Swedbank

Annual report 2019

Swedbank Mortgage AB, 19 February 2020

2019 in brief

Full year 2019 compared to full year 2018

- Profit for the year of 2019 amounted to SEK 9 953m (10 326)
- Net interest income decreased by SEK 417m to SEK 12 913m (13 330)
- Lending to the public increased by 2 per cent or SEK 20bn to SEK 1 029bn (1 009)
- Profit before impairments decreased by SEK 273m to SEK 12 639m (12 912)
- Credit impairments amounted to SEK -24m (123)
- Return on equity was 21.2 per cent (22.1)
- Covered bonds totaling an amount of SEK 131bn (88) were issued during the year

Profit for the year 2019

SEK 9 953m

2018: SEK 10 326m

Market share, mortgages, November 2019

24 %

December2018: 24 %

About Swedbank Mortgage AB

Swedbank Mortgage is a Swedish mortgage company with a leading position on the Swedish housing market. The business focuses on long-term funding of mortgage loans and the company has over one million customers.

Swedbank Mortgage AB (publ) ("Swedbank Mortgage"), corporate identification number 556003-3283, is a wholly owned subsidiary of Swedbank AB (publ) 502017-7753 ("Swedbank") and is responsible for mortgage lending in Sweden. With over one million customers, Swedbank Mortgage has a leading position on the Swedish market. Mortgages are mainly sold through Swedbank's and the Swedish savings banks' retail network, one of the largest bank-owned retail networks in Sweden, as well as through the telephone services and Internet Bank.

No lending with collateral outside of Sweden is performed.

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

Swedbank Mortgage's operations are integrated in Swedbank, which creates economies of scale with the bank's other operations.

Contents

Key ratios 2015-2019

SEKm	2019 31 Dec	2018 31 Dec	2017 31 Dec	2016 31 Dec	2015 31 Dec
Profit					
Investment margin, %	1.19	1.26	1.27	1.20	1.15
Average total assets	1 088 855	1 060 148	1 016 390	984 625	932 305
Return on equity, %	21.2	22.1	21.1	21.8	19.3
Average equity	47 002	46 770	45 683	39 165	36 416
Earnings per share, SEK	432.7	449.0	419.7	371.3	305.4
Equity					
Number of shares in issue at beginning/end of period, million	23	23	23	23	23
Equity per share, SEK	2 007.35	2 007.40	2 015.40	1 799.40	1 587.61
Credit quality					
Loans to the public	1 028 746	1 008 724	968 222	919 572	857 910
Loans to credit institutions	89 159	21 783	23 534	56 835	69 864
Credit impairments, net	-24	123	62	20	30
Credit impairment ratio, %	0.00	0.01	0.00	0.00	0.00
Total provisions [1)]	527	569	124	93	117
Share of Stage 3 loans, gross %	0.08	0.09			
Share of impaired loans, gross, loans to the public, %			0.02	0.02	0.03
Total credit impairment provision ratio, %	0.05	0.06			

[1)] In 2018 IFRS 9 Financial instruments was adopted. Prior periods have not been restated.
For more information on definitions and calculation of key ratios, refer to page 58.

Business development

	2019 31 Dec	2018 31 Dec	2017 31 Dec	2016 31 Dec	2015 31 Dec
Lending to the public, SEKbn	1 029	1 009	968	920	858
- Private	906	887	847	806	746
of which private, mortgage	813	792	753	711	657
- Corporate	123	122	121	114	112
Number of customers, thousands	1 098	1 122	1 128	1 134	1 123
Private lending					
Market share mortgages % [1)]	24	24	24	25	25
Market share new mortgages, full year % [1) 2)]	12	22	20	26	18
Volume growth mortgage market, full year % [1)]	5	6	7	8	9
Volume growth Swedbank Mortgage, full year % [1) 2)]	3	5	6	8	6
LTV total portfolio %	55	55	53	54	56
LTV new mortgages, actual year %	70	68	67	66	67
Share of total portfolio which amortises %	72	70	67	63	58
Share of portfolio which amortises, new mortgages, actual year %	89	89	87	82	75
Funding					
Issued during year					
Swedish market, SEKbn	101	69	108	108	109
Outside Sweden, SEKbn	30	19	24	17	49
Average maturity of outstanding issued covered bonds, months	37	43	39	36	36

1) Market share and volume growth as of November. Source Statistics Sweden (SCB).

2) In October 2016, Swedbank Mortgage aquired approximately SEK 13bn of lending volume from SBAB as a final step in Swedbank AB´s aquisition of Sparbanken Öresund.

Overview

Market
Expectations of slowing global growth, the trade conflict between the US and China, and Brexit were major factors for the global economy in 2019. The increasingly negative growth outlook resulted in lower long-term interest rates in the spring and summer. In autumn the tone of the trade conflict and Brexit debate became heated, which culminated in a new election in December, with increased volatility in the financial market as a result. Against the backdrop of the increased turbulence, the major central banks took action. The Fed and the ECB both cut their benchmark interest rates and at the same time reiterated that they are ready to take further action if the outlook were to worsen. As the risk that the worst-case scenarios will be realised diminished, longer international interest rates began a more stable trend upward in the latter part of the year, though from low levels.

In Sweden, investment growth declined in 2019 at the same time that household consumption was more restrained than the year before. Although export growth was also good, supported by a weak krona, GDP growth was lower in 2019 than in earlier years. As the outlook worsened, unemployment rose slightly at the same time that inflation fell compared with 2018, as previous energy price increases eased. Swedish interest rates kept pace with international movements during the year, clearly trending downward until the summer before turning higher. The Swedish ten-year government bond yield fell below zero per cent in July, but again turned positive in December. Contrary to most other central banks, the Riksbank raised the repo rate by 25 basis points, to zero per cent, in December, resulting in higher short-term market interest rates. At the same time, however, the Riksbank has been clear that it does not intend to raise rates further in coming years given that the economy is developing in line with its forecasts. The Swedish krona continued to weaken in the first three quarters of 2019, mainly against the dollar but also against the euro. The krona strengthened in the fourth quarter, however, after the Riksbank more clearly began to signal that it intended to raise the repo rate in December.

The Swedish housing market continued to recover in 2019 with prices rising after the summer. Interest rates are expected to remain low for the foreseeable future and surveys show that many households are feeling increasingly confident that house prices will not fall, which has contributed to growing activity in the housing market. In total, Swedish house prices rose by 5 per cent in 2019. While the growth rate for households slowed slightly in 2019, it remained stable at just under 5 per cent for most of the year.

Important to note

The annual report contains alternative performance measures that Swedbank Mortgage considers valuable information for the reader, since they are used by Swedbank Mortgage for internal governance and performance measurement as well as for comparisons between reporting periods. Further information on the alternative performance measures used in the annual report can be found on page 57.

The company's development

(Comparative figures refer to 31 December 2018, unless otherwise indicated)

Result
Operating profit amounted to SEK 9 953m, compared with SEK 10 326m in 2018. The decrease is mainly due to lower net interest income.

Net interest income decreased to SEK 12 913m (13 330). The main reason was that higher funding costs, in the wake of higher short-term market interest rates, negatively affected mortgage margins. This was partly offset by a decrease in the resolution fund fee to SEK 560m (846), which positively affected net interest income.

Net gains and losses on financial items increased to SEK -10m (-185), due to among other things less negative effects from covered bond repurchases.

Expenses increased to SEK 284m (264), mainly due to increased annual supervisory fees.

Credit impairments amounted to a gain of SEK 24m, while credit impairments of SEK 123m were recognised in 2018. The main reason was lower provision in Stage 2.

The tax expense amounted to SEK 2 710m (2 913), corresponding to an effective tax rate of 21.4 per cent (22.0). The difference in the effective tax rate is mainly due to the reduction of the Swedish corporate tax rate to 21.4 per cent as of 1 January 2019.

Income statement, SEKm	2019	2018
Net interest income	12 913	13 330
Net commission income	15	26
Net gains and losses on financial items	-10	-185
Total income	**12 923**	**13 176**
Total general administrative expenses	284	264
Profit before impairments	**12 639**	**12 912**
Credit impairments	-24	123
Appropriations		-450
Tax	2 710	2 913
Profit for the year	**9 953**	**10 326**

Lending
Total loans to the public increased by 2 per cent during the year, to SEK 1 029bn (1009), of which the main part is due to increased lending to the private customers.

Mortgage lending to private customers increased by SEK 21bn, to SEK 813bn (792). The total market share amounted to 24 per cent as of November 2019 (24).

Lending to tenant owner associations was reduced by SEK 2bn, to SEK 93bn (95).

