other undistributed minor items. Return on legal equity comprises interest income on assets funded by equity. Swedbank Mortgage does not have any single customer that generates 10% or more of the Company´s total income.

Note 3 Net interest income

SEKm	2018 Jul-Dec	2018 Jan-Jun	%	2017 Jul-Dec	%	2018 Full-year	2017 Full-year	%
Interest income								
Loans to credit institutions	4	4		3	33	8	8	
Loans to the public	8 060	8 019	1	8 064		16 079	16 210	-1
Total interest income	**8 064**	**8 023**	**1**	**8 067**		**16 087**	**16 218**	**-1**
Interest expense								
Amounts owed to credit institutions	100	144	-31	-75		244	-153	
Debt securities in issue	-2 646	-2 909	-9	-3 106	-15	-5 555	-6 518	-15
Derivatives	1 522	1 878	-19	1 907	-20	3 400	3 942	-14
Subordinated debt							-13	-100
Other	-422	-424		-271	56	-846	-542	56
of which resolution	-423	-423		-270	57	-846	-540	57
Total interest expense including negative yield on financial liabilities according to income statement	**-1 446**	**-1 311**	**10**	**-1 545**	**-6**	**-2 757**	**-3 284**	**-16**
Total net interest income	**6 618**	**6 712**	**-1**	**6 522**	**1**	**13 330**	**12 934**	**3**

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

SEKm	2018 Jul-Dec	2018 Jan-Jun	%	2017 Jul-Dec	%	2018 Full-year	2017 Full-year	%
Fair value through profit and loss								
Debt securities in issue	103	157	-34	132	-22	260	267	-3
Derivatives	-160	-149	7	-68		-309	155	
Lending to the public				-390	-100	0	-1 021	-100
Total fair value through profit and loss	**-57**	**8**		**-326**	**-83**	**-49**	**-599**	**-92**
Hedge accounting								
Ineffective part in hedge accounting at fair value	25	-39		49	-49	-14	75	
of which hedging instruments	-852	551		1 238		-301	4 483	
of which hedged items	877	-590		-1 189		287	-4 408	
Ineffective part in portfolio hedge accounting at fair value	-74	36		-32		-38	-34	12
of which hedging instruments	581	-589		-217		-8	-692	-99
of which hedged items	-655	625		185		-30	658	
Ineffective part in cash flow hedge	1	1				2		
Total hedge accounting	**-48**	**-2**		**17**		**-50**	**41**	
Derecognition gain or loss for financial liabilities at amortised cost	**-159**	**-96**	**66**	**-98**	**62**	**-255**	**-383**	**-33**
Derecognition gain or loss for loans at amortised cost	**61**	**55**	**11**	**56**	**9**	**116**	**112**	**4**
Change in exchange rates	**-15**	**68**		**2**		**53**	**-26**	
Total net gains and losses on financial items at fair value	**-218**	**33**		**-349**	**-38**	**-185**	**-855**	**-78**

Note 5 Credit impairments, net

SEKm	2018 Jul-Dec (IFRS 9)	2018 Jan-Jun (IFRS 9)	%	2018 Full-year (IFRS 9)	%
Loans at amortised cost					
Credit impairment provisions - Stage 1	-5	14		9	
Credit impairment provisions - Stage 2	3	91	-97	94	-97
Credit impairment provisions - Stage 3	27	-15		12	
Total	**25**	**90**	**-72**	**115**	**-78**
Write-offs	10	4		14	-29
Recoveries	-3	-3		-6	-50
Total	**7**	**1**		**8**	**-13**
Total loans at amortised cost [1]	**32**	**91**	**-65**	**123**	**-74**
Total Credit impairments	**32**	**91**	**-65**	**123**	**-74**
Credit impairment ratio, %	**0.00**	**0.01**	**-100**	**0.01**	**-100**

1) Correction of previous half-year due to rounded figures

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

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

Further details on the key inputs and assumptions used as at 31 December 2018 are provided below.

