

# Year-end report 2016

## Full year 2016 compared to full year 2015

- Operating profit for 2016 amounted to SEK 10 950 m (9 024)
- Net interest income increased by SEK 1 404m to SEK 12 637m (11 233)
- Loans to the public increased by 7.2 per cent or SEK 62bn to SEK 920bn (858)
- Profit before impairments increased by SEK 1 916m to SEK 10 970m (9 054)
- Credit impairments amounted to SEK 20m (30)
- Return on equity was 21.8 per cent (19.3)
- Covered bonds totaling a nominal amount of SEK 120bn were issued during the period (153)

Figures in brackets refer to the corresponding period in the previous year unless otherwise stated.

# Swedbank Mortgage AB year-end report 2016

## Full year 2016 compared to full year 2015

Swedbank Mortgage AB ("Swedbank Mortgage") is a wholly-owned subsidiary of Swedbank AB (publ) ("Swedbank") responsible for mortgage lending activities in Sweden. With over 1 million customers it has a leading position in the Swedish market. Mortgage lending is mainly through Swedbank's and the savings banks' retail network, one of the largest bank-owned distribution networks in Sweden, as well as through the bank's digital channels. There is no mortgage lending outside Sweden.

Figures in brackets refer to the corresponding period in the previous year unless otherwise stated.

### Market

Markets were affected by the US presidential election in the fourth quarter 2016. The election of Donald Trump, who is planning extensive tax reductions and infrastructure investments during his term, together with the Federal Reserve raising its key interest rate in December, contributed to global long-term rate hikes, including the Swedish one, during the autumn.

The Swedish economy continues doing well. GDP rose 3.4 per cent on an annualised basis. Export and household consumption were the main reasons for the increase. Business cycle data such as the Purchasing Managers' Index and the National Institute for Economic Research's Economic Tendency Survey indicate that economic growth in Sweden increased further in the fourth quarter 2016. The inflation rate (Consumer Price Index with a fixed rate) was 1.9 per cent in December, the highest since December 2010. Higher housing costs and rising energy prices contributed most to the upswing. In Sweden, the Riksbank lowered the interest rate from -0.35 per cent to -0.50 per cent during the year.

### Profit analysis

Swedbank Hypotek's profit was SEK 10 950m for 2016, compared to SEK 9 024m in 2015.

Net interest income increased by SEK 1 404m to SEK 12 637m (11 233). Increased lending volumes as well as interest margins, partly related to volumes acquired from SBAB in October, contributed to the increase.

Net loss on financial items was SEK -656m (-1 440). This is mainly due to buybacks of own bonds.

Other expenses amounted to SEK 1 076m (779). Other expenses include a large part of the business exchange margin paid to the savings banks and partly owned banks. This cost amounted to SEK 1 067m (775). No fees are paid to Swedbank AB.

The credit quality on lending remains very good and credit losses are low. Compared to 2015 the credit losses decreased by SEK 10 m to SEK 20m (30). Provisions were SEK 93m (117). Specification of losses and lending can be found in notes 4 and 5.

### Lending

Swedbank Mortgage grants real estate loans up to a ratio of 85 per cent of the market value. Swedbank Mortgage also lends directly to municipalities or to other lenders with local government guarantees as collateral, as well as to the forestry- and agricultural segment.

Swedbank Mortgage's strategy to digitise the mortgage process and use channel-independent pricing was supported by the fact that mortgage rates can now be re-set in the Internet Bank. Customers thereby get their individual rate based on the same pricing model used by Swedbank's branches and the Telephone Bank. Customers have been positive to the change.

Loans to the public increased by SEK 62bn to SEK 920bn (858). Lending to households was SEK 711bn (657) and lending to the forestry and agriculture segment was SEK 53bn (52). Lending to the corporate segment was SEK 156bn (149). Around SEK 13bn of the lending growth is related to the fact that Swedbank Mortgage acquired volumes from SBAB in October, the final step in Swedbank AB's acquisition of Sparbanken Öresund.

The growth of the Swedish mortgage market continued to be high, with an annual growth rate of 7.6 per cent (8.3). Swedbank Mortgage's share of the net growth rate was 8.4 per cent (6.6) for the full year 2016, while the total market share was 24.8 per cent (24.7).

On 1 June 2016 the Swedish Financial Supervisory Authority (SFSA) introduced an amortisation requirement on new mortgages. This resulted in house prices rising at a slower pace. Because Swedbank introduced guidelines similar to SFSA's already during 2015 to ensure that it maintains high quality in its mortgage portfolio, Swedbank Mortgage's lending portfolio has not been affected to a large extent by the new requirements. Mortgage portfolio amortisations totalled around SEK 12bn in 2016 (11).

In Sweden, the EU mortgage credit directive entered into force on 1 January 2017. It aims to strengthen consumer protection as regards mortgages. The directive includes provisions on marketing, information, format of mortgage offerings, right to reconsider, and advice. In Sweden, every person dealing with mortgages must have a licence. The sector has compiled a common mortgage licence.

### Funding

Swedbank Mortgage finances its lending by, among other things, issuing covered bonds in the Swedish and international capital markets.

The funding process is simplified through a number of standardised funding programmes, which legally conform to a number of different markets and investors. During 2016 there was continued good demand for Swedbank Mortgage's bonds.

