

Interim report 2021

Swedbank Mortgage AB, 16 July 2021

Swedbank 

Interim report for first half of 2021

January-June 2021 compared with July-December 2020

- Lower funding costs impacted net interest income positively
- Stable net gains and losses
- Good credit quality with continued very low loss levels
- Solid capital position

Financial information

SEKm	2021	2020	2020		
	Jan-Jun	Jul-Dec	%	Jan-Jun	%
Net interest income	6 296	5 999	5	5 696	11
Net commissions	8	8	0	9	-11
Net gains and losses on financial items	79	96	-18	-80	
Other income	2	2	0	2	0
Total income	6 385	6 105	5	5 627	13
Total general administrative expenses	138	138	0	138	0
Profit before impairments	6 247	5 967	5	5 489	14
Credit impairments, net	-67	-111	-40	79	
Operating profit	6 314	6 078	4	5 410	17
Tax	1 301	1 302	0	1 157	12
Profit for the period	5 013	4 776	5	4 253	18

Business performance

	2021 30 Jun	2020 31 Dec	2020 30 Jun	2019 31 Dec	2019 30 Jun	2018 31 Dec	2018 30 Jun
Lending to the public, SEKbn	1 068	1 054	1 041	1 029	1 022	1 009	992
- Private	948	931	918	906	898	887	869
of which private, mortgage	862	844	828	813	803	792	774
- Corporate	120	123	123	123	124	122	123
Number of customers, thousand	1 078	1 085	1 092	1 098	1 111	1 122	1 127
Private lending							
Market share mortgages % ¹⁾	23	23	23	24	24	24	24
Market share of net growth, full and half year % ¹⁾	13	15	14	12	13	22	23
Volume growth market, Δ 12-months % ¹⁾	6	6	6	5	5	6	6
Volume growth Swedbank Mortgage, Δ 12-months % ¹⁾	4	4	3	3	4	5	6
LTV total portfolio %	52	54	56	55	57	55	56
LTV new mortgages, current year	69	70	70	70	70	68	69
Share of total portfolio which amortises %	69	68	67	72	71	70	68
Share of portfolio which amortises, new mortgages, current year %	86	82	82	89	89	88	88
Funding							
Issued in last six months							
Swedish market, SEKbn	23	6	34	24	77	18	51
Outside Sweden, SEKbn	10		29	6	24	4	15
Average maturity of outstanding issued covered bonds, months	31	35	41	37	42	43	40

¹⁾ Market share and volume growth are presented as of May. Source Statistics Sweden (SCB).

Financial overview and key ratios

SEKm	2021	2020	2020		
	Jan-Jun	Jul-Dec	%	Jan-Jun	%
Net interest income	6 296	5 999	5	5 696	11
Net commissions	8	8	0	9	-11
Net gains and losses on financial items	79	96	-18	-80	
Other income	2	2	0	2	0
Total income	6 385	6 105	5	5 627	13
Total general administrative expenses	138	138	0	138	0
Profit before impairments	6 247	5 967	5	5 489	14
Credit impairments, net	-67	-111	-40	79	
Operating profit	6 314	6 078	4	5 410	17
Tax	1 301	1 302	0	1 157	12
Profit for the period	5 013	4 776	5	4 253	18

SEKm	2021	2020	2020	2019	2019
	30 Jun	31 Dec	30 Jun	31 Dec	30 Jun
Profit					
Investment margin, %	1.09	1.01	1.00	1.19	1.22
Average total assets	1 154 803	1 162 381	1 141 063	1 088 855	1 088 733
Return on equity, %	21.4	19.3	18.2	21.2	21.7
Average equity	46 807	46 875	46 823	47 002	46 942
Earnings per share, SEK	218.0	392.6	184.9	432.7	221.1
Equity					
Number of shares in issue at beginning/end of period, million	23	23	23	23	23
Equity per share, SEK	2 002	2 005	2 009	2 007	2 009
Credit quality					
Loans to the public	1 067 802	1 053 802	1 041 292	1 028 746	1 022 354
Loans to credit institutions	100 792	106 208	88 278	89 159	34 291
Credit impairments, net	-67	-32	79	-24	-9
Credit impairment ratio, %	-0.01	0.00	0.01	0.00	0.00
Total provisions	430	493	604	527	553
Share of Stage 3 loans, gross %	0.07	0.08	0.08	0.08	0.09
Total credit impairment provision ratio, %	0.04	0.04	0.05	0.05	0.05

For more information on definitions and calculation of key ratios, please see page 31 and the 2020 Annual Report, page 59.

Overview

About Swedbank Mortgage AB

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.

Market

The economic recovery continued in the first half of 2021. This was most notable in manufacturing, which also positively affected industrial services. The rest of the service sector strengthened as well, but at a slower rate. For activity in the service sector to truly gain momentum would probably require the lifting of more pandemic-related restrictions. Vaccinations are continuing at a high rate than, which has strengthened the prospects of a continued recovery.

The financial markets increasingly focused on the Federal Reserve's monetary policy and any signs of change in the current expansionary approach. Despite the recovery and surprisingly high inflation, a majority of voting members of the FOMC do not think the time is right to signal a tightening of monetary policy. This is because the rising inflation is largely due to temporary factors related to the reopening of the economy. US long-term yields fell slightly and the US dollar was marginally weaker against both the euro and the krona.

In Europe, the situation is different with the recovery taking longer and vaccinations starting more slowly than in the US. It will take longer therefore before restrictions can be lifted and the recovery accelerates. Inflation has also risen in Europe, but here as well it has largely been due to temporary factors. Swedbank expect the ECB to leave benchmark rates unchanged this year and next.

For the Swedish economy, Swedbank expect the recovery to continue this summer as Covid-19 cases drop and restrictions are lifted. Households are expected to consume more services again, which will be an important driver in the recovery.

Despite a major economic recovery, Swedbank do not think that medium-term inflation will reach the Riksbank's target. Although it is soon time for the Swedish central bank to signal when we could see tighter monetary policy, Swedbank expect it to keep the repo rate at 0 per cent in the coming years.

Swedish house prices have continued to rapidly rise. In May, prices were up 18 per cent compared with the same month in 2020. The increase has been driven by continued low mortgage rates and, with the increase in remote work, because households have made housing a higher priority during the pandemic. As a result, prices of single-family homes and large apartments have risen the most, and supply there is low.

Swedbank expect prices to moderate as consumer spending patterns normalise and the housing supply increases. As prices have climbed and many people have chosen to renovate or add on to their homes – and in the process increased their loans – credit growth has risen and in May was 6.2 per cent year-over-year.

Important to note

The interim 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 31.

The company's development

Result first half of 2021 compared with second half of 2020

Swedbank Mortgage reported profit of SEK 5 013m in the second half of 2020, compared with SEK 4 776m in the previous half-year. The increase is mainly due to higher net interest income.

Net interest income increased to SEK 6 296m (5 999). The main reason was that lower funding expenses, positively affected mortgage margins.

Net gains and losses on financial items decreased to SEK 79m (96), in part due to lower covered bond repurchases.

Expenses were unchanged at SEK 138m (138).