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

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

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

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

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

IFRS 9 vs Regulatory capital framework

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

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

Individually assessed provisions

Swedbank Mortgage assesses significant credit-impaired exposures individually and without the use of modelled inputs. The credit impairment provisions for these exposures are established using the discounted expected cash flows and considering a minimum of two possible outcomes, one of which is a loss outcome. The possible outcomes consider both macroeconomic and non-macroeconomic (borrower-specific) scenarios. The estimation of future cash flows takes into account a range of relevant factors such as the amount and sources of cash flows, the level and quality of the borrower's earnings, the realisable value of collateral, Swedbank Mortgage's position relative to other claimants, the likely cost and duration of the work-out process and current and future economic conditions. The amount and timing of future recoveries depend on the future performance of the borrower and the valuation of collateral, both of which might be affected by future economic conditions; additionally, collateral may not be readily marketable. Judgements change as new information becomes available or as work-out strategies evolve, resulting in regular revisions to the credit impairment provisions. Credit impairment provisions recognised in the income statement in relation to individually assessed loans were increased by SEK 2m.

Credit impairments, historical values IAS 39

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

Note 6 Loans

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

SEKm	31 Dec 2018 Gross carrying amount (IFRS 9)	31 Dec 2018 Credit Impair-ment provision (IFRS 9)	31 Dec 2018 Carrying amount (IFRS 9)	30 Jun 2018 Carrying amount (IFRS 9)	%	31 Dec 2017 Carrying amount (IAS 39)	%
Loans to credit institutions							
Banks	21 783		21 783	74 290		23 534	
Loans to credit institutions	**21 783**		**21 783**	**74 290**		**23 534**	
Loans to the public							
Private customers	886 816	285	886 531	869 041	2	846 874	5
Private, mortgage	792 095	267	791 828	774 317	2	752 662	5
Tenant owner associations	94 721	18	94 703	94 724	0	94 197	1
Private,other						15	
Corporate customers	122 477	284	122 193	123 374	-1	121 348	1
Agriculture, forestry, fishing	51 447	103	51 344	52 063	-1	52 963	-3
Manufacturing	797	2	795	820	-3	812	-2
Public sector and utilities	2 249	6	2 243	2 472	-9	2 979	-25
Construction	3 414	9	3 405	3 504	-3	3 452	-1
Retail	1 207	3	1 204	1 233	-2	1 256	-4
Transportation	415	2	413	403	2	417	-1
Shipping and offshore	5		5	6	-17	6	-17
Hotels and restaurants	811	2	809	773	5	712	14
Information and communications	252		252	257	-2	251	0
Finance and insurance	829	1	828	816	1	796	4
Property management	56 926	137	56 789	56 646	0	53 592	6
Residential properties	42 438	86	42 352	41 631	2	38 786	9
Commercial	8 508	23	8 485	8 640	-2	8 474	0
Industrial and Warehouse	1 105	14	1 091	1 128	-3	1 122	-3
Other	4 875	14	4 861	5 247	-7	5 210	-7
Professional services	2 627	10	2 617	2 720	-4	2 739	-4
Other corporate lending	1 498	9	1 489	1 661	-10	1 373	8
Loans to the public	**1 009 293**	**569**	**1 008 724**	**992 415**	**2**	**968 222**	**4**
Loans to the public and credit institutions	**1 031 076**	**569**	**1 030 507**	**1 066 705**	**-3**	**991 756**	**4**
of which accrued interest	**966**			**1 029**			

