

2006:3

Swedbank



Swedbank Mortgage

Interim report

January – September 2006

Swedbank Mortgage

JANUARY – SEPTEMBER 2006 IN SUMMARY

(comparative figures refer to the corresponding period previous year)

- Lending increased by nominal SEK 30,891 million during the first nine months (26,807) and amounted to SEK 499,463 million (455,435)
- Increased market shares for new lending
- Stabilization of net interest income during the third quarter

The Group, which has now changed its name to Swedbank Mortgage (in Swedish: Swedbank Hypotek), comprises the parent company, Swedbank Mortgage AB (publ), and the wholly owned subsidiary Swedbank Jordbrukskredit AB. The Swedbank Mortgage Group is wholly owned by Swedbank AB (publ). Swedbank Mortgage provides long-term financing for housing, municipal investments, and agricultural and forestry properties.

Profit trend 2006

Operating profit has stabilized during the third quarter and amounted to SEK 969 million. For the period January - September 2006, operating profit amounted to SEK 2,816 million. Net interest income has slightly improved during the third quarter compared to the second quarter, which indicates that the effects of the margin pressure tend to stabilize. The market competition is continuously strong. Net interest income amounted to SEK 1,066 million for the third quarter, compared to SEK 1,020 million for the first quarter and SEK 992 million for the second quarter 2006. The improved net interest income for the third quarter compared to the second quarter is partly due to the funding costs.

Commission expenses

Commission expenses are unchanged compared with the corresponding period previous year.

A new agreement has been made, which favours an increase of the business exchange with the savings banks and partly owned banks.

Net gains and losses on financial items at fair value

Net gains and losses on financial items at fair value amounted to SEK 173 million during the first nine months, of which SEK 43 million corresponds to the third quarter 2006.

Operating expenses

Operating expenses decreased compared with the corresponding period previous year and amounted to SEK 47 million (56).

Loan losses

Loan losses amounted to SEK 12 million (-5) during the first nine months, where established loan losses accounted for SEK 15 million (39). Provisions for anticipated loan losses totaling SEK 138 million (158) as of September 30, 2006. Specifications of loan losses and loans are shown in Notes 2 and 3.

Lending

Loans for private homes rose by nominal SEK 31,070 million during the first nine months 2006 (24,197) and agricultural loans increased by SEK 1,825 million (1,931). Loans for commercial properties decreased by SEK 2,004 million (+681). The decrease is primarily due to a transfer of loans to Swedbank AB, driven by an increased demand for products provided by the parent company. Swedbank Mortgage's loans to the public amounted to SEK 499,659 million (461,481) as of September 30, 2006, of which the fair value changes on lending

accounted for SEK 196 million (6,046). Swedbank Mortgage's total market share was 30 percent (30) as of August 31, 2006. The share of new household lending rose to 31.1 percent during the period January - August 2006 (24.0).

Funding

48 percent of the total funding has been raised from foreign money and capital markets.

Capital adequacy

As of September 30, 2006 the capital adequacy ratio was 9.4 percent (10.1 as of December 31, 2006), of which the primary capital ratio was 8.6 percent (8.5 as of December 31, 2006).

Interest rate risk

An increase in market interest rates of one percent as of September 30, 2006 would have reduced the value of Swedbank Mortgage's interest-bearing assets and liabilities, including derivatives, by approximately SEK 621 million (564 as of December 31, 2006).

A one-percent increase in market interest rates would have decreased net gains and losses on financial items at fair value by SEK 185 million (+8 as of December 31, 2006).

Accounting policies

The interim report for the Group is prepared according to IAS 34 "Interim Financial Reporting", which means that it follows the same accounting principles as in the most recent annual report. Swedbank Mortgage changed accounting poli-

cies during 2005, according to the fair value option in IAS 39 which the EU approved in November 2005. The changes are due to use of the fair value option for delimited portfolios of lending and debt securities in issue. The restated Income statements and Balance sheets were published in the preliminary year-end report, and all comparable figures are restated in this report.