Credit impairments amounted to a gain of SEK 67m, compared with positive credit impairments of SEK 111m in the previous half-year, due to lower provisions within mortgage lending to the private and property management. As there is a risk that credit quality may start to deteriorate due to Covid-19 and that the quantitative risk models may not appropriately incorporate this, post-model adjustments to the credit impairment provisions were deemed necessary resulting in higher provisions in the property management and hotels and restaurants segments.

The tax expense amounted to SEK 1 301m (1 302), corresponding to an effective tax rate of 20.6 per cent (21.4).

Result first half of 2021 compared with first half of 2020

Swedbank Mortgage reported profit of SEK 5 013m for the first half of 2021, compared with SEK 4 253m in the first half of 2020. The increase is mainly due to higher net interest income.

Net interest income increased to SEK 6 296m (5 696). The main reason was that decreased funding expenses due to lower short-term market interest rates.

Net gains and losses on financial items increased to SEK 79m (-80), in part due to lower covered bond repurchases and increased prepayment fees.

Expenses were stable at SEK 138m (138).

Credit impairments amounted to a gain of SEK 67m (-79). The main reason was lower stage 1 and stage 2 provisions connected to macroeconomic scenarios had a positive impact. As there is a risk that credit quality may start to deteriorate due to Covid-19 and that the quantitative risk models may not appropriately incorporate this, post-model adjustments to the credit impairment provisions were deemed necessary resulting in higher provisions in the property management and hotels and restaurants segments.

The tax expense amounted to SEK 1 301m (1 157), corresponding to an effective tax rate of 20.6 per cent (21.4).

Lending

Total loans to the public increased by SEK 14bn in the first half of 2021, to SEK 1 068bn as of 30 June 2021 (SEK 1 054bn as of 31 December 2020). Compared with 30 June 2020, the increase was SEK 27bn, corresponding to an annual growth rate of 3 per cent.

Lending to general public, SEKbn	2021 30 Jun	2020 31 Dec	2020 30 Jun
Private customers	948	931	918
Private, mortgage	862	844	828
Tenant owner associations	86	87	90
Corporate customers	120	123	123
Agricultural, forestry, fishing	48	48	49
Property management	60	62	61
Other corporate lending	12	13	13
Total	1 068	1 054	1 041

The large part of the increase in the first half of 2021 was due to higher private mortgage volumes. Mortgage lending to the private segment increased in total by SEK 18bn compared with 31 December 2020, to SEK 862bn (844). The total market share was 23 per cent (23) as of 31 May. Lending to tenant-owner associations fell by SEK 1bn, to SEK 86bn (87).

Corporate lending of SEK 120bn (123) decreased by SEK 3bn mainly within property management.

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.

The funding process is simplified because Swedbank Mortgage has a number of standardised borrowing programmes that are adapted to meet the legal requirements of various types of markets and investors.

Amounts owed to credit institutions and issued debt, SEKbn	2021 30 Jun	2020 31 Dec	2020 30 Jun
Amounts owed to credit institutions	625	600	521
Debt securities in issue	486	501	572
Eligible liabilities	15	15	10
Total	1 126	1 116	1 103

Demand for Swedbank Mortgage's bonds has been good at the same time that the funding need has been low given the deposit growth within the Group. Swedbank Mortgage issued only SEK 33bn (6 second half of 2020) in covered bonds in the first half of 2021 due to the lower funding need. Maturities in the first half of 2021 were nominally SEK 33bn (50 second half of 2020).

As of 30 June, outstanding funding through covered bonds amounted to SEK 486bn (501) at the same time that funding from Swedbank AB amounted to SEK 640bn (615). 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 when large volumes mature at the same time. In the first half of 2021, SEK 15bn (20 second half of 2020) was repurchased. The average maturity of all outstanding covered bonds was 31 months (35) at 30 June.

Capital adequacy

Swedbank Mortgage's legal capital requirement is based on the Capital Requirements Regulation (CRR). Swedbank Mortgage's total capital ratio was 16.2 per cent as of 30th of June 2021 (16.4 per cent per 31st of December 2020), to be compared with the capital requirement of 11.1 per cent.

Total own funds remained unchanged during the first half of the year and amounted to SEK 46.1bn (46.1). REA increased by SEK 2.4bn to SEK 283.6bn (281.2). The increase was due to credit risk REA including article 458. The capital adequacy is further disclosed in note 13.

The leverage ratio was 4.4 per cent (4.3) as of 30th of June 2021.

Future capital regulations

In November 2020, the Swedish FSA approved amended rules and a change in the application of banks' capital requirements. The change is based on the amendments to the capital adequacy rules resulting from the implementation of the EU's banking package.

The new application will result in changes in how the Pillar 2 requirement is determined. According to the new regulations, the Swedish FSA will set a Pillar 2 requirement and announce guidance on the additional capital that the bank should hold to cover risks and manage future financial stresses.

In the decision, the Swedish FSA also gives its view of how a leverage ratio requirement should be introduced. The minimum requirement is 3 per cent of the exposure amount for the leverage ratio. In addition, the Swedish FSA will announce another leverage ratio requirement in the form of guidance. The leverage ratio requirement will be met in parallel with the risk-based requirements.

A decision on Pillar 2 requirements and information on Pillar 2 guidance will be announced after the next evaluation and review, which in Swedbank Mortgage's case means the end of the third quarter 2021.

On 1 July 2021, an amended Resolution Act took effect. The amendments are based on the EU's Bank Recovery and Resolution Directive (BRRD II), which among other things contains provisions on the minimum requirement for own funds and eligible liabilities (MREL). Due to the amended law, the Swedish National Debt Office published a new policy on how to implement

the MREL on 1 January 2022. The phase-in will be completed by 1 January 2024. Part of the requirement will be met with own funds and subordinated eligible liabilities while the rest can be met with eligible liabilities.

In November 2018, the Swedish FSA published a memorandum explaining its view of the European Banking Authority's (EBA) updated guidelines on banks' internal risk rating based models. In the memorandum the Swedish FSA states that Swedish banks must analyse their internal rating based models to ensure that they continue to live up to the updated requirements. Implementation of the new guidelines was supposed to be completed by the end of 2021, but could be delayed according to the Swedish FSA. The implementation is expected to increase the REA.

In December 2017, the Basel Committee presented the finalised Basel III framework, usually called Basel IV. The reforms contain a number of policy and supervisory actions to strengthen the reliability and comparability of risk-weighted capital ratios and reduce unjustified differences in capital requirements between banks and countries. The actions include revisions to the standardised approaches used to estimate the banks' capital requirements for credit risk. A floor was introduced for banks that use internal models to calculate risk-weighted assets. The floor means that risk-weighted assets may not fall below 72.5 per cent of the amount calculated using the standardised approach. The proposed changes would be introduced gradually starting in 2023 and be fully implemented by 2028.

Risks

The main risks consist of credit risk, liquidity risk, market risk, operational risk, sustainability risk and compliance risk. Swedbank Mortgage has a low risk profile with a well-diversified credit portfolio as well as limited market and operational risks.

Credit and asset quality

Swedbank's credit quality remained good in the first half of 2021. The visible economic impact from Covid-19 remained small for the majority of Swedbank's lending and credit quality in the bank's large mortgage portfolio continued to be stable. Government support mainly targeted at the hardest hit sectors has dampened the effects of Covid-19 and kept the number of customers with payment problems at low levels. Despite the pandemic, Swedbank Mortgage's credit impairments and impaired loans remain at very low levels.