Note 7 Loan stage allocation and credit impairment provisions

SEKm	2018 31 Dec (IFRS 9)	2018 30 Jun (IFRS 9)
Credit institutions		
Stage 1		
Gross Carrying amount	21 783	74 290
Carrying amount	**21 783**	**74 290**
Public, private customers		
Stage 1		
Gross carrying amount	853 791	835 465
Credit impairment provisions	21	21
Carrying amount	**853 770**	**835 444**
Stage 2		
Gross carrying amount	32 241	33 013
Credit impairment provisions	131	136
Carrying amount	**32 110**	**32 877**
Stage 3		
Gross carrying amount	784	828
Credit impairment provisions	133	108
Carrying amount	**651**	**720**
Total carrying amount for public, private customers	**886 531**	**869 041**
Public, corporate customers		
Stage 1		
Gross carrying amount	108 548	110 561
Credit impairment provisions	29	33
Carrying amount	**108 519**	**110 528**
Stage 2		
Gross carrying amount	13 735	12 902
Credit impairment provisions	222	214
Carrying amount	**13 513**	**12 688**
Stage 3		
Gross carrying amount	194	188
Credit impairment provisions	33	30
Carrying amount	**161**	**158**
Total carrying amount for public, corporate customers	**122 193**	**123 374**
Totals		
Gross carrying amount Stage 1	984 122	1 020 316
Gross carrying amount Stage 2	45 976	45 915
Gross carrying amount Stage 3	978	1 016
Total Gross carrying amount	**1 031 076**	**1 067 247**
Credit impairment provisions Stage 1	50	54
Credit impairment provisions Stage 2	353	350
Credit impairment provisions Stage 3	166	138
Total credit impairment provisions	**569**	**542**
Total carrying amount	**1 030 507**	**1 066 705**
Share of Stage 3 loans, gross, %[1)]	0.09	0.10
Share of Stage 3 loans, net, %[1)]	0.08	0.08
Credit impairment provision ratio Stage 1 loans	0.01	0.01
Credit impairment provision ratio Stage 2 loans	0.77	0.76
Credit impairment provision ratio Stage 3 loans	16.97	13.57
Total credit impairment provision ratio	0.06	0.05

Reconciliation of credit impairment provisions for loans

Loans to the public and credit institutions	Non Credit-Impaired		Credit-Impaired	
SEKm	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
Gross carrying amount as of 1 January 2018	**949 019**	**42 144**	**1 196**	**992 359**
Gross carrying amount as of 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 movements affecting Credit impairments line	9	94	12	115
Movements recognised outside Credit impairments line			3	3
Discount unwind (presented in Interest income)			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**

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 downgrade1) 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.

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%

Impaired loans, historical values IAS 39

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

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

Note 8 Derivatives

SEKm	2018 31 Dec Interest	 Currency	 Total	2017 31 Dec Interest	 Currency	 Total
Derivatives with positive book value	9 734	11 968	21 702	10 533	8 069	18 602
of which in hedge accounting	9 419	9 951	19 370	9 840	5 484	15 324
Derivatives with negative book value	1 773	778	2 551	2 440	3 127	5 567
of which in hedge accounting	1 659	271	1 930	1 871	815	2 686
Nominal amount	**785 118**	**164 299**	**949 417**	**546 767**	**321 645**	**868 412**

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

Note 9 Debt securities in issue and subordinated liabilities

SEKm	2018 31 Dec	2018 30 Jun	%	2017 31 Dec	%
Valuation category, other financial liabilities					
Bond loans	495 315	560 270	-12	514 318	-4
Change in value due to hedge accounting at fair value	7 566	8 632	-12	7 772	-3
Total	**502 881**	**568 902**	**-12**	**522 090**	**-4**

Turnover during the period **SEKm**	2018 Jul-Dec	2018 Jan-Jun	%	2017 Jul-Dec	%	2018 Full-year	2017 Full-year	%
Closing balance		**522 090**				**522 090**		
Changed presentation of accrued interest [1)]		**5 193**				**5 193**		
Opening balance	**568 902**	**527 283**	**8**	**543 682**	**5**	**527 283**	**567 201**	**-4**
Issued	22 291	65 615	-66	52 280	-57	87 906	132 463	-61
Repurchased	-35 426	-15 952		-43 833	-19	-51 378	-93 421	-53
Prepaid subordinated loan							-4 000	
Repaid	-46 923	-15 563		-27 846	69	-62 486	-70 036	-60
Change in market value or in hedged item in fair value hedge accounting	-3 115	-2 196	42	-4 292	-27	-5 311	-10 550	-59
Changes in exchange rates	-3 224	11 224		2 099		8 000	433	
Change in accrued interest	376	-1 509				-1 133		
Closing balance	**502 881**	**568 902**	**-12**	**522 090**	**-4**	**502 881**	**522 090**	