IFRS as it is included in the Annual Accounts Act, do not contain the fair value option. Therefore the Parent Company, with approval from the Financial Supervisory Authority, is following FFS 2002:22 again in 2006.

Financial reporting

Swedbank Mortgage's year-end report for 2006 will be released on

15 February 2007.

Events after September 30, 2006

Swedbank Mortgage has decided to base its business on the issuing of covered bonds and will apply to the Swedish Financial Supervisory Authority for a license for such issuing.

Swedbank Mortgage Group – Key financial highlights 2002–2006

	2006*	2005**	2005***	2004****	2003****	2002****
Lending						
Loans to the public, SEK m.	499,659	461,481	472,058	428,628	398,752	367,645
Profitability						
Operating profit, SEK m.	2,816	3,700	4,815	4,602	4,255	3,839
Investment margin, %	0.75	1.00	0.98	1.11	1.17	1.22
Return on equity, %	11.7	19.1	17.1	17.0	16.5	15.9
Earnings per share, SEK	88.16	115.81	150.74	144.04	133.17	120.18
Capital						
Capital base, SEK m.	26,204	26,287	26,116	23,673	22,723	20,048
Equity, SEK m.	24,093	21,262	22,065	18,840	17,654	16,251
Number of shares at beginning/end of period, million	23	23	23	23	23	23
Equity per share, SEK	1,047.52	924.43	959.35	819.13	767.57	706.59
Capital adequacy ratio, %	9.4	10.6	10.1	10.3	11.0	10.8
Primary capital, %	8.6	8.6	8.5	8.2	8.5	8.8
Credit quality						
Loan losses, SEK m.	12	-5	-18	-46	18	129
Loan loss level, %	0.00	0.00	-0.00	-0.01	0.005	0.04
Provision ratio for impaired loans, %	125.8	95.5	96.6	73.3	70.2	73.4
Share of impaired loans, according to loans to the public, %	0.01	0.02	0.02	0.04	0.04	0.04

* As of September 30, 2006 according to IFRS

** As of September 30, 2005 according to IFRS

*** As of December 31, 2005 according to IFRS

**** According to previously applied accounting principles. To satisfy the requirements according to IFRS, 2002-2004 would have to be adjusted according to IAS39. See the accounting principles in the annual report for a more detailed description.

Income statement

Group, according to IFRS

SEK million	Note	Jan - Sept 2006	Jan - Sept 2005	Change %	July - Sept 2006	July - Sept 2005	Change %
Interest income		14,737	14,614	1	5,105	4,725	8
Interest expenses		-11,659	-10,799	8	-4,039	-3,455	17
NET INTEREST INCOME		3,078	3,815	-19	1,066	1,270	-16
Commission income		23	24	-4	7	8	-13
Commission expenses		-410	-411	0	-133	-135	-1
NET COMMISSION INCOME		-387	-387	0	-126	-127	-1
Net gains and losses on financial items at fair value	1	173	311	-	43	225	-
Other operating income		11	11	0	3	4	-25
TOTAL INCOME		2,875	3,750	-23	986	1,372	-28
Staff costs		-13	-16	-19	-4	-5	-20
Other general administrative expenses		-21	-35	-40	-8	-7	14
TOTAL ADMINISTRATIVE EXPENSES		-34	-51	-33	-12	-12	0
Depreciation/amortization and impairment of tangible and intangible fixed assets		-13	-5	-	-4	-1	-
TOTAL EXPENSES		-47	-56	-16	-16	-13	23
PROFIT BEFORE LOAN LOSSES		2,828	3,695	-23	970	1,359	-30
Loan losses	2	-12	5	-	-1	5	-
OPERATING PROFIT		2,816	3,700	-24	969	1,364	-29
Tax expense for the period		-788	-1,036	-24	-272	-382	-29
PROFIT FOR THE PERIOD		2,028	2,664	-24	697	982	-29
Earnings per share, before and after dilution, SEK		88.16	115.81		30.29	42.70	