Corporate lending increased by SEK 1bn, to SEK 123bn (122). The main reason was increased lending to property management while lending to the forestry- and agricultural segment was reduced.

Lending to general public, SEKbn	31 Dec 2019	31 Dec 2018
Private customers	906	887
Private, mortgage	813	792
Tenant owner associations	93	95
Corporate customers	123	122
Agricultural, forestry, fishing	50	51
Property management	60	57
Other corporate lending	13	14
Total	**1 029**	**1 009**

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.

Amounts owed to credit institutions and issued debt, SEKbn	31 Dec 2019	31 Dec 2018
Amounts owed to credit institutions	472	488
Debt securities in issue	592	503
Eligible liabilities	20	
Total	**1 084**	**991**

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

Demand for Swedbank Mortgage's bonds has been good. Swedbank Mortgage issued SEK 131bn (88) in covered bonds during the year. Maturities for the full-year were nominally SEK 20bn (62) calculated from the beginning of the year. As of 31 December, outstanding funding through covered bonds amounted to SEK 592bn (503) at the same time that funding from Swedbank AB amounted to SEK 472bn (488).

Issuance plans are mainly affected by changes in available funding from Swedbank AB as well as lending growth and are adjusted over the course of the year. As part of its liquidity planning, Swedbank Mortgage actively buys back a large portion of its issuance in the Swedish bond market starting about 1.5 years before maturity. In this way it reduces the liquidity risk in having large volumes mature at the same time. During the year SEK 24bn (51) was repurchased. The average maturity of all outstanding covered bonds was 37 months (43) at 31 December.

Risk management
Risk is inherent to all financial businesses. Managing and pricing risks correctly is therefore an important part of Swedbank Mortgage's daily work. Risk refers here to a potentially negative impact on Swedbank Mortgage's value that can arise due to internal processes or future internal or external events.

Credit risks
To maintain a low risk profile and a good balance between risk and return, Swedbank Mortgage works continuously to understand customers and their markets. Responsible lending is a precondition for a well-functioning bank. This means that Swedbank Mortgage looks at each customer's long-term financial situation, payment ability and financial resilience. Systematic analysis of retail credit exposures is done through continuous reviews of individual commitments. In the case of corporate customers', financial institutions' and sovereigns' exposures, these are re-assessed at least once a year.

Only developed properties with a certificate of occupancy are placed in Swedbank Mortgage. The only exception is agricultural and forest properties, which can be undeveloped.

Swedbank Mortgage's credit impairments and impaired loans remain at very low levels. The low portfolio risk was confirmed by internal and external stress test results.

The majority of Swedbank Mortgage's lending consists of mortgages to private customers in Sweden. Swedbank Mortgage always performs an analysis of their ability to repay, even in the event of significantly higher interest rates. For loans on tenant-owned apartments, the analysis includes a higher fee to the tenant-owner association. Swedbank Mortgage continuously re-evaluates its lending criteria.

The average loan-to-value ratio for loans to private customers was 55 per cent (55), based on property level. For new lending during the year the loan-to-value ratio was 70 per cent (68).

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

Market risks
Despite growing macroeconomic uncertainty at times, Swedbank Mortgage's market risks remained at low and stable levels.

Swedbank Mortgage controls and analyses its market risks on a daily basis. Value-at-Risk and sensitivity to interest rate fluctuations are examples of the calculations that are performed and analysed to ensure that any market risk-related losses are limited to low levels and within the risk appetite set by the Board of Directors. To complement these calculations, stress tests are conducted in which a number of more extreme events and their potential impact on the market value of the portfolios are analysed.

A specification of market risks is provided in Note 4c.

Operational risks
Swedbank Mortgage is exposed to operational risks in all its businesses. Increased regulation and digitisation are making it more complex to manage these risks, not least due to the growing number of places and ways in which the bank interacts with customers. The aim is to minimise operational risks as far as possible.

Operational risks are managed through self-assessments, incident management, and continuity and crisis management. When a new product, service or IT system is introduced or significant changes are made, a risk assessment is done. Working consistently, on a daily basis, with operational risks is critical to maintaining low credit impairment levels. Losses related to operational risks remained very low.

Capital adequacy
Swedbank Mortgage's legal capital requirement is based on the Capital Requirements Regulation (CRR), which determine the minimum capital requirement for Swedbank Mortgage as per 31 December 2019.

Swedbank Mortgage's own funds is unchanged during the year and amounted to SEK 46bn (46) as per 31 December 2019. The own funds requirement amounted to SEK 21 956m (21 395).

REA increased by SEK 7bn to 274bn (267). The increase was mainly due to article 458, the mortgage floor adjustment which increased by SEK 5.3bn. The capital adequacy is further disclosed in note 5.

The leverage ratio was 4.5 per cent (4.6) as of 31 December 2019.

Future capital regulation
In November 2019 the SFSA published a proposal to introduce increased capital requirements for bank loans to commercial properties. The measures are motivated by the fact that commercial properties have gradually become over-leveraged to a level that now represents a potential risk to financial stability. The capital requirement is expected to be introduced in the third quarter of 2020 and means that the difference between Swedbank Mortgage's average risk weights for commercial properties and the risk weights that the SFSA has set out will be compensated through an additional capital charge in Pillar 2. For commercial properties the SFSA states that the average risk weight will be 35 per cent and for residential properties 25 per cent.

In November 2018 the SFSA published a memorandum explaining its view of the European Banking Authority's (EBA) updated guidelines on banks' internal risk classification systems. In the memorandum the SFSA states that Swedish banks must analyse their internal risk classification systems to ensure that they continue to live up to the updated requirements. Since the guidelines have not yet been finalised by the EBA or introduced into SFSA's regulations, there is uncertainty as to how the changes will affect Swedbank Mortgage.

In December 2019 the committee of inquiry appointed by the Swedish Ministry for Finance presented a proposal on the implementation of a collection of EU regulations, known as the banking package. The banking package revises among other things what may serve as the basis for the capital requirements in Pillar 2. This is expected to mean that the Pillar 2 requirements can no longer be justified as a general macro supervisory action, while the option to introduce corresponding requirements in Pillar 1 is expanded. How the final law is worded and how the SFSA will apply the rules in the banking package concerning capital requirements – and thus how Swedbank Mortgage is affected – are uncertain.

The committee of inquiry's proposal on the implementation of the banking package also comprises an update of the Swedish Resolution Act, to harmonise Swedish law with the EU directive, called BRRD2. The amended law is expected to take effect by 28 December 2020 and the changes related to the capital base and eligible liabilities requirement will apply as of 2022.

Rating
Swedbank Mortgage is one of the largest players in the Swedish covered bond market. The bonds are rated with the highest credit rating (Aaa / AAA) from both Moody's Investors Service and S&P Global Ratings.

On April 1, S&P Global Ratings confirmed Swedbank Mortgage's credit rating AA- but placed the ratings on CreditWatch with negative implications. On September 27 the CreditWatch was removed but the outlook was negative. On April 2, Moody's affirmed Swedbank Mortgage's Aa2 credit rating, but changed the outlook from stable to negative. The reason for the deteriorating outlooks is the information regarding deficiencies in Swedbank's anti-money laundering routines.

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

Other events
On 30 December 2019, Gunilla Domeij Hallros resigned as board member of Swedbank Mortgage.

Events after 31 December 2019
No material events have occurred after 31 December 2019.

Corporate governance

Swedbank Mortgage is a wholly owned subsidiary of Swedbank AB. To create economies of scale with Swedbank, Swedbank Mortgage's operations have been outsourced to the bank. The mortgage company has retained the functions it needs to manage day-to-day operations, including governance, control and analysis.

The shareholders ultimately decide on Swedbank Mortgage's governance. At the annual general meeting the shareholders elect the Board of Directors and auditors. The Board is responsible to the shareholders for Swedbank Mortgage's organisation and management of its affairs and elects a CEO to manage the company's operating activities. The auditors review the financial reporting and submit an auditor's report, among other things.

Board of Directors and CEO
Swedbank Mortgage's Board of Directors consists of five members. The CEO is not a member of the Board. The Board is responsible for the company's organisation and management and takes decisions on issues that are of material importance and an overarching nature involving the company's operations. This includes establishing policies and the instructions for the CEO. The Board appoints, evaluates and, when necessary, dismisses the CEO. The CEO is responsible for day-to-day management of the business and carrying out the Board's decisions in accordance with the Board's guidelines and established policies. The CEO reports to the Board. The Board stays continuously updated on the company's development so that it is able to assess the company's economic situation and financial position at any time. The Board has during the year participated education within relevant areas. In addition, it will, on a regular basis, address and evaluate the company's current risks and risk management. The Board also has an audit committee.