In the Swedish market Swedbank Mortgage has continuously issued Floating Rate Notes ("FRNs") in a slightly larger format. In total, SEK 7.8bn has been issued of these loans during 2016. These FRN loans have the same maturity date as the big Swedish outstanding benchmark bonds (loans 187 and 180). The outstanding volume amounted to SEK 13bn. Activity in the Swedish market was quieter at the end of 2016. Of a total new funding amounting to SEK 120bn (153), SEK 101bn (101) was issued in the Swedish market.

As part of Swedbank Mortgage's liquidity strategy to minimise risk originating in the form of large redemption volumes at the same time, the company actively repurchases large parts of the redeeming volumes, starting about one year before maturity. During 2016 SEK 37bn (35) was repurchased in 3 different benchmark bonds with short remaining maturities. The average maturity of all outstanding covered bonds was 36 months (36) as per 31 December.

### Capital adequacy

The capital requirement amounted to SEK 37 324 m (34 593), compared to SEK 4 727m (4 451) without taking the Basel 1 floor into consideration. Capital adequacy is specified in note 13.

Swedbank Mortgage's legal capital requirement is based on the Capital Requirement Regulation (CRR), but more specifically restricted by the Basel 1 floor within CRR. The Swedish Financial Supervisory Authority has made clear that the Basel 1 floor i.e. 80% of the capital requirements according to Basel 1, will remain for Swedish banks. Since Swedbank Mortgage's capital requirement according to the Basel 1 floor is higher than the requirements in CRR/CRDIV Pillar 1 and Pillar 2 combined (including a risk-weighted floor on the Swedish mortgage portfolio of 25 per cent, a capital conservation buffer of 2.5 per cent as well as a countercyclical buffer of 1.5 per cent), it is the Basel 1 floor that constitutes the minimum capital requirement for Swedbank Mortgage. The expectation is that the Basel 1 floor will be the minimum requirement for Swedbank Mortgage also when the countercyclical buffer is raised in March 2017 to 2.0 per cent.

International work is underway regarding future capital requirements for banks. Among other things, the Basel Committee is conducting an extensive review to improve the comparability of banks' capital ratios. The review covers future standardised approaches for calculating capital requirements for credit, market, counterparty and operational risks as well as to introduce a capital floor based on these standardised approaches for banks that use internal models. Due to uncertainty about the specifics of the new regulations as well as how and when they will be implemented, it is still too early to draw any conclusions on the potential impact on Swedbank Mortgage.

Swedbank Mortgage's leverage ratio was 4.5 per cent on 31 December 2016 (4.2 per cent). The EU commission's clarification of the definition in October 2014 has been taken into consideration in the ratio. The supervisory authorities will review the leverage ratio measurement before a possible minimum requirement is enforced in 2018.

### Risks

The primary risks are credit risk, liquidity risk, financial risk and operational risk. Swedbank Mortgage maintains a low-risk profile through a well-diversified credit portfolio and limited financial and operational risks. In addition to what is stated in this interim report, a description of the company's risks is provided in the Annual Report for 2015.

The year has been dominated by the British referendum concerning an exit from EU and the US presidential election as well as continued geopolitical tensions leading to large refugee flows. Swedbank Mortgage's credit losses are still on very low levels and have not been affected by issues in the world around us.

### Interest rate risk

An increase in market interest rates by one percentage point as of 31 December 2016 would have reduced the fair value of Swedbank Mortgage's interest-bearing assets and liabilities, including derivatives, by SEK 248m (466), whereas an equivalent decrease in market interest rates corresponds to a SEK 248m increase (474).

A one percentage point increase in market interest rates as of 31 December 2016 would have increased Swedbank Mortgage's net gains and losses on financial items, excluding cash flow hedge, by SEK 56m (decrease of 213m) regarding those instruments valued at fair value and increased equity of SEK 44m (decrease of 166m). The corresponding amount for Swedbank Mortgage's net gains and losses on financial items at fair value, excluding cash flow hedge, in the case of a one percentage point decrease in market interest rates would lead to a decrease of SEK 61m (increase of 36) and a decrease in equity of SEK 48m (increase of SEK 28m).

### Rating

Swedbank Mortgage is one of the largest players on the Swedish covered bond market with the highest credit rating (Aaa/AAA) from both Moody's Investor Service and Standard & Poor's (S&P). Swedbank Mortgage have a credit rating of Aa3 from Moody's and AA- from S&P. There were no changes in credit ratings during 2016.

Swedbank Mortgage rating 2016	Moody's		S&P	
	Rating	Outlook	Rating	Outlook
Covered Bonds	Aaa	N/A	AAA	Stable
Long-term funding	Aa3	Stable	AA-	Negative
Short-term funding	P-1	N/A	A-1+	N/A

### Events after 31 December 2016

No significant events have occurred.