House prices and the number of transactions in Sweden reached new highs in the first half of 2021. The mortgage portfolio is high in quality and historical credit impairments remain very low. In the lending process, customers' long-term solvency is critical in order to ensure high quality and low risks. In addition, the measures taken by authorities have strengthened social welfare systems, such as health and unemployment insurance, mitigating the negative effects of COVID-19 at the household level.

The average loan-to-value ratio for private lending was 52 per cent (54), based on property level. For new lending in the half-year the loan-to-value ratio was 69 per cent (70).

For more information on asset quality, see the fact book for the Swedbank Group as well as Swedbank Mortgage's section in the Swedbank Group's Pillar 3 report.

Operational risks

In the first half of 2021, no incidents occurred which materially affected Swedbank Mortgage. Losses related to operational risks remained very low.

Rating

Swedbank Mortgage is one of the largest participants in the Swedish covered bond market. The bonds have the highest credit rating (Aaa/AAA) from both Moody's Investors Service and S&P Global Ratings. Due to deficiencies in Swedbank's compliance and anti-money laundering work, all the rating agencies downgraded Swedbank AB in March and April 2020. After the downgrade, all the agencies raised Swedbank's outlook to stable. Swedbank Mortgage's rating tracks Swedbank AB's, so Swedbank Mortgage was downgraded as well. The ratings for the covered bonds were not affected.

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

Other events

At an Extraordinary General Meeting on January 18, Johan Smedman was elected as new Chairman of the Board of Swedbank Hypotek AB. At the Annual General Meeting on March 26, Ola Laurin was elected as new Chairman of the Board.

Events after 30 June 2021

No material events have occurred after 30 June 2021.

Income statement, condensed

SEKm	2021 Jan-Jun	2020 Jul-Dec	%	2020 Jan-Jun	%
Interest income on financial assets measured at amortised cost	8 302	8 697	-5	8 848	-6
Interest income	8 302	8 697	-5	8 848	-6
Interest expense	-2 006	-2 698	-26	-3 152	-36
Net interest income (note 3)	6 296	5 999	5	5 696	11
Commission income	22	23	-4	26	-15
Commission expenses	-14	-15	-7	-17	-18
Net commissions	8	8	0	9	-11
Net gains and losses on financial items (note 4)	79	96	-18	-80	
Other income	2	2	0	2	0
Total income	6 385	6 105	5	5 627	13
Total general administrative expenses	138	138	0	138	0
Profit before impairments	6 247	5 967	5	5 489	14
Credit impairments, net (note 5)	-67	-111	-40	79	
Operating profit	6 314	6 078	4	5 410	17
Tax	1 301	1 302	0	1 157	12
Profit for the period	5 013	4 776	5	4 253	18

Statement of comprehensive income, condensed

SEKm	2021 Jan-Jun	2020 Jul-Dec	%	2020 Jan-Jun	%
Profit for the period reported via income statement	5 013	4 776	5	4 253	18
Items that may be reclassified to the income statement					
Cash flow hedges:					
Gains and losses arising during the period	-1 514	-6 730	-78	-1 575	-4
Reclassification adjustments to income statement, net gains and losses	1 510	6 707	-77	1 551	-3
Foreign currency basis risk:					
Gains/losses arising during the period	-58	-139	-58	61	
Tax relating to components of other comprehensive income	13	30	-57	-8	
Total comprehensive income attributable to shareholders of Swedbank Mortgage AB	4 963	4 644	7	4 282	16

Balance sheet, condensed

SEKm	2021 30 Jun	2020 31 Dec	Δ SEKm	%	2020 30 Jun	%
Assets						
Loans to credit institutions (note 6)	100 792	106 208	-5 416	-5	88 279	14
Loans to the public (note 6)	1 067 802	1 053 802	14 000	1	1 041 292	3
Value change of interest hedged items in portfolio hedge	397	1 767	-1 370	-78	2 305	-83
Derivatives (note 8)	14 326	19 033	-4 707	-25	26 739	-46
Deferred tax assets	163	150	13	9	122	34
Other assets	1 183	75	1 108		250	
Prepaid expenses and accrued income	216		216		229	-6
Total assets	1 184 879	1 181 035	3 844	0	1 159 216	2
Liabilities and equity						
Liabilities						
Amounts owed to credit institutions	625 374	599 745	25 629	4	521 151	20
Debt securities in issue (note 9)	486 110	501 413	-15 303	-3	571 531	-15
Derivatives (note 8)	5 007	6 630	-1 623	-24	4 279	17
Current tax liabilities	6	22	-16	-73	11	-45
Other liabilities	6 601	11 484	-4 883	-43	5 563	19
Accrued expenses and prepaid income	720	631	89	14	483	49
Eligible liabilities	15 005	15 005	0	0	10 000	50
Total liabilities	1 138 823	1 134 930	3 893	0	1 113 018	2
Equity	46 056	46 105	-49	0	46 198	0
Total liabilities and equity	1 184 879	1 181 035	3 844	0	1 159 216	2

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
Opening balance 1 January 2021	11 500	3 100	-3	-576	32 084	46 105
Group contributions paid					-6 313	-6 313
Tax on group distributions paid					1 300	1 300
Total comprehensive income for the year			-3	-47	5 013	4 963
Closing balance 30 June 2021	11 500	3 100	-6	-623	32 085	46 056
of which, conditional shareholders' contributions					2 400	2 400
Opening balance 1 January 2020	11 500	3 100	34	-510	32 045	46 169
Group contributions paid					-11 438	-11 438
Tax on group distributions paid					2 448	2 448
Total comprehensive income for the year			-37	-66	9 029	8 926
Closing balance 31 December 2020	11 500	3 100	-3	-576	32 084	46 105
of which, conditional shareholders' contributions					2 400	2 400
Opening balance 1 January 2020	11 500	3 100	34	-510	32 045	46 169
Group contributions paid					-5 410	-5 410
Tax on group distributions paid					1 157	1 157
Shareholders' contribution						
Total comprehensive income for the year			-19	48	4 253	4 282
Closing balance 30 June 2020	11 500	3 100	15	-462	32 045	46 198
of which, conditional shareholders' contributions					2 400	2 400

Cash flow statement, condensed

SEKm	2021 Jan-Jun	2020 Full-year	2020 Jan-Jun
Operating activities			
Operating profit	6 314	11 488	5 410
Adjustments for non-cash items in operating activities	2 977	10 058	5 995
Taxes paid ¹⁾	-26	-15	-15
Increase (-) /decrease (+) in loans to the public	-13 981	-25 107	-12 645
Increase (-) /decrease (+) in other assets	36	-1	31
Increase (+) /decrease (-) in amounts owed to credit institutions	25 629	128 121	49 528
Increase (+) /decrease (-) of issued interest-bearing securities	-15 169	-89 637	-26 623
Increase (+) /decrease (-) in other liabilities	242	-246	-139
Cash flow from operating activities	6 022	34 661	21 542
Financing activities			
Issuance of eligible liabilities		5 000	
Redemption of eligible liabilities		-10 000	-10 000
Group contributions paid	-11 438	-12 612	-12 612
Cash flow from financing activities	-11 438	-17 612	-22 612
Cash flow for the period	-5 416	17 049	-1 070
Cash and cash equivalents at the beginning of the period	106 208	89 159	89 159
Cash flow for the period	-5 416	17 049	-1 070
Cash and cash equivalents at end of the period	100 792	106 208	88 089

¹⁾ Including also the tax effect of the Group contribution, amounting to SEK 1300m.