Internal governance and control
The Board and the CEO are ultimately responsible for internal governance and control. The Board and the CEO have several functions to assist them. The key control functions in this case are Compliance, Risk and Internal Audit, which are described below. Other functions such as Accounting, Credit and Legal serve as support for the Board and the CEO on matters of internal governance and control.

Internal Audit
The company's internal audit is outsourced to Swedbank's central internal audit department. Internal Audit's duties are based on a policy established by the Board for internal audit work. Internal Audit independently audits Swedbank Mortgage's operations and accounting and evaluates whether the processes used for risk management, internal governance and control are satisfactory. The conclusion of its audit and the measures that must be taken are reported to the Board.

Compliance
The company's compliance function is outsourced to Swedbank. The compliance function is an independent control function that ensures compliance with laws, regulations and internal rules as well as generally accepted standards. Compliance also advises and supports the company and ensures that operating units are informed of any new and revised rules that may affect them. The company's compliance officer reports any significant findings to the CEO on an ongoing basis. In addition, the CEO and the Board receive quarterly compliance reports and the Board annually adopts a compliance plan.

Risk
The Chief Risk Officer (CRO) helps the Board, the CEO and other operations fulfil their responsibility for ensuring the business maintains adequate risk management and control and that risks are managed in accordance with the risk framework established by the Board and the CEO. The CRO is responsible for identifying, quantifying, analysing and reporting material risks that arise in operations. The CRO operates independently and reports risks and measures taken to the CEO on a continuous basis, in addition to quarterly presentations of risk reports to the Board.

Internal control of financial reporting
The Board and the CEO have the ultimately responsibility that the financial reporting complies with external regulations. The company has an internal regulation, Internal Control of Financial Reporting (ICFR), to manage this.
These regulations contain controls with the purpose to provide reasonable assurance of the reliability of the financial reporting.
Controls associated with financial reporting are performed on several levels and include processes to analyse and monitor the business operations in order to ensure the reasonable reliability of the financial reporting and to follow up any discrepancies. Group-level regulations are in place for companies within the Swedbank Group for accounting principles, planning and monitoring processes, and reporting routines. The finance department does reconciliations between sub-ledgers and the general ledger and ensures that assets, liabilities and business transactions are correctly recorded. Swedbank also has a central valuation group to ensure accurate valuation of assets and liabilities in Swedbank Mortgage. Accounting analyses are presented monthly to the CEO and on quarterly basis to the Board. In addition, the compliance and risk organisation and Internal Audit, on the Board's behalf, evaluate and review how governance, risk management and internal control are organised and complied with.

Five-year summary

Income statement **SEKm**	**2019**	**2018**	**2017**	**2016**	**2015**
Interest income	17 281	16 087	16 218	16 646	18 831
Interest expenses	-4 368	-2 757	-3 284	-4 836	-8 124
Net interest income	**12 913**	**13 330**	**12 934**	**11 810**	**10 707**
Net commission income	15	26	1	63	38
Other operating income	-5	-180	-850	-650	-1 433
Total income	**12 923**	**13 176**	**12 085**	**11 223**	**9 312**
Other operating expenses	**284**	**264**	**259**	**253**	**258**
Profit before impairments	**12 639**	**12 912**	**11 826**	**10 970**	**9 054**
Credit impairments	-24	123	62	20	30
Operating profit	**12 663**	**12 789**	**11 764**	**10 950**	**9 024**
Appropriations		-450	-618		
Tax expense	2 710	2 913	2 728	2 410	2 000
Profit for the year	**9 953**	**10 326**	**9 654**	**8 540**	**7 024**

Balance sheet **SEKm**	**2019**	**2018**	**2017**	**2016**	**2015**
Assets					
Loans to credit institutions	89 159	21 783	23 534	56 835	69 864
Loans to the public	1 028 746	1 008 724	968 222	919 572	857 910
Other assets	27 925	23 045	21 247	30 893	33 440
Total assets	**1 145 830**	**1 053 552**	**1 013 003**	**1 007 300**	**961 214**
Liabilities and equity					
Liabilities					
Amount owed to credit institutions	471 623	488 240	419 608	374 741	335 590
Debt securities in issue	592 097	502 881	522 090	563 201	556 663
Other liabilities	35 941	16 262	24 951	23 971	28 391
Subordinated liabilities				4 000	4 000
Total liabilities	**1 099 661**	**1 007 383**	**966 649**	**965 913**	**924 644**
Equity	**46 169**	**46 169**	**46 354**	**41 387**	**36 570**
Total liabilities and equity	**1 145 830**	**1 053 552**	**1 013 003**	**1 007 300**	**961 214**

Financial statements and notes

Income statement

SEKm	Note	2019	2018
Interest income on financial assets measured at amortised cost		17 281	16 087
Interest income		**17 281**	**16 087**
Interest expense		-4 368	-2 757
Interest expense		**-4 368**	**-2 757**
Net interest income	7	**12 913**	**13 330**
Commission income		57	61
Commission expenses		-42	-35
Net commission income	8	**15**	**26**
Net gains and losses on financial items	9	-10	-185
Other operating income		5	5
Total income		**12 923**	**13 176**
Total general administrative expenses	10,11	**284**	**264**
Profit before impairments		**12 639**	**12 912**
Credit impairments	12	-24	123
Operating profit		**12 663**	**12 789**
Appropriations			-450
Tax	13	2 710	2 913
Profit for the year		**9 953**	**10 326**
Of which attributable to the shareholders of the parent company		9 953	10 326
Earnings per share, before and after dilution, SEK	14	432.74	448.96

Statement of comprehensive income

SEKm	Note	2019	2018
Profit for the year - income statement		**9 953**	**10 326**
Items that may be reclassified to the income statement			
Cash flow hedges:			
Gains/losses for the period		1 788	5 366
Reclassification adjustments to the income statement, net gains and losses		-1 804	-5 313
Foreign currency basis risk:			
Gains/losses arising during the period		-35	-336
Tax relating to components of other comprehensive income	15	11	59
Total comprehensive income for the year, attributable to shareholders of Swedbank Mortgage		**9 913**	**10 102**

Balance sheet

SEKm	Note	2019	2018
Assets			
Loans to credit institutions		89 159	21 783
Loans to the public	16	1 028 746	1 008 724
Value change of interest hedged items in portfolio hedge		261	760
Derivatives	17	27 461	21 702
Deferred tax assets		130	119
Other assets	18	71	464
Prepaid expenses and accrued income	19	2	
Total assets		**1 145 830**	**1 053 552**
Liabilities and equity			
Liabilities			
Amounts owed to credit institutions		471 623	488 240
Debt securities in issue	20	592 097	502 881
Derivatives	17	2 421	2 551
Current tax liabilities	21	23	414
Other liabilities and provisions	21	12 904	12 602
Accrued expenses and prepaid income	22	593	695
Eligible liabitities		20 000	
Total liabilities		**1 099 661**	**1 007 383**
Equity	23	**46 169**	**46 169**
Total liabilities and equity		**1 145 830**	**1 053 552**

Statement of changes in equity

SEKm	Restricted equity: Share capital	Restricted equity: Statutory reserve	Non-restricted equity: Cash flow hedge reserve	Non-restricted equity: Foreign currency basis reserve	Non-restricted equity: Retained earnings	Total equity
Opening balance 1 January 2019	**11 500**	**3 100**	**47**	**-483**	**32 005**	**46 169**
Group contributions paid					-12 612	-12 612
Tax reduction due to Group contributions paid					2 699	2 699
Total comprehensive income for the year			-13	-27	9 953	9 913
of which reported through other comprehensive income, before tax			-16	-35		-51
of which income tax reported through other comprehensive income			3	8		11
Closing balance 31 December 2019	**11 500**	**3 100**	**34**	**-510**	**32 045**	**46 169**
of which, conditional shareholders' contributions					2 400	2 400
Opening balance 1 January 2018	**11 500**	**3 100**	**5**	**-217**	**31 226**	**45 614**
Group contributions paid					-12 240	-12 240
Tax reduction due to Group contributions paid					2 693	2 693
Shareholders' contribution						
Total comprehensive income for the year			42	-266	10 326	10 102
of which reported through profit or loss			1			1
of which reported through other comprehensive income, before tax			52	-336		-284
of which income tax reported through other comprehensive income			-11	70		59
Closing balance 31 December 2018	**11 500**	**3 100**	**47**	**-483**	**32 005**	**46 169**
of which, conditional shareholders' contributions					2 400	2 400

Statement of cash flow

SEKm	2019	2018
Operating activities		
Operating profit	12 663	12 789
Adjustments for non-cash items in operating activities	-3 385	-5 860
Taxes paid [1)]	-12	-403
Increase in loans to the public	-20 056	-40 604
Increase in amounts owed to credit institutions	-16 617	68 631
Increase in other assets	3	-2
Increase in other liabilities	-69	226
Cash flow from operating activities	**-27 473**	**34 777**
Financing activities		
Issuance of interest-bearing securities	131 040	87 906
Redemption of interest-bearing securities	-43 951	-113 864
Issuance of eligible liabitities	20 000	
Group contributions paid	-12 240	-10 570
Cash flow from financing activities	**94 849**	**-36 528**
Cash flow for the period	**67 376**	**-1 751**
Cash and cash equivalents at the beginning of the period	**21 783**	**23 534**
Cash flow for the period	67 376	-1 751
Cash and cash equivalents at end of the period	**89 159**	**21 783**

[1)] Including also the tax effect of the Group contribution, amounting to SEK 2 699m.