## Financial summary

	2016	2015	2014	2013	2012
SEKm	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec
Loans to the public	919 572	857 910	821 547	768 840	743 931
Net interest income	12 637	11 233	8 584	7 280	5 734
Operating profit	10 950	9 024	7 345	6 191	5 502
Credit impairments	20	30	37	30	70
Equity	41 387	36 570	33 269	34 455	33 131

## Income statement condensed

SEKm	Note	2016	2015	2016	2015
		Jul - Dec	Jul - Dec	Full Year	Full Year
Interest income		8 671	9 260	17 473	19 357
Interest expense		-2 232	-3 445	-4 996	-8 124
Negative yield on financial liabilities		78		160	
<b>Interest expense, including negative yield on financial liabilities</b>		<b>-2 154</b>	<b>-3 445</b>	<b>-4 836</b>	<b>-8 124</b>
<b>Net interest income</b>		<b>6 517</b>	<b>5 815</b>	<b>12 637</b>	<b>11 233</b>
Commission income		34	35	68	70
Commission expenses		-27	-19	-5	-32
<b>Net commissions</b>		<b>6</b>	<b>16</b>	<b>63</b>	<b>38</b>
Net gains and losses on financial items at fair value	3	-266	-650	-656	-1 440
Other income		3	2	6	7
<b>Total income</b>		<b>6 261</b>	<b>5 183</b>	<b>12 050</b>	<b>9 838</b>
Other expenses		605	377	1 076	779
Staff costs		2	2	4	5
<b>Total expenses</b>		<b>608</b>	<b>379</b>	<b>1 080</b>	<b>784</b>
<b>Profit before impairments</b>		<b>5 653</b>	<b>4 804</b>	<b>10 970</b>	<b>9 054</b>
Credit impairments	4	8	18	20	30
<b>Operating profit</b>		<b>5 645</b>	<b>4 786</b>	<b>10 950</b>	<b>9 024</b>
Tax		1 243	1 062	2 410	2 000
<b>Profit for the period</b>		<b>4 402</b>	<b>3 724</b>	<b>8 540</b>	<b>7 024</b>

## Statement of comprehensive income condensed

SEKm	2016	2015	2016	2015
	Jul - Dec	Jul - Dec	Full year	Full year
<b>Profit for the period</b>	<b>4 402</b>	<b>3 724</b>	<b>8 540</b>	<b>7 024</b>
Items that may be reclassified to the income statement				
Cash flow hedges:				
Gains and losses arising during the period	-230	51	120	619
Reclassification adjustments to income statement, net interest income	7	68	16	77
Reclassification adjustments to income statement, net gains and losses		-59		-59
Income tax relating to components of other comprehensive income	49	-13	-30	-140
<b>Total comprehensive income relating to shareholders of Swedbank Mortgage AB</b>	<b>4 228</b>	<b>3 771</b>	<b>8 646</b>	<b>7 521</b>

## Balance sheet condensed

SEKm	Note	2016 31 Dec	2015 31 Dec
<b>Assets</b>			
Loans to credit institutions	5	56 835	69 864
Loans to the public	5	919 572	857 910
Value change of interest hedged item in portfolio hedge		1 483	1 009
Derivatives	6	27 982	29 189
Other assets	7	1 428	3 242
<b>Total assets</b>		<b>1 007 300</b>	<b>961 214</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Amounts owed to credit institutions		374 741	335 590
Debt securities in issue	9	563 201	556 663
Derivatives	6	7 382	11 569
Other liabilities	8	15 521	15 754
Subordinated liabilities		4 000	4 000
<b>Total liabilities</b>		<b>964 845</b>	<b>923 576</b>
Untaxed reserves		1 068	1 068
<b>Equity</b>		<b>41 387</b>	<b>36 570</b>
<b>Total liabilities and equity</b>		<b>1 007 300</b>	<b>961 214</b>

## Statement of changes in equity condensed

31 Dec 2016	Restricted equity		Non-restricted equity		
	Share capital	Statutory reserve	Fair value fund	Retained earnings	Total equity
<b>SEKm</b>					
<b>Opening balance 1 January 2016</b>	<b>11 500</b>	<b>3 100</b>	<b>124</b>	<b>21 846</b>	<b>36 570</b>
Group contribution provided				-8 050	-8 050
Tax reduction due to Group distributions provided				1 771	1 771
Shareholders' contribution				2 450	2 450
Total comprehensive income for the year			106	8 540	8 646
<b>Closing balance 31 December 2016</b>	<b>11 500</b>	<b>3 100</b>	<b>230</b>	<b>26 557</b>	<b>41 387</b>
of w hich, conditional shareholders' contributions				2 400	2 400

31 Dec 2015	Restricted equity		Non-restricted equity		
	Share capital	Statutory reserve	Fair value fund	Retained earnings	Total equity
<b>SEKm</b>					
<b>Opening balance 1 January 2015</b>	<b>11 500</b>	<b>3 100</b>	<b>-373</b>	<b>19 042</b>	<b>33 269</b>
Group contribution provided				-6 300	-6 300
Tax reduction due to Group contribution provided				1 386	1 386
Shareholders' contribution				695	695
Total comprehensive income for the year			497	7 024	7 521
<b>Closing balance 31 Dec 2015</b>	<b>11 500</b>	<b>3 100</b>	<b>124</b>	<b>21 847</b>	<b>36 571</b>
of w hich, conditional shareholders' contributions				2 400	2 400