Notes

The interim report has been prepared on a going concern basis.

On 15 July 2021, 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 2020, 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 2020 Annual Report, except for the new standards and change as set out below.

Amendments for Interest Rate Benchmark Reform (phase 2)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 due to the Interest Rate Benchmark Reform – Phase 2 are applied from 1 January 2021.

The amendments address the accounting issues that arise when financial instruments that reference an IBOR interest rate transition to an alternative benchmark rate. The amendments include a practical expedient for modifications required by the Interest Rate Benchmark Reform (the Reform), to be treated as changes to a floating interest rate. They also permit changes required by the Reform to be implemented in hedge designations and hedge documentation without the hedging relationship being discounted. The adoption did not have any impact on Swedbank Mortgage's financial position, results, cash flows or disclosure.

Changes in Swedish regulations

The amended Swedish regulations that have been adopted from 1 January 2021 have not had a significant impact on Swedbank Mortgage's financial position, results, cash flows or disclosures.

Note 2 Business segments

SEKm	2021 Jan-Jun				2020 Jan-Jun			
	Private	Cor- porate	Forestry and Agricultural	Total	Private	Cor- porate	Forestry and Agricultural	Total
Net interest income	5 079	706	387	6 172	4 455	715	354	5 524
Net commissions	7	1		8	7	1	1	9
Total income	5 086	707	387	6 180	4 462	716	355	5 533
Total cost	104	1	9	114	105	1	10	116
Profit before impairments	4 982	706	378	6 066	4 357	715	345	5 417
Credit impairments	-19	-35	-13	-67	34	19	26	79
Operating profit	5 001	741	391	6 133	4 323	696	319	5 338
Loans to the public	862 689	148 675	56 438	1 067 802	828 518	154 822	57 952	1 041 292

Reconciliation of segment reporting and income statement, condensed

SEKm	2021 Jan-Jun				2020 Jan-Jun			
	Total income	Total expen- ses	Credit impair- ments	Opera- ting profit	Total income	Total expenses	Credit impair- ments	Opera- ting profit
Total segments	6 180	114	-67	6 133	5 533	116	79	5 338
Interest on legal equity	124			124	172			172
Net gains and losses on financial items	79			79	-80			-80
Other income	2			2	2			2
Other expenses		24		24		22		22
Total financial report	6 385	138	-67	6 314	5 627	138	79	5 410

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

Note 3 Net interest income

SEKm	2021 Jan-Jun	2020 Jul-Dec	%	2020 Jan-Jun	%
Interest income					
Loans to credit institutions	38	118	-68	190	-80
Loans to the public	8 264	8 579	-4	8 658	-5
Total interest income	8 302	8 697	-5	8 848	-6
Interest expense					
Amounts owed to credit institutions	-542	-1 053	-49	-1 338	-59
Debt securities in issue	-1 613	-1 893	-15	-2 412	-33
Derivatives	409	511	-20	898	-54
Eligible liabilities	-54	-49	10	-82	-34
Other	-206	-214	-4	-218	-6
of which resolution	-198	-213	-7	-213	-7
Total interest expense	-2 006	-2 698	-26	-3 152	-36
Total net interest income	6 296	5 999	5	5 696	11
Negative yield on financial assets	73	52	40	7	
Interest expense on financial liabilities at amortised cost	2 409	3 192	-25	4 027	-40

Note 4 Net gains and losses on financial items

SEKm	2021 Jan-Jun	2020 Jul-Dec	%	2020 Jan-Jun	%
Fair value through profit and loss					
Debt securities in issue	6	18	-67	25	-76
Derivatives	8	-19		-27	
Total fair value through profit and loss	14	-1		-2	
Hedge accounting					
Ineffective part in hedge accounting at fair value	-26	128		-124	-79
of which hedging instruments	-3 395	-1 179		3 356	
of which hedged items	3 369	1 307		-3 480	
Ineffective part in portfolio hedge accounting at fair value	22	-112		85	-74
of which hedging instruments	1 392	426		-1 959	
of which hedged items	-1 370	-538		2 044	
Ineffective part in cash flow hedge	-4	0		-2	100
Total hedge accounting	-8	16		-41	-80
Derecognition gain or loss for financial liabilities at amortised cost	-17	-29	-41	-96	-82
Derecognition gain or loss for loans at amortised cost	89	110	-19	60	48
Change in exchange rates	1	0		-1	
Total net gains and losses on financial items	79	96	-18	-80	

Note 5 Credit impairments, net

SEKm	2021	2020	%	2020	%
	Jan-Jun	Jul-Dec		Jan-Jun	
Loans at amortised cost					
Credit impairment provisions - Stage 1	-10	-39	-74	51	
Credit impairment provisions - Stage 2	-42	-81	-48	19	
Credit impairment provisions - Stage 3	-12	8		5	
Total	-64	-112	-43	75	
Write-offs	5	6	-17	8	-38
Recoveries	-8	-5	60	-4	100
Total	-3	1		4	
Total loans at amortised cost	-67	-111	-40	79	
Total Credit impairments	-67	-111	-40	79	
Credit impairment ratio, %	-0.01	-0.02	-50	0.01	

Calculation of credit impairment provisions

The measurement of expected credit losses is described in Note 4a Credit risk on pages 24-26 of the 2020 Annual Report. There have been no significant changes during the year to the methodology.

Measurement of 12-month and lifetime expected credit losses

The onset of Covid-19 in 2020 brought a deterioration of macroeconomic indicators – inter alia GDP growth, housing and property prices, unemployment, oil prices and interest rates – that would typically have contributed to increased credit risk. The downturn has, however, not resulted in the increased credit losses or default rates that one would expect from historical experience of similar economic shocks. Government and regulator support measures have been successful in suppressing the economic impacts of Covid-19 but there is a risk that credit quality may start to deteriorate as such measures end. There are also continued uncertainties which could further delay the recovery, namely relating to vaccination progress and effectiveness and to the potential for further outbreaks sparked by new variants. As the quantitative risk models do not appropriately incorporate these dynamics, post-model adjustments to increase the credit impairment provisions continue to be deemed necessary.

The post-model expert credit adjustments were decrease to SEK 42m (SEK 44m as of 31 December 2020). The post-model expert credit adjustments are allocated as: SEK 20m in Stage 1, SEK 21m in Stage 2 and SEK 1m in Stage 3. The most significant impacts are reflected in the Property management (29m SEK) and Hotels and Restaurants (7m SEK) sectors.