Comment on statement of cash flow
The statement of cash flow shows deposits and payments during the year as well as cash at the beginning and end of the year. The statement of cash flow is reported using the indirect method and is based on operating income for the period and changes in the balance sheet. Operating income is adjusted for changes not included in cash flow from operating activities. Cash flows are reported separately for deposits and payments from operating activities, investing activities and financing activities.

Operating activities
Cash flow from operating activities is based on operating profit for the year. Adjustments are made for income tax paid and items not included in cash flow from operating activities. Changes in assets and liabilities in operating activities consist of items that are part of regular business activities, such as loans to and funding from the public and credit institutions and that are not attributable to investing and financing activities. The profit generated cash flow includes interest deposits of SEK 17 356m (16 222) and interest payments, including capitalised interest, of SEK 4 751m (3 925).

Financing activities
The issue and repayment of bond loans with maturities exceeding one year are reported gross. Changes in other borrowing include net changes in borrowing with shorter maturities and high turnover.

Cash and cash equivalents
Cash and cash equivalents consist of balances on current accounts, included in the balance sheet item Loans to credit institutions.

Specification of adjustment of non-cash items

SEKm	2019	2018
Unrealised fx effects, bonds in issue	1 611	7 379
Accrued income and prepaid expenses	73	138
Accrued expenses and prepaid income	-425	-1 185
Change in value of loans to the public and credit institutions	500	30
Change in value of funding and derivatives	-5 051	-12 056
Other items	-93	-166
Total	**-3 385**	**-5 860**

Notes

All amounts are in millions of Swedish kronor (SEKm) and at carrying amounts unless otherwise indicated. Figures in brackets refer to the previous year.

1 Corporate information

The annual report for Swedbank Mortgage (publ) for the financial year 2019 was approved for issuance by the Board of Directors and the CEO on 18 February 2020. Swedbank Mortgage, which maintains its registered office in Stockholm, Sweden, is a wholly owned subsidiary of Swedbank (publ). Swedbank Mortgage's operations are described in the Board of Directors' report. The annual report will be presented for adoption by the Company's Annual General Meeting.

2 Accounting policies

Contents

1 BASIS OF ACCOUNTING

The financial reports and the consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and interpretations of them. The standards are issued by the International Accounting Standards Board (IASB) and the interpretations by the IFRS Interpretations Committee. The standards and interpretations become mandatory for Swedbank Mortgage's financial statements concurrently with their approval by the EU. Complete financial reports refer to:

- balance sheet as at the end of the period,
- statement of comprehensive income for the period,
- statement of changes in equity for the period,
- cash flow statement for the period, and
- notes, comprising a summary of significant accounting policies and other explanatory information.

The financial statements are also prepared according to the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the regulations and general advice of the SFSA, FFFS 2008:25 and recommendation RFR 2 Reporting for legal entities issued by the Swedish Financial Reporting Board. Swedbank Mortgage's annual report is therefore based on IFRS guidelines as far as compliant with ÅRKL, RFR2 and Finansinspektionen regulatory code.
The financial statements are based on the historical cost basis. Subsequent measurements are based on the valuation category assigned to the financial instrument. The carrying amounts of financial assets and liabilities subject to hedge accounting at fair value have been adjusted for changes in fair value attributable to the hedged risk. The financial statements are presented in Swedish kronor and all figures are rounded to millions of kronor (SEKm) unless indicated otherwise.

2 CHANGES IN ACCOUNTING POLICIES

The following adoption of accounting pronouncements and changes are applied in the financial reports during 2019.

Amendments to IFRS 9, IAS 39 and IFRS 7 due to the Interest Rate Benchmark
On 15 January 2020 IASBs amendments to IFRS 9, IAS 39 and IFRS 7 due to the Interest Rate Benchmark Reform was adopted by the EU. The purpose of these amendments is to provide certain reliefs in the accounting in connection with the reform. The reliefs relate to hedge accounting and have the effect that the reform should not generally cause hedge accounting to terminate. The amendments are applicable from 1 January 2020 with earlier application permitted. Swedbank Mortgage applies the amendments in the financial statements as per 31 December 2019. The adoption did not have any significant impact on Swedbank Mortgage's financial position, results or cash flows.

Other changes in IFRS and Swedish regulations
Other new or amended IFRSs or interpretations or Swedish regulations which have been adopted during 2019 have had no or immaterial impacts on Swedbank Mortgage´s financial position, results, cash flows or disclosures.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Presentation of financial statements (IAS 1)

Financial statements provide a structured representation of a company's financial position and financial results. The purpose is to provide information on the company's financial position, financial results and cash flows useful in connection with financial decisions. The financial statements also indicate the results of executive management's administration of the resources entrusted to them. Complete financial statements consist of a balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes. Swedbank presents the statement of comprehensive income in the form of two statements. A separate income statement contains all revenue and expense items, provided that a special IFRS does not require or allow otherwise. Other revenue and expense items are recognised in other comprehensive income. The statement of comprehensive income contains the profit or loss recognised in the income statement as well as the components included in other comprehensive income.

Changed presentation of negative yield on financial assets and financial liabilities

From 2019 the Swedbank Mortgage presents negative yield on financial assets and financial liabilities, which were previously presented in the income statement, in Note 7.

Changed presentation of interest income

From 2019 the Swedbank Mortgage presents interest income on financial assets at amortised cost on a separate row in the income statement. Comparative figures have been restated.

3.2 Assets and liabilities in foreign currency (IAS 21)

The financial statements are presented in SEK, which is also the company's functional currency and presentation currency. Functional currency refers to the main currency used in an entity's cash flows. Transactions in a currency other than the functional currency (foreign currency) are initially recorded at the exchange rate prevailing at the transaction date. Monetary assets and liabilities in foreign currency and non-monetary assets in foreign currency measured at fair value are translated at the rates prevailing at the closing date. All gains and losses on the translation of monetary items are recognised in the income statement in net gains and losses on financial items at fair value as changes in exchange rates.

3.3 Financial instruments (IAS 32, IFRS 9, IAS 39)

3.3.1 General

Financial instruments represent the largest part of Swedbank Mortgage's balance sheet. A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Cash and contractual rights to receive cash are examples of financial assets, whereas a contractual obligation to deliver cash or another financial asset is an example of a financial liability. A derivative is a financial instrument that is distinguished by the fact that its value changes in response to the change in a specified variable, such as foreign exchange rates, interest rates or share prices, it requires little or no initial net investment and it is settled on a future date. Financial instruments are classified on relevant lines of the balance sheet depending on the nature of the instrument and the counterparty. If a financial instrument does not have a specific counterparty or it is listed on the market, the instrument is classified on the balance sheet as securities. Financial liabilities where the creditor has a lower priority than others are classified on the balance sheet as Subordinated liabilities. Eligible liabilities that fulfil the individual minimum requirements for own funds and eligible liabilities (iMREL) are presented on a separate row in the balance sheet.

Recognition and derecognition

Financial assets and liabilities are recognised on the balance sheet on the trade date, which is the date when the Swedbank Mortgage becomes a party to the instrument's contractual provisions, with the exception of financial assets measured at amortised cost, which are recognised on the settlement date. Financial assets are derecognised when the right to obtain the cash flows from a financial instrument has expired or has been transferred to another party. When a financial asset is modified, Swedbank Mortgage assesses whether the modification results in derecognition. A financial asset is considered modified where the contractual terms governing the cash flows are amended versus the original agreement, for example due to forbearance measures being applied, changes in market conditions, customer retention reasons or other factors unrelated to the credit deterioration of a borrower. Modified financial assets are derecognised from the balance sheet and a new loan recognised where an agreement is cancelled and replaced with a new agreement on substantially different terms or where the terms of an existing agreement are substantially modified. Modifications due to financial difficulties, including forbearance measures, are not considered substantial on their own.