## Cash flow statement condensed

SEKm	2016 Full year	2015 Full year
<b>Operating activities</b>		
Operating profit	10 950	9 024
Adjustments for non-cash items in operating activities	-2 552	-7 099
Taxes paid	244	-6
Decrease in loans to the public	-63 168	-39 097
Increase in amounts owed to credit institutions	39 151	13 202
Increase in other assets	578	40
Increase/decrease in other liabilities	78	-2 264
<b>Cash flow from operating activities</b>	<b>-14 719</b>	<b>-26 201</b>
<b>Financing activities</b>		
Issuance of interest-bearing securities	125 359	157 878
Redemption of interest-bearing securities	-119 817	-107 404
Shareholders' contribution	2 450	695
Decrease in other funding	0	-1 648
Group contributions paid	-6 300	-1 082
<b>Cash flow from financing activities</b>	<b>1 692</b>	<b>48 439</b>
<b>Cash flow for the period</b>	<b>-13 029</b>	<b>22 238</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>69 864</b>	<b>47 626</b>
Cash flow for the period	-13 029	22 238
<b>Cash and cash equivalents at end of the period</b>	<b>56 835</b>	<b>69 864</b>
Liquid funds with banks and equivalent institutions	56 835	69 864
Loans to credit institutions	56 835	69 864



## Key ratios

SEKm	2016 31 Dec	2015 31 Dec
<b>Profit</b>		
Investment margin, % <sup>1)</sup>	1.29	1.20
Average total assets	984 625	932 305
Return on equity, % <sup>2)</sup>	21.8	19.3
Average equity	39 165	36 416
Earnings per share, SEK	371.3	305.4
<b>Capital</b>		
Number of shares in issue at beginning/end of period, million	23	23
Equity per share, SEK	1 799	1 588
<b>Credit quality</b>		
Loan loss ratio, %	0.00	0.00
Total provision ratio for impaired loans, , % <sup>3)</sup>	41.7	48.5
Share of impaired loans, gross, loans to the public, %	0.02	0.03

<sup>1)</sup> Net interest income, in relation to average (calculated on month-end figures) total assets.

<sup>2)</sup> Net profit for the year in relation to average equity.

<sup>3)</sup> Book value of impaired loans, gross, in relation to total provisions

<sup>4)</sup> See note 5

For more information on definitions of key ratios, refer to the 2015 Annual Report.

Calculation	2016
Credit impairments	20
Loans to the public	919 572
Loan loss ratio, %	0.00
Impaired loans, gross <sup>4)</sup>	222
Total provisions <sup>4)</sup>	93
Total provision ratio for impaired loans, %	41,7
Loans to the public	919 572
Carrying amount Impaired loans <sup>4)</sup>	200
Share of impaired loans, gross, loans to the public, %	0.02

## Notes

All amounts in the notes are in millions of Swedish kronor (SEKm) and at book value unless indicated otherwise. Figures in parentheses refer to the previous year.

### 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 2015, 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 2015 Annual Report, except for the new standards and changes as set out below.

#### **Change in presentation**

According to the IFRS Interpretations Committee, negative yield on financial assets does not meet the definition of revenue according to IAS 18, Revenue and should therefore not be presented as part of interest income. Accordingly, the same view applies to negative yield on financial liabilities. During 2016, the negative yield amounts recognised within Interest expense, have become material to Swedbank Mortgage. Any negative yield amounts have not been recognised in Interest income. Therefore the Company has changed the presentation of the income statement to present separate line item for negative yield on financial liabilities within Net interest income. Amounts for 2015 have not been restated as they were not considered material.

#### **Other IFRS changes**

Other new or amended standards or interpretations which have been adopted have not had a significant effect on the financial position, result or disclosures of Swedbank Mortgage. For more information, refer to page 11 of the 2016 Annual Report.

## Note 2 Business segments

SEKm	2016				2015			
	Private	Corporate	Agricultural and Forestry	Total	Private	Corporate	Agricultural and Forestry	Total
Net interest income	10 247	1 129	947	12 323	8 686	1 221	840	10 747
Net commissions	49	10	4	63	29	6	3	38
<b>Total income</b>	<b>10 296</b>	<b>1 139</b>	<b>951</b>	<b>12 386</b>	<b>8 715</b>	<b>1 227</b>	<b>843</b>	<b>10 785</b>
Total expenses	895	50	123	1 068	541	133	102	776
<b>Profit before impairments</b>	<b>9 401</b>	<b>1 089</b>	<b>828</b>	<b>11 318</b>	<b>8 174</b>	<b>1 094</b>	<b>741</b>	<b>10 009</b>
Credit impairments	8	-1	13	20	20	-4	14	30
<b>Operating profit</b>	<b>9 393</b>	<b>1 090</b>	<b>815</b>	<b>11 298</b>	<b>8 154</b>	<b>1 098</b>	<b>727</b>	<b>9 979</b>
Loans to the public	711 713	146 594	61 265	919 572	657 611	140 113	60 186	857 910

## Reconciliation of segment accounting and financial report

SEKm	2016			2015		
	Total income	Total expenses	Operating profit	Total income	Total expenses	Operating profit
Total segments	12 386	1 068	11 298	10 785	776	9 979
Return on legal equity	314		314	486		486
Net gains and loss on financial items	-656		-656	-1 440		-1 440
Other income	6		6	7		7
Other expenses		12	12		8	8
<b>Total financial report</b>	<b>12 050</b>	<b>1 080</b>	<b>10 950</b>	<b>9 838</b>	<b>784</b>	<b>9 024</b>

Results and balances in the Private segment relate to consumer loans to finance residential housing. The corresponding items for Corporate segment relate to loans to municipal housing companies and tenant-owner associations with underlying collateral in family housing.