Determination of a significant increase in credit risk

The tables below show the quantitative thresholds used by Swedbank Mortgage for assessing a significant increase in credit risk, namely:

- changes in the 12-month PD and internal risk rating grades, which have been applied for the portfolio of loans originated before 1 January 2018. 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 3 to 8 grades from initial recognition is considered significant. Internal risk ratings are assigned according to the risk management framework outlined in Note 4 Risks in the 2020 Annual Report.
- changes in the lifetime PD, which have been applied for the portfolio of loans originated on or after 1 January 2018. For instance, for exposures originated with a risk grade between 0 and 5, a 50 per cent increase in the lifetime PD from initial recognition is assessed as a significant change in credit risk. Alternatively, for exposures originated with a risk grade between 13 and 21, an increase of 150-300 per cent 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. The Group has performed a sensitivity analysis on how credit impairment provisions would change if thresholds applied were increased or decreased. A lower threshold would increase the number of loans that have migrated from Stage 1 to Stage 2 and, also increase the estimated credit impairment provisions. A higher threshold would have the opposite effect.

The tables below disclose the impacts of this sensitivity analysis on the credit impairment provisions. Positive amounts represent higher credit impairment provisions that would be recognised.

Significant increase in credit risk, financial instruments with initial recognition before 1 January 2018

Internal risk rating grade at initial recognition	12-month PD band at initial recognition	Threshold, rating downgrade 1) 2) 3)	Impairment provision impact of		Recognised credit impairment provisions 30 June 2021	Share of total portfolio (%) in terms of gross carrying amount 30 June 2021
			Increase in threshold by 1 grade	Decrease in threshold by 1 grade		
13-21	< 0.5%	3 - 7 grades	-10.8%	10.8%	53	49%
9-12	0.5-2.0%	1 - 2 grades	-16.9%	18.3%	60	6%
6-8	2.0-5.7%	1 - 2 grades	-8.4%	4.0%	14	2%
0-5	>5.7% and <100%	1 grade	-7.3%	0.0%	5	0%
			-13.1%	13.0%	132	57%
Financial instruments with low risk					0	0%
Stage 3 financial instruments					147	0%
Post model expert credit adjustment ⁴⁾					18	
			Total		297	57%

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 geography, segment and internal risk rating.

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

⁴⁾ Represents post-model expert credit adjustments for stages 1 and 2.

Significant increase in credit risk, financial instruments with initial recognition on or after 1 January 2018

Internal risk rating grade at initial recognition	Threshold, increase in lifetime PD ⁵⁾	Impairment provision impact of		Recognised credit impairment provisions 30 June 2021	Share of total portfolio (%) in terms of gross carrying amount 30 June 2021
		Increase in threshold by 100%	Decrease in threshold by 50%		
13-21	100%-300%	-10.5%	9.1%	39	38%
9-12	100%	-17.9%	12.3%	48	4%
6-8	50%-100%	-0.4%	4.4%	9	1%
0-5	50%	-0.1%	0.0%	2	0%
		-12.7%	9.9%	98	43%
Financial instruments with low risk				0	0%
Stage 3 financial instruments				12	0%
Post model expert credit adjustment ⁶⁾				23	
		Total		133	43%

⁵⁾ Thresholds vary within given ranges depending on the borrower's geography, segment and internal risk rating.

⁶⁾ Represents post-model expert credit adjustments for stages 1 and 2.

Significant increase in credit risk, financial instruments with initial recognition before 1 January 2018

Internal risk rating grade at initial recognition	12-month PD band at initial recognition	Threshold, rating downgrade ^{1) 2) 3)}	Impairment provision impact of		Recognised credit impairment provisions 31 Dec 2020	Share of total portfolio (%) in terms of gross carrying amount 31 Dec 2020
			Increase in threshold by 1 grade	Decrease in threshold by 1 grade		
13-21	< 0.5%	3 - 7 grades	-14.0%	10.2%	69	52%
9-12	0.5-2.0%	1 - 2 grades	-20.6%	24.9%	68	7%
6-8	2.0-5.7%	1 - 2 grades	-13.1%	6.3%	18	2%
0-5	>5.7% and <100%	1 grade	-8.3%	0.0%	6	1%
			-16.5%	15.7%	161	62%
Financial instruments with low risk					0	0%
Stage 3 financial instruments					160	0%
Post model expert credit adjustment ⁴⁾					19	
					Total 340	62%

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 geography, segment and internal risk rating.

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

⁴⁾ Represents post-model expert credit adjustments for stages 1 and 2.

Significant increase in credit risk, financial instruments with initial recognition on or after 1 January 2018

Internal risk rating grade at initial recognition	Threshold, increase in lifetime PD ⁵⁾	Increase in threshold by 100%	Decrease in threshold by 50%	Impairment provision impact of		Share of total portfolio (%) in terms of gross carrying amount 31 Dec 2020
				Recognised credit impairment provisions 31 Dec 2020		
13-21	100%-300%	-3.5%	9.8%	46		33%
9-12	100%	-32.2%	6.4%	58		4%
6-8	50%-100%	-0.4%	5.9%	12		1%
0-5	50%	0.0%	0.2%	3		0%
			-17.1%	7.5%	119	38%
Financial instruments with low risk					0	0%
Stage 3 financial instruments					9	0%
Post model expert credit adjustment ⁶⁾					25	
					Total 153	38%

⁵⁾ Thresholds vary within given ranges depending on the borrower's geography, segment and internal risk rating.

⁶⁾ Represents post-model expert credit adjustments for stages 1 and 2.

Incorporation of forward-looking macroeconomic scenarios

A new Swedbank Economic Outlook was published on 20 January which serves as the base scenario, with an assigned probability weight of 66.6 per cent. Aligned with the updated base scenario, new alternative scenarios were developed, with assigned probability weights of 16.7 per cent on both the upside and downside scenario. These new macroeconomic scenarios were included in the expected credit losses calculations according to the Group's usual monthly process.

The revised global forecast mainly reflects the more rapid vaccine rollout and massive fiscal stimulus, especially in the US. In addition, many economies showed a surprising resilience at the end of last year and beginning of this year, despite the still-serious pandemic situation. This better-than-expected development over the past few months lifts the growth rates this year. The world economy is expected to grow by 5.9% in 2021 and by 4.4% in 2022.

The recovery in the Swedish economy has continued during the beginning of 2021, although the pandemic is still weighing on parts of the services sector. Vaccination is ongoing, and Growth is expected to pick up in the second half of this year and in 2022 as society gradually reopens, with a revised growth outlook for this year to 3.5%. Growth in 2022 is estimated to be around 3.6%. Unemployment is expected to fall at a fairly rapid pace, from around 8.9% at present to 7.3% by the end of 2022. The baseline scenario assumes that seasonal effects over the summer will lead to a decline in Covid-19 cases in Europe, together with a gradual increase in vaccination rates. Further, it is assumed that a high rate of immunisation will be reached by the fall when the benign seasonal effects wane. In the US, a better vaccine outlook contributes to an earlier acceleration of the recovery than in the EU.