Swedbank Mortgage AB, according to ÅRKL

SEK million	Note	Jan - Sept 2006	Jan - Sept 2005	Change %	July - Sept 2006	July - Sept 2005	Change %
Interest income		14,812	14,608	1	5,145	4,739	9
Interest expenses		-11,716	-11,076	6	-4,064	-3,484	17
NET INTEREST INCOME		3,096	3,532	-12	1,081	1,255	-14
Commission income		17	19	-11	5	7	-29
Commission expenses		-365	-367	-1	-119	-121	-2
NET COMMISSIONS INCOME		-348	-348	0	-114	-114	0
Net gains and losses on financial items at fair value	1	-8	7	-	0	10	-
Other operating income		10	10	0	3	3	0
TOTAL INCOME		2,750	3,201	-14	970	1,154	-16
Staff costs		-12	-15	-20	-3	-5	-40
Other general administrative expenses		-29	-52	-44	-10	-24	-58
TOTAL ADMINISTRATIVE EXPENSES		-41	-67	-39	-13	-29	-55
Depreciation/amortization and impairment of tangible and intangible fixed assets		-5	-5	-	-1	-2	-
TOTAL EXPENSES		-46	-72	-36	-14	-31	-55
PROFIT BEFORE LOAN LOSSES		2,704	3,129	-14	956	1,123	-15
Loan losses	2	-12	6	-	-1	5	-
OPERATING PROFIT		2,692	3,135	-14	955	1,128	-15
Tax expense for the period		-754	-878	-14	-268	-316	-15
PROFIT FOR THE PERIOD		1,938	2,257	-14	687	812	-15

Balance sheet

SEK million	Note	According to IFRS			According to ÅRKL		
		Group			Swedbank Mortgage AB		
		Sept 30 2006	Sept 30 2005	Dec 31 2005	Sept 30 2006	Sept 30 2005	Dec 31 2005
Assets							
Treasury bills eligible for refinancing with central banks			150	100		150	100
Loans to credit institutions	3	52,094	45,897	35,921	80,302	71,463	62,417
Loans to the public	3	499,659	461,481	472,058	467,315	426,100	438,250
Derivatives	4	5,364	8,009	7,997	2,056	1,310	1,692
Other assets		5,328	3,249	2,760	7,248	5,170	4,685
TOTAL ASSETS		562,445	518,786	518,836	556,921	504,193	507,144
Liabilities and equity							
Liabilities							
Amount owed to credit institutions		94,715	80,090	79,472	94,607	80,059	79,414
Debt securities in issue		428,650	399,359	398,375	426,257	388,540	390,207
Derivatives	4	4,947	5,584	5,462	1,991	1,731	1,845
Other liabilities		7,673	7,324	9,222	8,145	7,910	9,834
Subordinated liabilities		2,367	5,167	4,240	2,338	5,026	4,199
TOTAL LIABILITIES		538,352	497,524	496,771	533,338	483,266	485,499
Equity							
Shareholders' equity		24,093	21,262	22,065	23,583	20,927	21,645
TOTAL EQUITY		24,093	21,262	22,065	23,583	20,927	21,645
TOTAL LIABILITIES AND EQUITY		562,445	518,786	518,836	556,921	504,193	507,144