Financial liabilities are derecognised when the obligation in the agreement has been discharged, cancelled or expired.

Offsetting

Financial assets and financial liabilities are offset and recognised net in the balance sheet if there is a legal right of set-off both in the normal course of business and in the event of bankruptcy, and if the intent is to settle the items with a net amount or to simultaneously realise the asset and settle the liability.

Net interest income

Interest income on financial assets and interest expenses on financial liabilities include interest payments received or paid and changes in an instrument's amortised cost during the period, which produces a constant rate of return over the

instrument's life, referred to as the effective interest rate. The effective interest rate is the rate that discounts future cash flows to the gross carrying amount of a financial instrument, taking into account transaction costs, premiums or discounts and fees paid or received that are an integral part of the return.
Interest income on financial assets is generally calculated by applying the effective interest rate to the gross carrying amount, with two exceptions. Where financial assets measured at amortised cost have become credit-impaired subsequent to initial recognition (Stage 3 financial assets), interest income is calculated by applying the effective interest rate to the amortised cost, which is the gross carrying amount less credit impairment provisions. If such financial assets are no longer credit-impaired, the calculation of interest income reverts back to the gross carrying amount basis. Where financial assets measured at amortised cost are credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost until the financial asset is derecognised from the balance sheet. The credit-adjusted effective interest rate is calculated based on the amortised cost of the financial asset rather than the gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows. Interest expense is calculated by applying the effective interest rate to the amortised cost of financial liabilities.

Swedbank Mortgage holds some financial liabilities at amortised cost with negative yields, which are presented in note 7.

3.3.2 Classification and measurement

Financial assets are classified as measured at either amortised cost or fair value through profit or loss, based on the business model for managing the assets and the asset's contractual terms. Swedbank Mortgage does not have any financial assets classified as fair value through other comprehensive income (managed under a hold to collect and sell business model).
The business model reflects how Swedbank Mortgage manages portfolios of financial assets in order to generate cash flows. The factors considered in determining the business model for a portfolio of financial assets include past experience on how the cash flows have been collected, how the financial assets' performance is evaluated and reported to management, how risks are assessed and managed and how compensation is linked to performance.
Swedbank Mortgage assesses the contractual terms of financial assets to identify whether the contractual cash flows are solely payments of principal and interest. In making this assessment, Swedbank Mortgage considers whether the contractual cash flows are consistent with a basic lending arrangement. Principal is defined as the fair value of a financial asset on initial recognition. Interest is defined as the compensation for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is not compliant with the solely payments of principal and interest criterion. Financial liabilities are classified as measured at either amortised cost or fair value through profit or loss.

Financial assets at amortised cost
Financial assets which are debt instruments are classified as measured at amortised cost if they are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows and if the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the issue or acquisition of financial assets and subsequently measured at amortised cost. Fair value is normally the amount advanced, including fees and commissions. The amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any credit impairment provisions. Accounting policies regarding credit impairment provisions are disclosed in section 3.3.3.

Financial assets at fair value through profit or loss
Financial assets classified as measured at fair value through profit or loss is comprised of derivative assets that are not designated for hedge accounting.
The fair value of financial instruments is determined based on quoted prices in active markets. When such market prices are not available, generally accepted valuation models such as discounted future cash flows are used. The valuation models are based on observable market data, such as quoted prices in active markets for similar instruments or quoted prices for identical instruments in inactive markets. Differences that arise at initial recognition between the transaction price and the fair value according to a valuation model, so-called 'date 1-profits or losses', are recognised in the income statement only when the valuation model is based entirely on observable market data. In all other cases the difference is amortised during the financial instrument's remaining maturity.
Changes in fair value are recognised through profit or loss in Net gains and losses on financial items at fair value. Changes in fair value due to changes in exchange rates are recognised as changes in exchange rates in the same profit or loss line. Decreases in fair value attributable to debtor insolvency are recognised as credit impairments.

Financial liabilities at amortised cost

Financial liabilities classified as measured at amortised cost include those that are not classified as fair value through profit or loss. Such financial liabilities are recognised on the trade date at fair value, which is typically the amount borrowed, and subsequently measured at amortised cost using the effective interest method. The amortised cost measurement is analogous to that which is applied to financial assets, however it does not include adjustments for credit impairment provisions

Financial liabilities at fair value through profit or loss

Financial liabilities classified as measured at fair value through profit or loss is comprised of:

- Derivatives that are not designated for hedge accounting
- Financial liabilities designated at fair value through profit or loss at initial recognition

Changes in fair value are recognised in profit or loss within Net gains and losses on financial items at fair value.

Reclassification of financial assets and liabilities

Swedbank Mortgage does not reclassify its financial assets unless the business model under which the financial assets are held changes, which is expected to be very exceptional. Financial liabilities are never reclassified.

3.3.3 Credit impairment

Credit impairment provisions are recognised on the following financial instruments: financial assets that are measured at amortised cost and irrevocable loan commitments issued. Credit impairment provisions are measured according to an expected credit loss model and reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considering all reasonable and supportable information available without undue cost or effort at the reporting date. Such provisions are measured according to whether there has been a significant increase in credit risk since initial recognition of an instrument.

- Stage 1 includes financial instruments that have not experienced a significant increase in credit risk since initial recognition and those within Swedbank Mortgage´s policy to assess for low credit risk at the reporting date, which is defined as having an investment grade equivalent rating.
- Stage 2 includes financial instruments that have deteriorated significantly in credit quality since the initial recognition but for which there is no objective evidence of credit impairment.
- Stage 3 includes financial instruments which are credit-impaired and for which there is objective evidence of impairment.

12-month expected credit losses are recognized on instruments in Stage 1 and lifetime expected credit losses are recognized on instruments in Stage 2 and Stage 3. The lifetime expected credit losses represent losses from all possible default events over the remaining life of the financial instrument. The 12-month expected credit losses are the portion of the lifetime expected credit losses resulting from the default events that are possible within 12 months after the reporting date.

Measurement of expected credit losses

Expected credit losses are measured for each individual exposure as the discounted product of a probability of default (PD), an exposure at default (EAD), and a loss given default (LGD). The PD represents the likelihood that a borrower will default on its obligation, during the next 12 months or during the remaining lifetime of the obligation. The EAD is an expected exposure at the time of default, taking into account scheduled repayments of principal and interest, and expected further drawdowns on irrevocable facilities. The LGD represents the expected loss on a defaulted exposure, taking into account such factors as counterparty characteristics, collateral and product type.

Expected credit losses are determined by projecting the PD, LGD and EAD for each future month over the expected lifetime of an exposure. The three parameters are multiplied together and adjusted for the probability of survival, or the likelihood that the exposure has not been prepaid or has not defaulted in an earlier month. This effectively calculates monthly expected credit losses, which are discounted back to the reporting date using the original effective interest rate and summed. The sum of all months over the remaining expected lifetime results in the lifetime expected credit losses and the sum of the next 12 months results in the 12-month expected credit losses.

When estimating expected credit losses, Swedbank Mortgage considers at least three scenarios (a base case, an upside and a downside), represented by relevant macroeconomic variables, such as GDP, house prices, and unemployment rates. The risk parameters used to estimate expected credit losses incorporate the effects of the macroeconomic forecasts and associated expected probabilities, to measure an unbiased probability weighted average. In cases where the impacts of relevant factors are not captured in the modelled expected credit loss results, the company uses its experienced credit judgement to incorporate such effects.

Swedbank Mortgage assesses material credit-impaired exposures individually and without the use of modelled inputs. The credit impairment provisions for these exposures are established using the discounted expected cash flows and considering a minimum of two possible outcomes, which consider macroeconomic and non-macroeconomic (borrower-specific) scenarios.

Definition of default and credit-impaired assets

Default is an input to the PD, which affects both the identification of a significant increase in credit risk and the measurement of the expected credit losses.

Financial assets classified as credit-impaired are included in Stage 3.
The Swedbank Mortgage's IFRS 9 definitions of default and credit-impaired assets are aligned to the Swedbank Mortgage's regulatory definition of default, as this is what is used for risk management purposes. Default and credit-impairment are triggered when one of the following occurs: an exposure is more than 90 days past due, an exposure is declared in bankruptcy or similar order, a non-performing forbearance measure is applied towards the borrower or there is an assessment that the borrower is unlikely to pay its obligations as agreed. When assessing whether a borrower is unlikely to pay its obligations, Swedbank Mortgage takes into account both qualitative and quantitative factors including but not limited to the overdue status or non-payment on other obligations of the same borrower, expected bankruptcy and breaches of financial covenants. Swedbank Mortgage has elected to rebut the presumption that instruments which are 90 days past due are in default or credit-impaired for instruments in the sovereign and financial institutions exposure classes only. An instrument is no longer considered to be in default or credit-impaired when all overdue amounts are repaid, there is sufficient evidence to demonstrate that there is a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of credit-impairment.