[1)] See further information in note 15

Note 10 Untaxed reserves

SEKm	2018 31 Dec	2018 30 Jun	%	2017 31 Dec	%
Tax allocation reserve		450	-100	450	-100
Total reserves		**450**	**-100**	**450**	**-100**

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

Note 11 Fair value of financial instruments

Carrying amount and fair value of financial instruments

SEKm	2018 Fair value	2018 31 Dec Carrying amount	2018 Diff-erence	2017 Fair value	2017 31 Dec Carrying amount	2017 Diff-erence
Assets						
Loans to credit institutions	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
Value change of interest hedged item 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						
Amounts owed to credit institutions	489 617	488 240	1 377	418 278	419 608	-1 330
Debt securities in issue	505 790	502 881	2 909	527 815	522 090	5 725
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**	

31 Dec 2018 **SEKm**	Instruments with quoted market prices in an active market **(Level 1)**	Valuation techniques using observable market data **(Level 2)**	Valuation techniques using non-observable market data **(Level 3)**	**Total**
Assets				
Derivatives		21 702		21 702
Total		**21 702**		**21 702**
Liabilities				
Debt securities in issue	58	3 946		4 004
Derivatives		2 551		2 551
Total	**58**	**6 497**		**6 555**

Note 11 Fair value of financial instruments, contd.

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

Financial instruments recognised at fair value

The table above contains financial instruments measured at fair value by valuation level.

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

The methods are divided into three different levels:

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

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

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

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

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

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 Swedbank Mortgage AB’s own creditworthiness, amounted to SEK 23m 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. The change due to Swedbank Mortgage AB’s own credit risk has been determined by calculating the difference in value based on current prices from external dealers for Swedbank Mortgage AB’s own credit risk in its own unquoted issues and the value based on prices of its own credit risk for its own unquoted issues on the origination date.

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

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

Note 12 Assets pledged, contingent liabilities and commitments

SEKm	2018 31 Dec	2018 30 Jun	%	2017 31 Dec	%
Loans, used as collateral for covered bonds[1)]	497 691	553 151	-10	518 805	-4
Repos [2)]	4 456	1 466		2 721	64
Commitments	13 525	17 235	-22	9 959	36
Pledged assets and contingent liabilities	**515 672**	**571 852**	**-10**	**531 485**	**-3**

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

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

Note 13 Related parties

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

SEKm	2018 31 Dec	2018 30 Jun	2017 31 Dec	2017 30 Jun
Group receivables				
Loans to credit institutions	21 783	74 290	23 534	57 476
Derivatives	21 702	25 652	18 602	19 423
Other assets	40	46	30	51
Total	**43 525**	**99 988**	**42 166**	**76 950**
Group payables				
Amounts owed to credit institutions	488 240	471 196	419 608	410 964
Debt securities in issue	4 945	3 646	2 244	3 328
Derivatives	2 551	3 162	5 567	7 223
Other liabilities	12 292	5 607	10 615	3 131
Total	**508 028**	**483 611**	**438 034**	**424 646**
Income statement				
Interest income	32	5	16	6
Interest expense	3 633	2 010	3 757	1 923
Other expenses	-34	-8	-38	-18
Total	**3 631**	**2 007**	**3 735**	**1 911**

Note 14 Capital Adequacy

Capital adequacy analysis

Capital adequacy regulations determine how much capital, designated as the capital base, a credit institution must have in relation to its risk weighted assets. For Swedbank Mortgage the capital adequacy rules according to CRR mean that the minimum capital requirement for credit risks is based, with the approval of the SFSA, on an internal risk measurement using the IRB approach established by Swedbank. For a small share of the assets the capital requirement for credit risks is calculated according to the standardised approach. The capital requirement for operational risk is calculated, with the approval of the SFSA, using the standardised approach.

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

The note contains the information made public according to SFSA Regulation FFFS 2014:12, chap. 8. Additional periodic information according to Regulation (EU) No 575/2013 of the European Parliament and the Council on supervisory requirements for credit institutions as well as Implementing Regulation (EU) No 1423/2013 of the European Commission can be found in the Swedbank group´s report on Swedbank's website: https://www.swedbank.com/investor-relations/financial-information-and-publications/risk-report/

Capital adequacy	2018	2017
SEKm	31 Dec	31 Dec
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 minumum 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

Note 14 Capital adequacy, contd.