The Agriculture and Forestry 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 gains and losses on financial items at fair value

SEKm	2016	2015	2016	2015
	Jul - Dec	Jul - Dec	Full year	Full year
<b>Valuation category, fair value through profit and loss</b>				
Debt securities issued, at fair value	211	356	211	826
Derivatives, trading	408	641	812	980
Lending to the public, at fair value	-936	-1 325	-1 466	-2 603
<b>Total fair value through income statement</b>	<b>-317</b>	<b>-328</b>	<b>-443</b>	<b>-797</b>
<b>Hedge accounting at fair value</b>				
Ineffective part of hedge accounting at fair value	110	-47	-22	-34
of which hedging instruments	2 427	-969	-932	-4 173
of which hedged items	-2 317	922	910	4 139
<b>Total hedge accounting</b>	<b>110</b>	<b>-47</b>	<b>-22</b>	<b>-34</b>
<b>Financial liabilities valued at amortised cost</b>				
Financial liabilities valued at amortised cost	-210	-360	-421	-774
Loans and receivables at amortised cost	67	114	142	194
Change in exchange rates	84	-29	88	-29
<b>Total</b>	<b>-266</b>	<b>-650</b>	<b>-656</b>	<b>-1 440</b>

## Note 4 Credit impairments

SEKm	2016	2015	2016	2015
	Jul - Dec	Jul - Dec	Full year	Full year
<b>Provisions for loans that are individually assessed as impaired</b>				
Provisions	1	11	13	11
Reversal of previous provisions	-1		-1	-1
Provision for homogenous groups of impaired loans, net		-2	-1	-4
<b>Total</b>		<b>9</b>	<b>11</b>	<b>6</b>
<b>Portfolio provisions for loans individually assessed as not impaired</b>				
	<b>-1</b>	<b>-5</b>	<b>-13</b>	<b>-8</b>
<b>Write-off of impaired loans</b>				
Established losses	12	20	47	42
Utilisation of previous provisions	-2	-3	-23	-4
Recoveries	-1	-3	-2	-6
<b>Total</b>	<b>9</b>	<b>14</b>	<b>22</b>	<b>32</b>
<b>Credit impairments, net</b>	<b>8</b>	<b>18</b>	<b>20</b>	<b>30</b>

## Note 5 Loans

SEKm	2016 31 Dec	2015 31 Dec
<b>Lending</b>		
Carrying amount before provisions	976 500	927 891
Provisions for loans that are individually assessed as impaired	-22	-33
Portfolio provisions for loans that are assessed as not impaired	-71	-84
<b>Total provisions</b>	<b>-93</b>	<b>-117</b>
<b>Carrying amount of loans after provisions</b>	<b>976 407</b>	<b>927 774</b>
<b>Impaired loans</b>		
Impaired loans, gross	222	241
Provisions for individually assessed impaired loans	-22	-33
<b>Carrying amount of impaired loans</b>	<b>200</b>	<b>208</b>
Share of impaired loans, gross, loans to the public, %	0.02	0.03
Share of impaired loans, net, loans to the public, %	0.02	0.02
Total provision ratio for impaired loans, % <sup>1)</sup>	41.7	48.5
Provision ratio for individually identified impaired loans, %	10.0	13.8

<sup>1)</sup> Including portfolio provisions for loans that individually are assessed as impaired.

<b>Loans by borrower category</b>							
<b>31 Dec 2016</b>							
SEKm	Private customers	Real estate incl tenant- owner associations	Other corporate lending	Forestry and agriculture	Total lending to the public	Credit institutions	Total lending
<b>Book value before provisions</b>	711 102	141 222	14 802	52 539	919 665	56 835	976 500
Provisions for loans that individually are assessed as impaired	-9	-1		-12	-22		-22
Portfolio provisions for loans that individually are assessed as not impaired	-36	-28	-4	-3	-71		-71
<b>Book value after accounting for provisions</b>	<b>711 057</b>	<b>141 193</b>	<b>14 798</b>	<b>52 524</b>	<b>919 572</b>	<b>56 835</b>	<b>976 407</b>
Book value of impaired loans	87	4	37	72	200		200

<b>Loans by borrower category</b>							
<b>31 Dec 2015</b>							
SEKm	Private customers	Real estate incl tenant- owner associations	Other corporate lending	Forestry and agriculture	Total lending to the public	Credit institutions	Total lending
<b>Book value before provisions</b>	657 331	134 053	14 716	51 927	858 027	69 864	927 891
Provisions for loans that individually are assessed as impaired	-8	-2	-1	-22	-33		-33
Portfolio provisions for loans that individually are assessed as not impaired	-48	-27	-4	-5	-84		-84
<b>Book value after accounting for provisions</b>	<b>657 275</b>	<b>134 024</b>	<b>14 711</b>	<b>51 900</b>	<b>857 910</b>	<b>69 864</b>	<b>927 774</b>
Book value of impaired loans	99	6	9	94	208		208

## Note 6 Derivatives

SEKm	2016			2015		
	Interest	Currency	Total	Interest	Currency	Total
Derivatives with positive book values	15 753	12 229	27 982	16 762	12 427	29 189
of which in hedge accounting	14 974	3 653	18 627	15 977	1 560	17 537
Derivatives with negative book values	4 048	3 334	7 382	5 265	6 304	11 569
of which in hedge accounting	2 292	1 300	3 592	1 900	4 333	6 233
<b>Nominal amount</b>	<b>644 052</b>	<b>168 069</b>	<b>812 121</b>	<b>602 407</b>	<b>193 981</b>	<b>796 388</b>

Swedbank Mortgage uses derivatives in order to hedge certain positions exposed to interest rate- and currency risks.