Determining a significant increase in credit risk since initial recognition

Swedbank Mortgage assesses changes in credit risk using a combination of individual and collective information and reflects significant increases in credit risk at the individual financial instrument level. For financial instruments with an initial recognition date of 1 January 2018 or later, the primary indicator used to assess changes in credit risk is changes in the forward-looking lifetime probability of default since initial recognition, which incorporates the effects of past and current forecasted economic conditions.
Changes in Swedbank Mortgage internal credit ratings since initial recognition, where each rating corresponds to a 12-month probability of default, is used as a secondary indicator of significant increase in credit risk. The estimation of the forward-looking lifetime probabilities of default for initial recognition dates prior to the adoption of IFRS 9 would not have been possible without the use of hindsight and would have required undue cost and effort. Consequently, for those instruments with an initial recognition date prior to 1 January 2018, changes in Swedbank Mortgage internal credit ratings since initial recognition is used as the primary indicator. Qualitative indicators are also considered in the stage allocation assessment; for example, whether a borrower is monitored on the watch list or has been extended performing forbearance measures. Furthermore, a significant increase in credit risk is considered to have occurred for all financial instruments which are 30 days past due. Swedbank Mortgage considers that certain financial instruments with low credit risk at the reporting date have not experienced a significant increase in credit risk. Swedbank Mortgage applies this policy to financial instruments issued to sovereign and financial institutions only. A financial instrument is no longer considered to have experienced a significant increase in credit risk when all indicators are no longer breached.

Expected lifetime

The lifetime of a financial instrument is relevant for both the assessment of significant increase in credit risk, which considers changes in the probability of default over the expected lifetime, and the measurement of lifetime expected credit losses. The expected lifetime is generally limited by the maximum contractual period over which Swedbank Mortgage is exposed to credit risk, even if a longer period is consistent with business practice. All contractual terms are considered when determining the expected lifetime, including prepayment options and extension and rollover options that are binding to Swedbank Mortgage. For the mortgage portfolio a behavioral life model is used which predicts the likelihood that an exposure will still be open and not defaulted at any point during its remaining life (accounting for the probability of early repayment).

Modifications

Where a loan is modified but is not derecognised, significant increases in credit risk continue to be assessed for impairment purposes as compared to the initial recognition credit risk. Modifications do not automatically lead to a decrease in credit risk and all quantitative and qualitative indicators will continue to be assessed. Further to this, a modification gain or loss is recognised in the income statement within Credit impairments, which represents the difference in the present value of the contractual cash flows, discounted at the original effective interest rate. Where a loan is modified and derecognised, the date of the modification is the initial recognition date of the new loan for credit impairment purposes, including for the assessment of significant increases in credit risk. Where the new loan is considered to be credit-impaired on initial recognition, it is classified as a purchased or originated credit-impaired asset and therefore in Stage 3 until the loan is repaid or written-off.

Presentation of credit impairments

For financial assets measured at amortised cost, credit impairment provisions are presented in the balance sheet as a reduction of the gross carrying amount of the assets.
A write-off reduced the gross carrying amount of a financial asset. Credit impairment losses and write-offs are presented as Credit impairments in the income statement. Write-offs are recognised when the amount of loss is ultimately determined and represent the amount before the utilisation of any previous provisions. Any subsequent recoveries of write-offs or impairment provisions are recognised as gains within Credit impairments.

3.3.4 Hedge accounting (IFRS 9, IAS 39)

Fair value hedges (IFRS 9)
Hedge accounting at fair value is applied in certain cases when the interest rate exposure in a recognised financial asset or financial liability is hedged with derivatives. Where hedge accounting is applied, the hedged risk in the individual hedged item is also measured at fair value. The value of the hedged risk in an individual financial asset or financial liability is recognised on the same line in the balance sheet as the financial instrument. Both the change in the value of the derivative hedging instruments and the change in the value of the hedged risk are recognised through profit or loss in net gains and losses on financial items at fair value.
In order to apply hedge accounting, the hedge relationship has been formally identified and documented. The hedge's effectiveness is proven to remain prospectively effective. There is an economic relationship between the hedged item and the hedging instrument and the effect of credit risk does not dominate the value changes resulting from that relationship. Also, the hedge ratio is the same as that resulting from the quantity of both the hedged item and the hedging instrument actually used.

Portfolio fair value hedges (IAS 39)
Portfolio hedge accounting at fair value is applied Swedbank Mortgage cases where the interest rate exposure in loan portfolios is hedged with derivatives. Where hedge accounting is applied, the hedged risk in the hedged portfolio is also measured at fair value. The value of the hedged risk in the hedged portfolio is recognised on a separate line in the balance sheet as Value change of interest hedged item in portfolio hedge. The item is recognised in connection with Loans to the public. Both the change in the value of the derivative hedging instruments and the change in the value of the hedged risk are recognised through profit or loss in Net gains and losses on financial items at fair value.
In order to apply hedge accounting, the hedge relationship has been formally identified and documented. The hedge's effectiveness must be measurable in a reliable way and must be proven to remain very effective, both prospectively and retrospectively, in offsetting changes in the fair value of the hedged risk.

Cash flow hedges (IFRS 9)
Derivative transactions are sometimes entered into to hedge the exposure to variations in future cash flows resulting from changes in exchange rates. These hedges can be recognised as cash flow hedges, whereby the effective portion of the change in the value of the derivative hedging instrument, is recognised directly in other comprehensive income. Where the derivative hedging instrument is a cross currency basis swap, Swedbank Mortgage excludes the foreign currency basis spread from the hedging relationship. The changes in fair value of the cross currency basis swap are recognised in other comprehensive income; however, the changes related to the effective portion of the hedge relationship and the foreign currency basis spread component are recognised separately in the cash flow hedge reserve and the foreign currency basis reserve, respectively.
The amounts accumulated in the respective reserves are subsequently reclassified to profit or loss in the same periods that the hedged future cash flows or the foreign currency basis spread cash flows affect profit or loss. Any ineffective portion is recognised through profit or loss in Net gains and losses on financial items.
In order to apply hedge accounting, the hedge relationship has been formally identified and documented. The hedge's effectiveness is proven to remain prospectively effective. There is an economic relationship between the hedged item and the hedging instrument, and the effect of credit risk does not dominate the value changes resulting from that relationship. Also, the hedge ratio is the same as that resulting from the quantity of both the hedged item and the hedging instrument actually used.

3.4 Pensions (IAS 19)

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

3.5 Revenues, 2017 (IFRS 15)

The principles of revenue recognition for financial instruments are described in a separate section, Financial instruments, recognition (IFRS 9). Interest income and interest expenses for financial instruments calculated according to the effective interest method are recognised as net interest income. Changes in value in the valuation category financial instruments at fair value through profit or loss as well as all changes in exchange rates between functional and other currencies are recognised in net gains and losses on financial items. Service fees are recognised as income when the services are rendered under Commission income or Other income.

3.6 Tax (IAS 12)

Current tax assets and tax liabilities for current and previous periods are measured at the amount expected to be obtained from or paid to the tax authority. Deferred taxes refer to tax on differences between the carrying amount and the tax base, which in the future serves as the basis for current tax. Deferred tax liabilities are tax attributable to taxable temporary differences and must be paid in the future. Deferred tax liabilities are recognised on all taxable temporary differences. Deferred tax assets represent a reduction in future tax attributable to deductible temporary differences, tax loss carry-forwards or other future taxable deductions. Deferred tax assets are tested on each closing date and recognised to the extent it is likely on each closing date that they can be utilised. As a result, a previously unrecognised deferred tax asset is recognised when it is considered likely that a sufficient surplus will be available in the future. Tax rates which have been enacted or substantively enacted as of the reporting date are used in the calculations. All current and deferred taxes are recognised through profit or loss as tax with the exception of tax attributable to items recognised directly in other comprehensive income or equity.