30 Jun 2021			
Credit impairment provisions (probability weighted)	Of which: post-model expert credit adjustment	Negative scenario	Positive scenario
430	42	459	421

31 Dec 2020			
Credit impairment provisions (probability weighted)	Of which: post-model expert credit adjustment	Negative scenario	Positive scenario
493	44	536	474

Note 6 Loans

30 Jun 2021	Stage 1			Stage 2			Stage 3			Total
	Gross carrying amount	Credit impairment provision	Net	Gross carrying amount	Credit impairment provision	Net	Gross carrying amount	Credit impairment provision	Net	
SEKm										
Loans to the public at amortised cost										
Private customers	924 989	11	924 978	22 309	52	22 257	661	138	523	947 758
Private mortgage	840 751	9	840 742	21 045	49	20 996	660	138	522	862 260
Tenant owner associations	84 238	2	84 236	1 264	3	1 261	1	0	1	85 498
Corporate customers	106 126	35	106 091	14 012	174	13 838	135	20	115	120 044
Agriculture, forestry, fishing	42 913	3	42 910	4 887	40	4 847	87	13	74	47 831
Manufacturing	626	0	626	62	1	61	0	0	0	687
Public sector and utilities	1 647	1	1 646	281	12	269	9	0	9	1 924
Construction	2 398	1	2 397	333	4	329	8	1	7	2 733
Retail and wholesale	880	0	880	137	2	135				1 015
Transportation	368	0	368	38	1	37	1	0	1	406
Shipping and offshore	4	0	4							4
Hotels and restaurants	486	2	484	247	9	238	7	1	6	728
Information and communication	140	0	140	15	0	15				155
Finance and insurance	379	0	379	134	1	133				512
Property management, including	53 098	26	53 072	7 251	93	7 158	14	3	11	60 241
Residential properties	38 422	18	38 404	4 734	55	4 679	7	1	6	43 089
Commercial	8 497	4	8 493	1 154	13	1 141	5	1	4	9 638
Industrial and Warehouse	733	1	732	144	1	143				875
Other	5 446	3	5 443	1 219	24	1 195	2	1	1	6 639
Professional services	1 839	1	1 838	389	4	385	4	2	2	2 225
Other corporate lending	1 348	1	1 347	238	7	231	5	0	5	1 583
Loans to the public	1 031 115	46	1 031 069	36 321	226	36 095	796	158	638	1 067 802
Loans to credit institutions	100 792		100 792							100 792
Loans to the public and credit institutions	1 131 907	46	1 131 861	36 321	226	36 095	796	158	638	1 168 594

31 Dec 2020

SEKm	Stage 1			Stage 2			Stage 3			Total
	Gross carrying amount	Credit impairment provision	Net	Gross carrying amount	Credit impairment provision	Net	Gross carrying amount	Credit impairment provision	Net	
Loans to the public at amortised cost										
Private customers	907 100	13	907 087	23 724	62	23 662	716	144	572	931 321
Private mortgage	821 029	10	821 019	22 517	58	22 459	712	144	568	844 046
Tenant owner associations	86 071	3	86 068	1 207	4	1 203	4	0	4	87 275
Corporate customers	106 941	43	106 898	15 648	206	15 442	166	25	141	122 481
Agriculture, forestry, fishing	43 228	5	43 223	5 183	45	5 138	110	15	95	48 456
Manufacturing	665	0	665	68	1	67	1	0	1	733
Public sector and utilities	1 644	1	1 643	298	13	285	14	1	13	1 941
Construction	2 528	1	2 527	379	4	375	12	3	9	2 911
Retail and wholesale	916	0	916	135	2	133				1 049
Transportation	362	0	362	38	1	37	1	0	1	400
Shipping and offshore	4	0	4							4
Hotels and restaurants	453	2	451	262	9	253				704
Information and communication	156	0	156	7	0	7	0	0	0	163
Finance and insurance	541	0	541	44	0	44				585
Property management, including	53 423	32	53 391	8 514	118	8 396	19	3	16	61 803
Residential properties	38 512	22	38 490	5 805	72	5 733	8	1	7	44 230
Commercial	8 406	4	8 402	1 441	19	1 422	6	1	5	9 829
Industrial and Warehouse	847	2	845	50	0	50				895
Other	5 658	4	5 654	1 218	27	1 191	5	1	4	6 849
Professional services	1 789	1	1 788	463	6	457	4	2	2	2 247
Other corporate lending	1 232	1	1 231	257	7	250	5	1	4	1 485
Loans to the public	1 014 041	56	1 013 985	39 372	268	39 104	882	169	713	1 053 802
Loans to credit institutions	106 208		106 208							106 208
Loans to the public and credit institutions	1 120 249	56	1 120 193	39 372	268	39 104	882	169	713	1 160 010

30 Jun 2020

SEKm	Stage 1			Stage 2			Stage 3			Total
	Gross carrying amount	Credit impairment provision	Net	Gross carrying amount	Credit impairment provision	Net	Gross carrying amount	Credit impairment provision	Net	
Loans to the public at amortised cost										
Private customers	892 989	34	892 955	25 127	92	25 035	748	136	612	918 602
Private mortgage	803 714	23	803 691	23 832	84	23 748	741	135	606	828 045
Tenant owner associations	89 275	11	89 264	1 295	8	1 287	7	1	6	90 557
Corporate customers	107 552	61	107 491	15 331	257	15 074	149	24	125	122 690
Agriculture, forestry, fishing	43 961	12	43 949	5 304	73	5 231	99	12	87	49 267
Manufacturing	632	0	632	104	1	103	1	1	0	735
Public sector and utilities	1 471	2	1 469	335	17	318	3	1	2	1 789
Construction	2 527	1	2 526	434	7	427	7	2	5	2 958
Retail and wholesale	984	0	984	170	3	167	2	1	1	1 152
Transportation	372	0	372	38	1	37				409
Shipping and offshore	1		1	3	0	3				4
Hotels and restaurants	486	1	485	284	6	278				763
Information and communication	212	0	212	11	0	11				223
Finance and insurance	760	2	758	47	1	46				804
Property management, including	53 177	41	53 136	7 867	129	7 738	18	3	15	60 889
Residential properties	38 029	25	38 004	5 700	91	5 609	7	1	6	43 619
Commercial	7 893	5	7 888	1 418	23	1 395	9	1	8	9 291
Industrial and Warehouse	841	4	837	72	2	70				907
Other	6 414	7	6 407	677	13	664	2	1	1	7 072
Professional services	1 888	1	1 887	496	8	488	4	2	2	2 377
Other corporate lending	1 081	1	1 080	238	11	227	15	2	13	1 320
Loans to the public	1 000 541	95	1 000 446	40 458	349	40 109	897	160	737	1 041 292
Loans to credit institutions	88 279		88 279							88 279
Loans to the public and credit institutions	1 088 820	95	1 088 725	40 458	349	40 109	897	160	737	1 129 571

Ratios, %	2021	2020	2020
	30 Jun	31 Dec	30 Jun
Share of Stage 1 loans, gross	96.82	96.53	96.54
Share of Stage 2 loans, gross	3.11	3.39	3.58
Share of Stage 3 loans, gross	0.07	0.08	0.08
Credit impairment provision ratio Stage 1 loans	0.00	0.00	0.01
Credit impairment provision ratio Stage 2 loans	0.62	0.68	0.86
Credit impairment provision ratio Stage 3 loans	19.85	19.16	17.84
Total credit impairment provision ratio	0.04	0.04	0.05