Leverage ratio	2018 31 Dec	2017 31 Dec
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	2018 31 Dec			2017 31 Dec		
SEKm	**Exposure amount**	**Average risk weight, %**	**Minimum capital rqmnt.**	**Exposure amount**	**Average risk weight, %**	**Minimum capital rqmnt.**
Central government or central banks exposures	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 31 Dec	2017 31 Dec
CET 1 capital requirement including buffer requirements	9.0	9.0
of which minimum CET 1 requirement	4.5	4.5
of which capital conservation buffer	2.5	2.5
of which countercyclical capital buffer	2.0	2.0
CET 1 capital available to meet buffer requirement [2]	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 CET1 items used to meet the Tier 1 and total capital requirements

Note 14 Capital adequacy, contd.

Exposure amount, risk exposure amount and minimum capital requirement		**2018**			**2017**	
		31 Dec			**31 Dec**	
SEKm	Exposure amount	Risk exposure amount	Minimum capital rqmnt.	Exposure amount	Risk exposure amount	Minimum capital rqmnt.
Credit risks, standardised approach	**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 others	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**

Note 15 Effects of changes in accounting policies, IFRS9

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

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

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

Reclassification of financial assets at transition to IFRS 9

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

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

Loans to the public

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

Impairment provisions according to IAS 39 compared to IFRS 9

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

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

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

Impact of adopting IFRS 9 to equity

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.

Alternative performance measures

The interim report includes a number of alternative performance measures, which provide more comparative information between the reporting periods. The executive management believes that inclusion of these measures provides information to the readers that enable comparability between periods. These alternative performance measures are set out below.

Measure	Definition
Credit Impairment ratio	Credit impairment on loans and other credit risk provisions (annualised), net, in relation to the opening balance of loans to credit institutions and loans to public after provisions.
Credit impairment provision Stage 1 loans	Credit impairment provisions Stage 1 in relation to the gross carrying amount Stage 1 loans
Credit impairment provision Stage 2 loans	Credit impairment provisions Stage 2 in relation to the gross carrying amount Stage 2 loans
Credit impairment provision Stage 3 loans	Credit impairment provisions Stage 3 in relation to the gross carrying amount Stage 3 loans
Provision ratio for impaired loans	Provisions for impaired loans assessed individually in relation to impaired loans, gross.
Return on equity	Profit for the period allocated to shareholders in relation to average equity attributable to shareholders. The average is calculated using month-end figures.
Equity per share	Shareholders equity in relation to the number of shares outstanding.
Net interest margin	Net interest margin is calculated as Net interest income in relation to average total assets. The average is calculated using month-end figures, including the prior year end.
Total provision ratio for impaired loans	All provisions (individually assessed and portfolio) for loans in relation to impaired loans, gross.
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 Stage 3 loans, gross	Carrying amount of Stage 3 loans, gross, in relation to the carrying amount of loans to credit institutions and the public, excluding provisions.
Share of Stage 3 loans, net	Carrying amount of Stage 3 loans, net, in relation to the carrying amount of loans to credit institutions and the public.
Share of impaired loans, net	Carrying amount of impaired loans, net, in relation to the carrying amount of loans to credit institutions and the public, excluding provisions.

Signatures of the Board of Directors and the President

The Board of Directors and the CEO certify that the year-end report for the period 1 January to 31 December 2018 provides a fair and accurate overview of the operations, financial position and the results of the Company and that it describes the significant risks and uncertainties faced by the Company.

Stockholm 28 January 2019

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

Audit review report

Introduction

We have reviewed the year-end report for Swedbank Mortgage AB (publ) for the period 1 January – 31 December 2018. The Board of Directors and the Chief Executive Officer are responsible for the preparation and presentation of this year-end report in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this year-end report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the year-end report is not prepared, in all material respects, in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 28 January 2019

Deloitte AB

Patrick Honeth

Authorised Public Accountant

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