## Note 7 Other assets

SEKm	2016	2015
	31 Dec	31 Dec
Prepaid expenses and accrued income	1 353	1 746
Security settlement claims		599
Current tax assets		843
Other assets	75	54
<b>Total</b>	<b>1 428</b>	<b>3 242</b>

## Note 8 Other liabilities

SEKm	2016	2015
	31 Dec	31 Dec
Security settlement liabilities	0	582
Current tax liabilities	638	599
Deferred tax liabilities	65	35
Group contributions	8 050	6 300
Accrued expenses and deferred income	6 661	8 209
Other liabilities	107	29
<b>Total</b>	<b>15 521</b>	<b>15 754</b>

## Note 9 Debt securities in issue

SEKm	2016 31 Dec	2015 31 Dec
<b>Valuation category, other financial liabilities</b>		
Bond loans	542 378	532 214
Change in value due to hedge accounting at fair value	12 700	12 380
Other		450
<b>Total</b>	<b>555 078</b>	<b>545 044</b>
<b>Valuation category, fair value through profit and loss</b>		
Bond loans	8 123	11 619
<b>Total</b>	<b>8 123</b>	<b>11 619</b>
<b>Total</b>	<b>563 201</b>	<b>556 663</b>

## Note 10 Financial instruments at fair value

SEKm	2016 31 Dec			2015 31 Dec		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
<b>Assets</b>						
<b>Financial assets in accordance with IAS 39</b>						
Loans to credit institutions	56 835	56 835		69 864	69 864	
Loans to the public	925 252	919 572	5 680	863 590	857 910	5 680
Value change of interest hedged item in portfolio hedge	1 483	1 483		1 009	1 009	
Shares and participating interest	1	1		1	1	
Derivatives	27 982	27 982		29 189	29 189	
Other financial assets	1 427	1 427		3 241	3 241	
<b>Total</b>	<b>1 012 980</b>	<b>1 007 300</b>	<b>5 680</b>	<b>966 894</b>	<b>961 214</b>	<b>5 680</b>
Non-financial assets						
<b>Total</b>	<b>1 012 980</b>	<b>1 007 300</b>	<b>5 680</b>	<b>966 894</b>	<b>961 214</b>	<b>5 680</b>
<b>Liabilities</b>						
<b>Financial assets in accordance with IAS 39</b>						
Amounts owed to credit institutions	376 659	374 741	1 918	336 465	335 590	875
Debt securities in issue	569 541	563 201	6 340	563 216	556 663	6 553
Subordinated liabilities	4 476	4 000	476	4 527	4 000	527
Derivatives	7 382	7 382		11 569	11 569	
Other financial liabilities	15 456	15 456		15 719	15 719	
<b>Total</b>	<b>973 514</b>	<b>964 780</b>	<b>8 734</b>	<b>931 496</b>	<b>923 541</b>	<b>7 955</b>
Non-financial liabilities						
	65	65		35	35	
<b>Total</b>	<b>973 579</b>	<b>964 845</b>	<b>8 734</b>	<b>931 531</b>	<b>923 576</b>	<b>7 955</b>

## Note 10 Financial instruments at fair value, contd.

31 Dec 2016	Instruments with quoted market prices in active markets	Valuation techniques using observable market data	Valuation techniques using non-observable market data	Total
SEKm	(Level 1)	(Level 2)	(Level 3)	Total
<b>Assets</b>				
Loans to the public		141 126		141 126
Shares and participating interests			1	1
Derivatives		27 982		27 982
<b>Total</b>		<b>169 108</b>	<b>1</b>	<b>169 109</b>
<b>Liabilities</b>				
Amounts owed to credit institutions				
Debt securities in issue	3 270	4 852		8 122
Derivatives		7 382		7 382
<b>Total</b>	<b>3 270</b>	<b>12 234</b>		<b>15 504</b>

### Determination of fair value of financial instruments

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

The methods are divided in three different levels:

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

In cases when fair value cannot be determined in an active market, valuation methods and models are used. In these cases assumptions that cannot be directly attributed to a market may be applied. These assumptions are based on experience and knowledge of the valuation of financial markets. The goal, however, is to always maximise the use of market data from active markets. All valuation methods and models and internal assumptions are validated continuously by the independent risk control unit.

### Financial instruments recognised at fair value

The following tables describe fair values at three valuation levels for financial instruments at fair value. Level 1 contains bonds in issue that are traded on an active market. Level 2 contains primarily less liquid securities, derivatives and loans to the public. The change 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 for its own credit risk for its own unquoted issues on the origination date. The change in the value of securities in issue attributable to changes in credit risk amounted to SEK 39m during the period and is recognised as net gains and losses on financial items. The cumulative value change amounted to SEK -49m. For loans to the public where there are no observable market data for the credit margin at the time of measurement, the credit margin of the last transaction executed with the same counterparty is used. The value change for loans to the public attributable to changes in credit risk amounted to SEK -3m during the period and is recognised as credit impairments. Cumulative value changes of that kind amounted to SEK -14m. The amount is determined as the difference between the current estimated credit worthiness and estimated credit worthiness of the borrower on the lending date. Other changes in fair value are considered to be attributable to changes in market risks. The valuation models may require certain internal estimates (Level 3), the scope of which is dependent on the instrument's complexity and the availability of market data.