Note 7 Credit impairment provisions

Reconciliation of credit impairment provisions for loans

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

Loans to the public and credit institutions				
SEKm	Stage 1	Stage 2	Stage 3	Total
Carrying amount before provisions				
Opening balance as of 1 January 2021	1 120 249	39 372	882	1 160 503
Closing balance as of 30 June 2021	1 131 907	36 321	796	1 169 024
Credit impairment provisions				
Opening balance as of 1 January 2021	56	268	169	493
Movements affecting Credit impairments line				
New and derecognised financial assets, net	2	-20	-23	-41
Changes in risk factors (EADF, PD, LGD)	0	-30	7	-23
Changes in macroeconomic scenarios	-8	-12	0	-20
Post-model expert credit adjustments	0	-2	0	-2
Individual assessments			1	1
Stage transfers	-4	22	4	22
from 1 to 2	-5	36		31
from 1 to 3	0		3	3
from 2 to 1	1	-13		-12
from 2 to 3		-2	8	6
from 3 to 2		1	-6	-5
from 3 to 1	0		-1	-1
Other			-1	-1
Total movements affecting Credit impairments line	-10	-42	-12	-64
Movements recognised outside Credit impairments line				
Interest			1	1
Closing balance as of 30 June 2021	46	226	158	430
Carrying amount				
Opening balance as of 1 January 2021	1 120 193	39 104	713	1 160 010
Closing balance as of 30 June 2021	1 131 861	36 095	638	1 168 594

Loans to the public and credit institutions
SEKm

	Stage 1	Stage 2	Stage 3	Total
Carrying amount before provisions				
Opening balance as of 1 January 2020	1 074 780	42 719	933	1 118 432
Closing balance as of 30 June 2020	1 088 820	40 458	897	1 130 175

Credit impairment provisions

Opening balance as of 1 January 2020	44	330	153	527
--------------------------------------	----	-----	-----	-----

Movements affecting Credit impairments line

New and derecognised financial assets, net	13	-17	-27	-31
Changes in risk factors (EADF, PD, LGD)	8	-39	23	-8
Changes in macroeconomic scenarios	40	36	1	77
Stage transfers	-10	39	9	38
from 1 to 2	-14	80		66
from 1 to 3	0		7	7
from 2 to 1	4	-40		-36
from 2 to 3		-4	14	10
from 3 to 2		3	-9	-6
from 3 to 1	0		-3	-3
Other			-1	-1
Total movements affecting Credit impairments line	51	19	5	75

Movements recognised outside Credit impairments line

Interest			2	2
Closing balance as of 30 June 2020	95	349	160	604

Carrying amount

Opening balance as of 1 January 2020	1 074 736	42 389	780	1 117 905
Closing balance as of 30 June 2020	1 088 725	40 109	737	1 129 571

Note 8 Derivatives

SEKm	2021 30 Jun			2020 31 Dec		
	Interest	Currency	Total	Interest	Currency	Total
Derivatives with positive book value	10 145	4 181	14 326	13 043	5 990	19 033
of which in hedge accounting	10 088	3 319	13 407	12 980	5 027	18 007
Derivatives with negative book value	1 742	3 265	5 007	2 456	4 174	6 630
of which in hedge accounting	1 728	1 919	3 647	2 443	2 060	4 503
Nominal amount	862 555	154 700	1 017 255	838 030	175 485	1 013 515

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

Note 9 Debt securities in issue and subordinated liabilities

SEKm	2021 30 Jun	2020 31 Dec	%	2020 30 Jun	%
Bond loans	477 811	489 779	-2	567 980	-16
Change in value due to hedge accounting at fair value	8 299	11 634	-29	3 551	
Total	486 110	501 413	-3	571 531	-15

Turnover during the period SEKm	2021 Jan-Jun	2020 Jul-Dec	%	2020 Jan-Jun	%
Opening balance	501 413	571 531	-12	592 097	-15
Issued	33 081	6 364		62 914	-47
Repurchased	-15 024	-19 910	-25	-36 293	-59
Repaid	-33 226	-49 676	-33	-53 036	-37
Interest	1 613	1 892		2 412	
Change in market values or in hedged item in hedge accounting at fair value	-3 360	-1 296		3 551	
Changes in exchange rates	1 613	-7 492		-114	
Closing balance	486 110	501 413	-3	571 531	-15

Note 10 Financial instruments at fair value

SEKm	2021 30 Jun			2020 31 Dec		
	Fair value	Carrying amount	Diff- erence	Fair value	Carrying amount	Diff- erence
Assets						
Loans to credit institutions	100 792	100 792		106 208	106 208	
Loans to the public	1 068 999	1 067 802	1 197	1 057 106	1 053 802	3 304
Value change of interest hedged item in portfolio hedge	397	397		1 767	1 767	
Derivatives	14 326	14 326		19 033	19 033	
Other financial assets	1 183	1 183		75	75	
Total	1 185 697	1 184 500	1 197	1 184 189	1 180 885	3 304
Non-financial assets		379			150	
Total		1 184 879			1 181 035	
Liabilities						
Amounts owed to credit institutions	625 970	625 374	596	600 481	599 745	736
Debt securities in issue	488 549	486 110	2 301	504 074	501 413	2 661
Derivatives	5 007	5 007		6 630	6 630	
Other financial liabilities	6 601	6 601		12 115	12 115	
Eligible liabilities	15 225	15 005	220	15 291	15 005	286
Total	1 141 352	1 138 097	3 117	1 138 591	1 134 908	3 683
Non-financial liabilities		6			22	
Total		1 138 103			1 134 930	

30 Jun 2021

Instruments with quoted market prices in an active market

Valuation techniques using observable market data

Valuation techniques using non-observable market data

SEKm	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Derivatives		14 326		14 326
Total		14 326		14 326
Liabilities				
Debt securities in issue		138		138
Derivatives		5 007		5 007
Total		5 145		5 145

The table above contains financial instruments measured at fair value by valuation level. The Swedbank Mortgage uses various methods to determine the fair value for financial instruments depending on the degree of observable market data in the valuation and activity in the market. Market activity is continuously evaluated by analysing factors such as differences in bid and ask prices.

The methods are divided into three different levels:

- Level 1: Unadjusted, quoted price on an active market
- Level 2: Adjusted, quoted price or valuation model with valuation parameters derived from an active market
- Level 3: Valuation model where significant valuation parameters are non-observable and based on internal assumptions.

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

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

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

31 Dec 2020	Instruments with quoted market prices in an active market	Valuation techniques using observable market data	Valuation techniques using non-observable market data	
SEKm	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Derivatives		19 033		19 033
Total		19 033		19 033
Liabilities				
Debt securities in issue		1 090		1 090
Derivatives		6 630		6 630
Total		7 720		7 720

Note 11 Assets pledged, contingent liabilities and commitments

SEKm	2021 30 Jun	2020 31 Dec	%	2020 30 Jun	%
Loans, used as collateral for covered bonds ¹⁾	497 090	561 209	-11	614 283	-19
Commitments ²⁾	10 882	7 817	39	10 223	6
Pledged assets and contingent liabilities	507 972	569 026	-11	624 506	-19

¹⁾ Consist of collateral for covered bonds. Liabilities for covered bonds are reported as Debt securities in issue or, when sold in a repurchase transaction, as Amounts owed to credit institution. Collateral refers to customers' nominal debt including accrued interest.