Financial instruments distributed by valuation category according to IAS 39

SEK million	Sept 30, 2006	Sept 30, 2005	Dec 31, 2005
Assets			
Treasury bills and other bills eligible for refinancing with central banks		150	100
valuation category, Fair value through profit or loss, trading		150	100
Loans to credit institutions	52,094	45,897	35,921
valuation category, Loans and receivables	52,094	45,897	35,921
Loans to the public	499,659	461,481	472,058
valuation category, Loans and receivables	110,225	100,421	104,427
valuation category, Fair value through profit or loss	389,434	361,060	367,631
Liabilities			
Amount owed to credit institutions	94,715	80,090	79,472
valuation category, Other financial liabilities	87,357	77,770	77,085
valuation category, Fair value through profit or loss, other	7,358	2,320	2,387
Debt securities in issue	428,650	399,359	398,375
valuation category, Fair value through profit or loss, other	428,650	399,359	398,375
Subordinated liabilities	2,367	5,167	4,240
valuation category, Other financial liabilities	2,362	5,118	4,208
changes in the value according to hedge accounting	5	49	32

Cash flow statement

SEK million	Group			Swedbank Mortgage AB		
	Jan - Sept 2006	Jan - Sept 2005	Jan - Dec 2005	Jan - Sept 2006	Jan - Sept 2005	Jan - Dec 2005
Cash and cash equivalents at beginning of period*	6,547	17,520	17,520	6,311	17,036	17,036
Cash flow from operating activities	-30,175	-17,151	-27,691	-30,127	-16,854	-27,443
Cash flow from financing activities	38,567	8,382	16,718	38,567	8,382	16,718
CASH FLOW FOR THE PERIOD	8,392	-8,769	-10,973	8,440	-8,472	-10,725
CASH AND CASH EQUIVALENTS AT END OF PERIOD*	14,939	8,751	6,547	14,751	8,564	6,311
* of which securities pledged for OMX AB						
at beginning of period	100	50	50	100	50	50
at end of period	-	150	100	-	150	100

Statement of changes in equity

Group

SEK million	Equity attributable to Shareholders' equity
Closing balance December 31, 2004	18,840
Change in accounting policies relating to IAS 39 Financial instruments: Recognition and Measurement	-242
Opening balance January 1, 2005	18,598
Profit for the period	2,664
CLOSING BALANCE SEPTEMBER 30, 2005	21,262
Opening balance January 1, 2006	22,065
Profit for the period	2,028
CLOSING BALANCE SEPTEMBER 30, 2006	24,093

Swedbank Mortgage AB

SEK million	Restricted equity	Non- restricted equity	Total
Opening balance January 1, 2005	14,600	4,070	18,670
Profit for the period		2,257	2,257
CLOSING BALANCE SEPTEMBER 30, 2005	14,600	6,327	20,927
of which conditional shareholders' contributions 1)		2,400	2,400
Opening balance January 1, 2005	14,600	4,070	18,670
Profit for the period		2,975	2,975
CLOSING BALANCE DECEMBER 31, 2005	14,600	7,045	21,645
of which conditional shareholders' contributions 1)		2,400	2,400
Opening balance January 1, 2006	14,600	7,045	21,645
Profit for the period		1,938	1,938
CLOSING BALANCE JUNE 30, 2006	14,600	8,983	23,583
of which conditional shareholders' contributions 1)		2,400	2,400

1) The condition for repayment is that it is defensible in light of the requirements that the nature, scope and risks of operations place on the size of equity as well as the company's consolidation requirements, liquidity and financial position in other respects. Repayment decisions are made by Swedbank Mortgage's Annual General Meeting.

Notes

1 Net gains and losses on financial items at fair value

Group	Jan - Sept	Jan - Sept	July - Sept	July - Sept
SEK million	2006	2005	2006	2005
Valuation category, Fair value through profit or loss				
<i>Trading and derivatives</i>				
Interest-bearing securities	-2,120	-16	3,990	255
TOTAL	-2,120	-16	3,990	255
<i>Other</i>				
Interest-bearing securities	2,245	264	-3,956	-17
TOTAL	2,245	264	-3,956	-17
<i>Hedge accounting at fair value</i>				
Hedging instruments	-23	34	-3	19
Hedged item	27	-41	3	-26
TOTAL	4	-7	0	-7
Interest income compensation, loans valued at cost	44	70	9	-6
Change in exchange rates	0	0	0	0
TOTAL NET PROFIT ON FINANCIAL ITEMS AT FAIR VALUE	173	311	43	225