This category contains shares in tenant owner associations taken over for protection of claims. They have been valued at acquisition cost, since a more reliable fair value is not considered to be available. Sales of assets are accounted for as recoveries in the income statement. See Note 3 in the Annual report 2015, "Critical accounting judgements and estimates". There were no transfers of financial instruments between valuation levels during the year.



## Note 10 Financial instruments at fair value, contd.

31 Dec 2015	Instruments with quoted market prices in active markets	Valuation techniques using observable market data	Valuation techniques using non-observable market data	Total
SEKm	(Level 1)	(Level 2)	(Level 3)	Total
<b>Assets</b>				
Loans to the public		194 856		194 856
Shares and participating interests			1	1
Derivatives		29 189		29 189
<b>Total</b>		<b>224 045</b>	<b>1</b>	<b>224 046</b>
<b>Liabilities</b>				
Amounts owed to credit institutions				
Debt securities in issue	3 521	8 098		11 619
Derivatives		11 569		11 569
<b>Total</b>	<b>3 521</b>	<b>19 667</b>		<b>23 188</b>

## Note 11 Pledged assets and contingent liabilities

SEKm	2016 31 Dec	2015 31 Dec
<b>Memorandum items</b>		
Loans, used as collateral for covered bonds <sup>1)</sup>	542 278	517 904
Repos <sup>2)</sup>	234	
Commitments	8 969	9 048
<b>Pledged assets and contingent liabilities</b>	<b>551 481</b>	<b>526 952</b>

<sup>1)</sup> Consist of collateral for covered bonds. Collateral refers to customers' nominal debt including accrued interest. From 2016 only the collateral used in the pledge are reported instead of the total available collateral. Comparative numbers have been restated.

<sup>2)</sup> Consists of Repos of issued bonds in Sw edbank Mortgage.

## Note 12 Related parties

SEKm	2016 31 Dec	2015 31 Dec
<b>Group receivables</b>		
Loans to credit institutions	56 835	69 864
Derivatives	27 982	29 116
Other receivables	29	37
<b>Total</b>	<b>84 846</b>	<b>99 017</b>
<b>Group payables</b>		
Amounts owed to credit institutions	374 741	335 590
Debt securities in issue	8 904	5 992
Derivatives	7 382	11 569
Other payables	8 143	6 499
Subordinated debt	4 000	4 000
<b>Total</b>	<b>403 170</b>	<b>363 650</b>
<b>Income statement</b>		
Interest income	34	69
Interest expense	4 097	3 291
Other expense	-17	-13
<b>Total</b>	<b>4 114</b>	<b>3 347</b>

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

## Note 13 Capital Adequacy

### Capital adequacy analysis

The Capital Adequacy refers to the Financial Regulator's requirements on the amount of capital a bank, depending on its size, must have to face its risks. For Swedbank Mortgage, the CRR capital adequacy rules mean that the minimum capital requirement for credit risks, with the approval of the Financial Supervisory Authority, will be based on an internal risk classification according to an Internal Ratings-based Approach ("IRB") developed by Swedbank. For a small portion of assets, the capital requirement for credit risks is calculated according to the standardised approach. The capital requirement for operational risk is calculated according to the standardised approach with the approval of the Financial Supervisory Authority. Swedbank has developed and documented its own methods and processes to evaluate the capital required to cover its risks. Swedbank Mortgage is a part of this evaluation. The capital need is systematically assessed from the total level of risks Swedbank Mortgage is exposed to. The assessment covers all risks Swedbank Mortgage is exposed to, including risks that are not included when calculating the capital adequacy. The note contains the information that shall be made public according to the Swedish Financial Supervisory authority regulation FFFS 2014:12, chapter 8. Additional periodic information according to Regulation (EU) No 575/2013 of the European Parliament and of the Council on supervisory requirements for credit institutions and Implementing Regulation (EU) No 1423/2013 of the European Commission can be found on Swedbank's website <http://www.swedbank.com/investor-relations/risk-and-capital-adequacy/risk-report/index.htm>