²⁾ Binding offers are included in accordance with the new mortgage directive and fair value option loans are excluded in accordance with IFRS 9.

Note 12 Related parties

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

SEKm	2021 30 Jun	2020 31 Dec	2020 30 Jun
Group receivables			
Loans to credit institutions	100 792	106 208	88 279
Derivatives	14 326	19 033	26 739
Other assets	35	57	32
Total	115 153	125 298	115 050
Group payables			
Amounts owed to credit institutions	625 374	599 745	521 151
Debt securities in issue	40 420	29 923	30 388
Derivatives	5 007	6 630	4 279
Other liabilities	18	11 446	5 414
Eligible liabilities	15 005	15 005	10 000
Total	685 824	662 749	571 232
Income statement			
Interest income	48	365	198
Interest expense	-181	-1 070	-1 431
Other expenses	-5	-8	-4
Total	-137	-713	-1 237

Note 13 Capital Adequacy

Capital adequacy analysis

Capital adequacy regulations determine how much capital, designated as the own funds, 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/reports-and-presentations/risk-reports.html>

SEKm	2021 30 Jun	2021 31 Mar	2020 31 Dec	2020 30 Sep	2020 30 Jun
Available own funds (amounts)					
Common Equity Tier 1 (CET1) capital	46 058	46 115	46 103	46 151	46 182
Tier 1 capital	46 058	46 115	46 103	46 151	46 182
Total capital	46 068	46 150	46 149	46 263	46 335
Risk-weighted exposure amounts					
Total risk exposure amount	283 624	282 207	281 223	280 771	279 476
Capital ratios (as a percentage of risk-weighted exposure amount)					
Common Equity Tier 1 ratio (%)	16.2	16.3	16.4	16.4	16.5
Tier 1 ratio (%)	16.2	16.3	16.4	16.4	16.5
Total capital ratio (%)	16.2	16.4	16.4	16.5	16.6
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
Additional own funds requirements to address risks other than the risk of excessive leverage (%)	0.6	0.6	0.6	0.6	0.6
of which: to be made up of CET1 capital (percentage points)	0.4	0.4	0.4	0.4	0.4
of which: to be made up of Tier 1 capital (percentage points)	0.5	0.5	0.5	0.5	0.5
Total SREP own funds requirements (%)	8.6	8.6	8.6	8.6	8.6
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
Capital conservation buffer (%)	2.5	2.5	2.5	2.5	2.5
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	n/a	n/a	n/a	n/a	n/a
Institution specific countercyclical capital buffer (%)	0.0	0.0	0.0	0.0	0.0
Systemic risk buffer (%)	0.0	0.0	0.0	0.0	0.0
Global Systemically Important Institution buffer (%)	n/a	n/a	n/a	n/a	n/a
Other Systemically Important Institution buffer (%)	n/a	n/a	n/a	n/a	n/a
Combined buffer requirement (%)	2.5	2.5	2.5	2.5	2.5
Overall capital requirements (%)	11.1	11.1	11.1	11.1	11.1
CET1 available after meeting the total SREP own funds requirements (%)	7.6	7.7	7.8	7.8	7.9
Leverage ratio					
Total exposure measure	1 051 963	1 064 724	1 060 432	1 056 287	1 050 434
Leverage ratio (%)	4.4	4.3	4.3	4.4	4.4
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
Additional own funds requirements to address the risk of excessive leverage (%)	0.0	n/a	n/a	n/a	n/a
of which: to be made up of CET1 capital (percentage points)	0.0	n/a	n/a	n/a	n/a
Total SREP leverage ratio requirements (%)	3.0	n/a	n/a	n/a	n/a
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
Leverage ratio buffer requirement (%)	3.0	n/a	n/a	n/a	n/a
Overall leverage ratio requirement (%)	3.0	n/a	n/a	n/a	n/a

	2021	2020
Common Equity Tier 1 Capital, SEKm	30 Jun	31 Dec
Shareholders' equity according to the balance sheet	46 056	46 105
Unrealised value changes in own financial liabilities due to changes in own credit valuation	0	0
Cash flow hedges	7	3
Additional valuation adjustments	-5	-5
Total Common Equity Tier 1 capital	46 058	46 103

	2021	2020
Risk exposure amount, SEKm	30 Jun	31 Dec
Risk exposure amount credit risks, IRB	38 224	41 427
Risk exposure amount operational risks	18 915	18 915
Additional risk exposure amount, Article 458 CRR	226 485	220 881
Total risk exposure amount	283 624	281 223

	SEKm		Per cent	
Capital requirements ¹⁾	2021	2020	2021	2020
SEKm / per cent	30 Jun	31 Dec	30 Jun	31 Dec
Capital requirement Pillar 1	29 781	29 528	10.5	10.5
of which Buffer requirements ²⁾	7 091	7 031	2.5	2.5
Total capital requirement Pillar 2 ³⁾	1 730	1 730	0.6	0.6
Total capital requirement Pillar 1 and 2	31 511	31 258	11.1	11.1
Own funds	46 068	46 149		

¹⁾ Swedbank Mortgage's calculation based on the SFSA's announced capital requirements, including Pillar 2 requirements.

²⁾ Buffer requirements includes capital conservation buffer and countercyclical capital buffer.

³⁾ Individual Pillar 2 requirement according to decision from SFSA SREP 2020.

Alternative performance measures

The interim report includes several 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, net, in relation to the opening balance of loans to credit institutions and loans to public after provisions.
Credit impairment provision ratio Stage 1 loans	Credit impairment provisions Stage 1 in relation to the gross carrying amount Stage 1 loans
Credit impairment provision ratio Stage 2 loans	Credit impairment provisions Stage 2 in relation to the gross carrying amount Stage 2 loans
Credit impairment provision ratio Stage 3 loans	Credit impairment provisions Stage 3 in relation to the gross carrying amount Stage 3 loans
Equity per share	Shareholders equity in relation to the number of shares outstanding.
Investment 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.
Return on equity	Profit for the period allocated to shareholders in relation to average equity attributable to shareholders. The average is calculated using month-end figures.
Share of stage 1 loans, gross	Carrying amount of Stage 1 loans, gross, in relation to the carrying amount of loans to credit institutions and the public excluding provisions.
Share of stage 2 loans, gross	Carrying amount of Stage 2 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.
Total credit impairment provision ratio	Credit impairment provisions in relation to the gross carrying amount loans

Signatures of the Board of Directors and the President

The Board of Directors and the CEO certify that the interim report for 2021 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 15 July 2021

Ola Laurin
Chairman

Magdalena Frostling
CEO

Thomas Johansson

Jennifer Barck Gustafsson

Stefan Olsson

Nina Larsson

Johan Smedman

Auditor's report

Introduction

We have reviewed the condensed interim financial information (interim report) of Swedbank Hypotek AB for the period 1 January 2021 to 30 June 2021. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of 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 International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Stockholm 16 July 2021

PricewaterhouseCoopers AB

Anneli Granqvist
Authorised Public Accountant
Auditor in charge

Martin By
Authorised Public Accountant

For further information please contact:

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

Annie Ho
Head of Investor Relations
Telephone (+46)8 585 922 69

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