Swedbank Mortgage AB	Jan - Sept	Jan - Sept	July - Sept	July - Sept
SEK million	2006	2005	2006	2005
Capital gains/losses				
Interest-bearing securities	-8	7	0	10
TOTAL	-8	7	0	10
Changes in exchange rates	0	0	0	0
TOTAL NET PROFIT ON FINANCIAL ITEMS AT FAIR VALUE	-8	7	0	10

2 Loan losses, net

Group

SEK million	Jan - Sept 2006	Jan - Sept 2005	July - Sept 2006	July - Sept 2005
Loans assessed individually				
The period's write-off for established loan losses	7	29	2	1
Reversal of previous provisions for anticipated loan losses reported in the period's accounts as established	-3	-26	-2	-2
The period's provisions for anticipated loan losses	3	3	-2	1
Recoveries from previous years' established loan losses	-2	-4	-1	-2
Recovered provisions for anticipated loan losses	-9	-16	-6	-1
THE PERIOD'S NET EXPENSE FOR LOANS ASSESSED INDIVIDUALLY	-4	-14	-9	-3
Collective provisions for loans assessed individually				
Allocation to/withdrawal from collective provisions	8	3	7	-2
Collectively assessed homogenous groups of loans with limited value and similar credit risk				
The period's write-off for established loan losses	8	10	2	3
Recoveries from previous year's established loan losses	0	-1	0	0
Allocations to/ withdrawal from loan loss reserve	0	-3	0	-3
THE PERIOD'S NET EXPENSE FOR COLLECTIVELY ASSESSED LOANS	8	6	2	0
THE PERIOD'S NET LOAN LOSS EXPENSE	12	-5	1	-5
Loan losses distributed by valuation category				
Loans and receivables	3	-1	1	-1
Fair value through profit or loss	9	-4	0	-4
TOTAL	12	-5	1	-5
Loan losses distributed by borrower category				
General public				
Write-off and provisions	26	45	9	3
Reversal and recoveries from previous years' established loan losses	-14	-50	-8	-8
TOTAL	12	-5	1	-5

Swedbank Mortgage AB

SEK million	Jan - Sept 2006	Jan - Sept 2005	July - Sept 2006	July - Sept 2005
Loans assessed individually				
The period's write-off for established loan losses	7	29	2	2
Reversal of previous provisions for anticipated loan losses reported in the period's accounts as established	-3	-26	-2	-2
The period's provisions for anticipated loan losses	3	3	-1	1
Recoveries from previous years' established loan losses	-3	-4	-2	-2
Recovered provisions for anticipated loan losses	-8	-16	-5	-1
THE PERIOD'S NET EXPENSE FOR LOANS ASSESSED INDIVIDUALLY	-4	-14	-8	-2
Collective provisions for loans assessed individually				
Allocation to/withdrawal from collective provisions	8	3	7	-2
Collectively assessed homogenous groups of loans with limited value and similar credit risk				
The period's write-off for established loan losses	8	9	2	2
Recoveries from previous year's established loan losses	0	-1	0	0
Allocations to/ withdrawal from loan loss reserve	0	-3	0	-3
THE PERIOD'S NET EXPENSE FOR COLLECTIVELY ASSESSED LOANS	8	5	2	-1
THE PERIOD'S NET LOAN LOSS EXPENSE	12	-6	1	-5