SEKm	Basel 3	Basel 3
	2016	2015
	31 Dec	31 Dec
Shareholders' equity according to the balance sheet in the interim report	41 387	36 570
Share of capital in tax allocation	833	833
Unrealised value changes in own financial liabilities due to changes in own credit valuation	49	87
Cash flow hedges	-230	-124
Additional valuation adjustments <sup>1)</sup>	-7	-11
Net provisions for reported IRB credit exposures	-243	-246
<b>Common Equity Tier 1 capital</b>	<b>41 789</b>	<b>37 109</b>
<b>Total Tier 1 capital</b>	<b>41 789</b>	<b>37 109</b>
<b>Total Tier 2 capital</b>	<b>4 000</b>	<b>4 000</b>
<b>Total capital base</b>	<b>45 789</b>	<b>41 109</b>
Capital requirement for credit risks, standardised approach	576	426
Capital requirement for credit risks, IRB	3 124	3 143
Capital requirement for credit valuation		
Capital requirement for operational risks	995	850
Additional minimum capital requirement, Article 3 CRR	32	32
<b>Minimum capital requirement <sup>2)</sup></b>	<b>4 727</b>	<b>4 451</b>
<b>Surplus of capital</b>	<b>41 062</b>	<b>36 658</b>
Risk exposure amount credit risks, standardised approach	7 206	5 326
Risk exposure amount credit risks, IRB	39 041	39 282
Risk exposure amount credit valuation adjustment		
Risk exposure amount operational risks <sup>3)</sup>	12 435	10 622
Additional risk exposure amount, Article 3 CRR	403	403
<b>Risk exposure amount</b>	<b>59 085</b>	<b>55 633</b>
Common Equity Tier 1 ratio, %	70.7	66.7
Tier 1 capital ratio, %	70.7	66.7
<b>Total capital adequacy ratio, %</b>	<b>77.5</b>	<b>73.9</b>

<sup>1)</sup> 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

<sup>2)</sup> Minimum capital requirement within Pillar 1, i.e. 8 % of total risk exposure amount

<sup>3)</sup> According to standardised method, retail bank

## Note 13 Capital adequacy, contd.

SEKm	2016			2015		
	Exposure amount	31 Dec Average risk weight, %	Capital requirement	Exposure amount	31 Dec Average risk weight, %	Capital requirement
<b>Capital requirement for credit risks</b>						
Institutional exposures						
Corporate exposures	35 266	24	678	32 847	25	660
Retail exposures	860 888	4	2 431	813 461	4	2 477
Non-credit obligations	247	74	15	115	63	6
Total credit risks according to IRB approach	896 401	4	3 124	846 423	5	3 143
Total credit risks according to standardised approach	121 425	6	576	127 217	4	426
<b>Total</b>	<b>1 017 826</b>	<b>6</b>	<b>3 700</b>	<b>973 640</b>	<b>5</b>	<b>3 569</b>

SEKm	2016	2015
	31 dec	31 Dec
<b>Capital buffer requirement <sup>1)</sup> %</b>		
Institution specific CET 1 requirement	8.5	8.0
of which CET 1 requirement	4.5	4.5
of which capital conservation buffer	2.5	2.5
of which countercyclical capital buffer	1.5	1.0
CET 1 capital available to meet Institution specific CET1 capital requirements <sup>2)</sup>	64.7	60.7

<sup>1)</sup> New requirements regarding capital buffers according to Swedish implementation of CRD IV

<sup>2)</sup> 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 total capital requirements

SEKm	2016	2015
	31 Dec	31 Dec
<b>Capital adequacy Basel 1 floor</b>		
Capital requirement Basel 1 floor	37 324	34 593
Own funds Basel 3 adjusted according to rules for Basel 1 floor	46 031	41 356
<b>Surplus of capital according to Basel 1 floor</b>	<b>8 707</b>	<b>6 763</b>

## Note 13 Capital adequacy, contd.

Risk exposure amount and own funds requirement	2016			2015		
	Exposure amount	Risk exposure amount	Own funds requirement	Exposure amount	Risk exposure amount	Own funds requirement
<b>Credit risks, STD</b>	<b>121 425</b>	<b>7 206</b>	<b>576</b>	<b>127 217</b>	<b>5 326</b>	<b>426</b>
Central government or central banks exposures	276			1 140		
Regional governments or local authorities exposures	6 970			7 113		
Institutional exposures	95 274			111 957		
Corporate exposures				934	861	69
Retail exposures	1 452	1 089	87	6 068	4 459	357
Exposures secured by mortgages on immovable property	17 443	6 106	488			
Exposures in default	9	9	1	4	4	0
Equity exposures	1	2	0	1	2	0
<b>Credit risks, IRB</b>	<b>896 401</b>	<b>39 041</b>	<b>3 124</b>	<b>846 423</b>	<b>39 282</b>	<b>3 143</b>
Corporate exposures	35 266	8 473	678	32 847	8 252	660
Retail exposures	860 888	30 385	2 431	813 461	30 958	2 477
of which mortgage lending	860 888	30 385	2 431	813 461	30 958	2 477
Non-credit obligations	247	183	15	115	72	6
<b>Operational risks</b>		<b>12 435</b>	<b>995</b>		<b>10 622</b>	<b>850</b>
of which standardised approach		12 435	995		10 622	850
Additional risk exposure amount according to article 3 CRR		403	32		403	32
<b>Total</b>	<b>1 017 826</b>	<b>59 085</b>	<b>4 727</b>	<b>973 640</b>	<b>55 633</b>	<b>4 451</b>

## Signatures of the Board of Directors and the CEO

The Board of Directors and the CEO certify that the year-end report for the period 1 July to 31 December 2016 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 1 February 2017

Leif Karlsson  
Chair

Magdalena Frostling  
CEO

Gunilla Domeij-Hallros

Malin Hlawatsch

Johan Smedman

Eva de Falck

# Review report

## **Introduction**

We have reviewed the year-end report for Swedbank Mortgage AB (publ) for the period July 1 – December 31, 2016. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with the 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 Financial Information 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 has a different focus and 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 interim report is not, in all material respects, in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 1 February 2017

Deloitte AB

Patrick Honeth  
Authorised Public Accountant

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