3.7 Operating segments (IFRS 8)

Segment reporting is presented on the basis of management's perspective and relates to the parts of Swedbank Mortgage that are defined as operating segments. Operating segments are identified on the basis of internal reports to the company's chief operating decision maker. Swedbank Mortgage has identified the Chief Executive Officer as its chief operating decision maker, while the internal reports used by the CEO to oversee operations and make decisions on allocating resources serve as the basis of the information presented. The accounting policies for an operating segment consist of the above accounting policies and policies that specifically refer to segment reporting. Swedbank Mortgage has three operating segments that meet the requirements of IFRS 8: Private, Corporate, and Forestry and Agriculture. Revenue is distributed with the help of customer interest rates, internal interest rates, commission agreements and relevant distribution factors. Interest income and interest expenses are netted, since Swedbank Mortgage's chief operating decision maker uses net interest income to determine the segment's result. Items such as changes in value of financial instruments, return on legal equity and other minor items are not distributed to the operating segments. Among balance sheet items, loans to the public are distributed.

4 NEW STANDARDS AND INTERPRETATIONS

4.1 Standards issued but not yet adopted

The International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC) have issued new standards, amendments to standards and interpretations that apply in or after 2019. The IASB permits earlier application. For Swedbank Mortgage to apply them also requires that they have been approved by the EU if the amendments are not consistent with previous IFRS rules. Consequently, Swedbank Mortgage has not applied any of these amendments in the 2019 annual report.
New or amended IFRSs or interpretations or Swedish regulations issued and not yet adopted are not expected to have a significant impact on the Swedbank Mortgage's financial position, results, cash flows or disclosures.

3 Critical accounting judgement and estimates

The presentation of consolidated financial statements in conformity with IFRS requires the executive management to make judgments and estimates that affect the recognised amounts for assets, liabilities and disclosures of contingent assets and liabilities as of the closing date as well as recognised income and expenses during the report period. The executive management continuously evaluates these judgments and estimates, including those that affect the fair value of financial instruments, provisions for impaired loans and deferred taxes. The executive management bases its judgments and assumptions on previous experience and several other factors that are considered reasonable under the circumstances. Actual results may deviate from judgments and estimates.

Financial instruments

When financial instruments are valued at fair value, quoted prices on active markets are primarily used. When quoted prices on active markets are not available, various valuation models are used instead. The company determines when markets are considered inactive and when quoted prices no longer correspond to fair value, requiring valuation models to be used. The markets are considered inactive when the number of completed transactions is too few and when the amounts of the transactions are too small. Swedbank Mortgage determines which valuation model and which pricing parameters are most appropriate for the individual instrument. All the valuation models Swed-bank Mortgage uses are generally accepted and are subject to independent risk control. Swedbank Mortg-age uses primarily accounting at amortised cost and hedge accounting. The company evaluates these as the most true accounting principles for the business conducted in the company.

Estimates

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

Provision for credit impairments

Credit impairment provisions that are estimated using quantitative models incorporate inputs, assumptions and methodologies that involve a high degree of management judgement. In particular, the following can have a significant impact on the level of impairment provisions: the determination of a significant increase in credit risk and the incorporation of forward-looking macroeconomic scenarios. Incorporating forward-looking information requires significant judgment, both in terms of the scenarios to be applied and ensuring that only relevant forward-looking information is considered in the calculation of expected credit losses. An analysis of the sensitivity of credit impairment provisions in relation to significant increase in credit risk assumptions and in relation to the forward-looking macroeconomic scenarios is found on page 26.

Significant credit-impaired exposures (which are those where the borrower's or limit group's total group credit limit is SEK 50m or more), are assessed on an individual basis and without the use of modelled inputs. The credit impairment provisions for these exposures are established using the discounted expected cash flows and considering a minimum of two possible outcomes, of which at least one is a loss outcome. The possible outcomes consider both macroeconomic and non-macroeconomic (borrowerspecific) scenarios. The estimation of future cash flows takes into account a range of relevant factors such as the amount and sources of cash flows, the level and quality of the borrower's earnings, the realisable value of collateral, the Swedbank Mortgage's position relative to other claimants, the likely cost and duration of the work-out process and current and future economic conditions. The amount and timing of future recoveries depend on the future performance of the borrower and the valuation of collateral, both of which might be affected by future economic conditions; additionally, collateral may not be readily marketable. Judgements change as new information becomes available or as work-out strategies evolve, resulting in regular revisions to the credit impairment provisions. The change in credit impairment provisions recognized in the income statement in relation to individually assessed loans is SEK -16m.

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

Financial instruments at fair value

When financial instruments are measured at fair value according to valuation models, an estimate is made which observable market data should be used in those models. The assumption is that quoted prices from financial instruments with similar activity will be used. When such prices or components of prices cannot be identified, the executive management must make its own assumptions. Note 28 shows financial instruments at fair value divided into three valuation levels: quoted prices (Level 1), valuation models with observable market inputs (Level 2) and valuation models with internal assumptions (Level 3). Swedbank Mortgage has no financial instruments measured at fair value within Level 3.

risk control. Swedbank Mortgage continuously identifies the risks in its business and has developed a process for risk assessment review and management.

The risk management process encompasses eight steps: prevent risks, identify risks, quantify risks, analyse risks, suggest measures, control and monitor risks, report risks and follow up risk management. The process encompasses all risk categories and results in a description of Swedbank Mortgage's risk profile.

To ensure that Swedbank Mortgage maintains a long-term low risk profile, the Board has established an overall risk appetite. Individual CEO limits have been established for the types of risks to which the company is exposed. The CEO limits cover exposures and the portfolio's development. The limits are complemented with risk indicators that are carefully monitored and whose purpose is to give early signals if risk conditions change.

The capital adequacy assessment process evaluates capital needs based on Swedbank Mortgage's aggregate risk level. The aim is to ensure efficient use of capital at the same time that Swedbank Mortgage meets the minimum legal capital requirement and maintains access to domestic and international capital markets, even under adverse market conditions.

IBOR

IBOR transition is a market move from existing Interbank Offered Rates (IBORs) towards alternative Risk-Free Rates (RFRs). Global regulators and the public/private sector have established working groups to identify and promote the use of more robust, transaction-based RFRs. IBORs act as reference rates for a broad range of financial instruments and are therefore key to financial stability.

Swedbank Mortgage has begun to adopt new RFRs e.g. (SONIA, SOFR, €STR) and will introduce capability to operate using new rates as and when they become available.

4 Risks

Swedbank Mortgage defines risk as a potentially negative impact on the company's valuation that can occur due to internal processes or future internal or external events. The risk concept encompasses both the probability that an event will occur and the impact that event would have on the Swedbank Mortgage's profitability, equity or value. The Board has adopted a policy for Enterprise Risk Management (ERM) which describes the risk framework, the risk management process, and the roles and responsibilities for risk management and

Credit risk

The risk that a borrower fails to meet its obligations to Swedbank Mortgage and the risk that the pledged collateral does not cover the claims. Credit risk also includes Counterparty Risk, Concentration Risk and Foreign Exchange Settlement risk.

Liquidity risk

The risk that Swedbank Mortgage cannot fulfil its payment commitments when they fall due.

Market risk
The risk to value, earnings, or capital arising from movements of risk factors in financial markets. This risk includes Interest rate risk (including real- and nominal interest rates, credit spreads, and basis spreads), Currency risk and risks from changes in volatilities or correlations.

Operational risk
The risk of losses, business process disruptions and negative reputational impact resulting from inadequate or failed internal processes, people and systems, or from external events. The definition of Operational Risk includes Information security risk.

Other risks
Include business risk, strategic risk, reputational risk, conduct risk, money laundering and terrorist financing risk and sustainability risk.

Operational risk management
Operational risks are managed with qualitative methods such as vulnerability assessment, business continuity planning and a process to authorise new products, systems and processes, as well as quantitative methods where, among other things, incident reporting and operational losses are used to quantify the operational risks.

Other risk management
Business risk, strategic risk, reputational risk, conduct risk, money laundering and terrorist financing risk and sustainability risk are an important part of Swedbank Mortgage's risk exposure, because of which they are carefully monitored and managed.

4a Credit risk

Definition
Credit risk refers to the risk that a borrower will fail to meet their contractual obligations towards Swedbank Mortgage and the risk that the collateral will not cover the claim. Credit risk also includes counterparty risk, concentration risk and settlement risk. Counterparty risk is the risk that a counterparty in a transaction will fail to meet their financial obligations towards Swedbank Mortgage and that the collateral which has been received is insufficient to cover the claim against the counterparty. Concentration risk comprises, among other things, large exposures or concentrations in the credit portfolio to specific counterparties, sectors or geographies. Settlement risk is the risk that a counterparty will fail to meet its obligations before Swedbank Mortgage fulfils its obligations when a transaction is executed (delivery/payment).