3 Loans to credit institutions and loans to the public

SEK million	Group			Swedbank Mortgage AB		
	Sept 30 2006	Sept 30 2005	Dec 31 2005	Sept 30 2006	Sept 30 2005	Dec 31 2005
Book value (before accounting for provisions)	551,891	507,536	508,118	547,754	497,719	500,804
Specific provisions for individually assessed loans	-35	-54	-45	-34	-52	-43
Collective provisions for loans assessed individually	-84	-83	-75	-84	-83	-75
Provisions for collectively valued homogenous groups of loans with limited value and similar credit risk	-19	-21	-19	-19	-21	-19
TOTAL PROVISIONS	-138	-158	-139	-137	-156	-137
BOOK VALUE	551,753	507,378	507,979	547,617	497,563	500,667
of which valuation category Loans and receivables	162,319	146,318	140,348			-
of which valuation category Fair value through profit or loss, other	389,434	361,060	367,631			-
TOTAL	551,753	507,378	507,979			-
Total provision ratio for impaired loans, %	125.8	95.5	96.6	129.0	99.9	101.6
Provision ratio for individually identified impaired loans, %	49.7	45.6	44.2	50.2	47.0	45.8
Impaired loans						
Book value of impaired loans (unsettled)	55	90	80	53	83	73
Impaired loans as % of total lending, %	0.01	0.02	0.02	0.01	0.02	0.02
Past due loans for which interest is recognized as income						
Book value of past due loans that are not included in impaired loans and in respect of which accrued interest is recognized as income	213	181	149	193	156	123
Restructured* and reclassified loans						
Book value before restructuring of loans, restructured during the financial period	2	30	30	2	30	30
Book value after restructuring of loans, restructured during the financial period	2	23	23	2	23	23
Book value of impaired loans returned in status to normal loans during the financial period	33	52	56	33	52	56

* A loan is considered restructured if the lender has granted some form of concession due to financial problems on the part of the borrower.

Specification: Loans and receivables

Group

Sector SEK million	Book value before provisions	Specific provisions for individually assessed loans	Collective provisions for individually assessed loans	Provisions for collectively assessed homogenous groups	Book value of loans after provisions	Book value of impaired loans	Book value of past due loans for which interest has been recognized
Private individuals	399,731	-8		-19	399,704	34	188
Real estate management	86,066	-26	-84		85,956	19	25
Other corporate lending	7,977	-1			7,976	2	
Municipalities	6,023				6,023		
TOTAL	499,797	-35	-84	-19	499,659	55	213
Credit institutions	52,094				52,094		
TOTAL LOANS TO CREDIT INSTITUTIONS AND PUBLIC	551,891	-35	-84	-19	551,753	55	213

4 Specification of derivatives in the Group as of September 30, 2006

Swedbank Mortgage trades in derivatives for the purpose of hedging certain positions with regard to the value of interest rates and foreign currencies. The following table is prepared in accordance with the directives of the Swedish Financial Supervisory Authority and includes all derivatives in the Group.

SEK million	Interest rate-related	Foreign exchange-related	Others
	Book value	Book value	Book value
Derivatives with positive values	1,306	2,652	-
Derivatives with negative values	2,014	1,525	2
Nominal amount	132,749	232,633	8,059

Swedbank Mortgage 's ratings

	S&P	Moody's	Fitch
Long-term		Aa3	AA-
Short-term	A-1	P-1	F1+

Stockholm, October 26, 2006



Jan Lilja
President

Review Report of interim financial information

Introduction

We have reviewed the interim report for the period January 1 to September 30, 2006, for Swedbank Mortgage AB (publ). The Board of Directors and the CEO are responsible for the preparation and presentation of this interim financial information in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with the Standard on Review Engagements SÖG 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by FAR. 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 Standards on Auditing in Sweden RS 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 accompanying interim financial information for Swedbank Mortgage AB (publ) is not, in all material aspects, in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and IAS 34.

Stockholm, October 26, 2006

Deloitte AB

Ernst & Young AB

Ulf Järlebro

Jan Palmqvist
Authorized Public Accountant

Lars Träff
Authorized Public Accountant

Authorized Public Accountant
Appointed by Financial Supervisory
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