Risk management
A central principle for Swedbank Mortgage's lending is that credit decisions adhere to the credit process and are made in accordance with applicable regulations, and that these decisions are in line with Swedbank Mortgage's business and credit strategies. Depending on the size and nature of each credit, a lending decision can be made, for example, by an officer with the help from system support or by a credit committee. The duality principle serves as guidance for credit and credit risk management. A special sustainability risk evaluation process is conducted for corporate customers that include corruption and environmental risks.
The risk classification system is a central part of the credit process and comprises operating and decision–making processes for lending, credit monitoring, and quantification of credit risk. The decision to grant credit requires that the borrower, on good grounds, is expected to fulfil its commitment towards Swedbank Mortgage.
All credit exposures are systematically assessed on a continuous basis for early identification of significant increase in credit risk. Exposures to corporate customers, financial institutions and sovereigns are also reviewed at least once a year to ensure a comprehensive assessment of the borrower's financial situation and forward–looking creditworthiness, review and establishment of risk class and assessment of long–term relationship with the borrower.

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

Risk measurement
Swedbank Mortgage's internal risk classification system is the basis for:

• Risk assessment and credit decisions
• Calculating risk-adjusted returns (including RAROC, risk adjusted return on capital)
• Calculating portfolio provisions
• Monitoring and managing credit risks (including migrations)
• Reporting credit risks to the Board and CEO
• Developing credit strategies and associated risk management activities
• Calculating capital requirements and capital allocation

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

Swedbank Mortgage has received approval from SFSA to apply the IRB approach, which is used to calculate the majority of the capital requirement for credit risks. The IRB approach used for the large part of lending to the public. For exposures where the IRB approach is not used, the SFSA standardised approach is used instead.

The goal of the risk classification is to predict defaults within 12 months. This is expressed on a scale of 23 classes, where 0 represents the greatest risk and 21 represent the lowest risk, with one class for defaulted loans. The table below describes the Swedbank Mortgage's risk classification and how it relates to the probability of default within 12 months (PD) as well as an indicative rating from S&P.

Risk grade according to IRB metodology

Internal rating		PD (%)	Indicative rating Standard & Poor's
Default	Default	100	D
High risk	0-5	>5,7	C till B
Heightened risk	6-8	2,0-5,7	B+
Normal risk	9-12	0,5-2,0	BB- till BB+
Low risk	13-21	<0,5	BBB- till AAA

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

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

Measurement of expected credit losses

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

Probability of default (PD)

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

Loss given default (LGD)

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

Exposure at default (EAD)

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

Expected lifetime

Swedbank Mortgage measures expected credit losses considering the risk of default over the expected life. The expected lifetime is generally limited by the maximum contractual period over which Swedbank Mortgage is exposed to credit risk, even if a longer period is consistent with business practice. All contractual terms are considered when determining the expected lifetime, including prepayment options and extension and rollover options that are binding to the compay. Swedbank Mortgage uses a behavioural life model for private mortgage lending which predicts the likelihood that an exposure will still be open and not defaulted at any point during its remaining life (accounting for the probability of early repayment).

Determination of significant increase in credit risk

Swedbank Mortgage uses both quantitative and qualitative indicators for assessing a significant increase in credit risk. The table on the next page shows the quantitative thresholds, namely changes in 12-month PD and internal risk rating grades, which have been applied for the portfolio of loans originated before 1 January 2018. Internal risk grades are assigned according to the risk management framework and the significance of changes was determined by expert credit judgement, based on historical rating migrations. For instance, for exposures originated with a risk grade between 0 and 5, a downgrade by 1 to 2 grades from initial recognition is assessed as a significant change in credit risk. Alternatively, for exposures originated with a risk grade between 13 and 21, an increase of 150-300 per cent from initial recognition is considered significant.

Swedbank Mortgage has performed a sensitivity analysis on how credit impairment provisions would change if the 12-month PD thresholds applied were increased or decreased by 1 rating grade. A threshold lower by 1 grade would increase the number of loans that have migrated from Stage 1 to Stage 2 and also increase the estimated credit impairment provisions. A threshold higher by 1 grade would have the opposite effect. The table below discloses the impacts of this sensitivity analysis on the 31 December 2019 credit impairment provisions. Positive amounts represent higher credit impairment provisions that would be recognised.

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

Internal risk rating grade at initial recognition	PD band at initial recognition	Threshold, rating downgrade[1) 2) 3)]	Impairment provision impact of: Increase in threshold by 1 grade	Impairment provision impact of: Decrease in threshold by 1 grade	Recognised credit impairment provisions 31 December 2019	Share of total portfolio (%) in terms of gross carrying amount 31 December 2019
13-21	< 0.5%	3 - 7 grades	-33.5%	23.6%	133	61%
9-12	0.5-2.0%	1 - 2 grades	-28.9%	33.0%	105	8%
6-8	2.0-5.7%	1 - 2 grades	-15.4%	17.8%	24	3%
0-5	>5.7% and <100%	1 grade	-6.0%	0.0%	9	1%
			-29.2%	**26.0%**	**271**	**72%**
Financial instruments subject to the low credit risk exemption					0	0%
Stage 3 financial instruments					150	0%
Total provisions					**421**	**72%**

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

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

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

Internal risk rating grade at initial recognition	PD band at initial recognition	Threshold, rating downgrade[1) 2) 3)]	Impairment provision impact of: Increase in threshold by 1 grade	Impairment provision impact of: Decrease in threshold by 1 grade	Recognised credit impairment provisions 31 December 2018	Share of total portfolio (%) in terms of gross carrying amount 31 December 2018
13-21	< 0.5%	3 - 7 grades	-14.6%	29.9%	164	71%
9-12	0.5-2.0%	1 - 2 grades	-32.8%	50.1%	136	9%
6-8	2.0-5.7%	1 - 2 grades	-13.9%	12.4%	39	3%
0-5	>5.7% and <100%	1 - 2 grades	-3.6%	0.0%	14	1%
			-21.1%	**34.5%**	**353**	**84%**
Financial instruments subject to the low credit risk exemption					0	0%
Stage 3 financial instruments					166	0%
Financial instruments with initial recognition after 1 January 2018					50	16%
Total provisions					**569**	**100%**

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

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

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

Significant increase in credit risk - loans with initial recognition on or after 1 January 2018

Internal risk rating grade at initial recognition	Threshold, increase in lifetime PD[4)]	Impairment provision impact of: Increase in threshold by 100%	Impairment provision impact of: Decrease in threshold by 50%	Recognised credit impairment provisions 31 December 2019	Share of total portfolio (%) in terms of gross carrying amount 31 December 2019
13-21	100%-300%	-41.0%	5.0%	62	24%
9-12	100%	0.5%	0.2%	29	3%
6-8	50%-100%	-7.4%	15.2%	10	1%
0-5	50%	-4.4%	1.3%	2	0%
		-25.8%	**4.6%**	**103**	**28%**
Financial instruments subject to the low credit risk exemption				0	0%
Stage 3 financial instruments				3	0%
Total provisions				**106**	**28%**

4) Riskklasser varierar inom givna intervall bereoende på låntagarens segment och intern riskklassificering.

Incorporation of forward-looking macroeconomic scenarios

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

In general, a worsening of an economic outlook on forecasted macroeconomic variables for each scenario or an increase in the probability of the worst case scenario occurring will both increase the number of loans migrating from Stage 1 to Stage 2 and increase the estimated credit impairment provisions. In contrast, an improvement in the outlook on forecasted macroeconomic variables or an increase in the probability of the best case scenario occurring will have the opposite impact. It is not possible to meaningfully isolate the impact of changes in the various macroeconomic variables for a particular scenario due to the interrelationship between the variables as well as the interrelationship between the level of pessimism inherent in a particular scenario and its probability of occurring.

The following table presents the credit impairment provisions as at 31 December 2019 that would result from the downside and upside scenarios, which are considered reasonably possible, being assigned probabilities of 100%.

inherent in a particular scenario and its probability of occurring. The following table presents the credit impairment provisions as at 31 December 2019 that would result from the downside and upside scenarios, which are considered reasonably possible, being assigned probabilities of 100%.

Scenario 2019	Credit impairment provisions resulting from the scenario	Difference from the recognised probability-weighted credit impairment provisions, %
Downside scenario	639	21%
Upside scenario	491	-7%
Scenario 2018		
Downside scenario	671	18%
Upside scenario	527	-7%

Credit-impaired assets

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

IFRS 9 vs Regulatory capital framework

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

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

Gross carrying amount by credit risk rating

The table below presents the credit quality, gross carrying or nominal amount of financial instruments and stage, where the financial instruments are subject to the IFRS 9 impairment requirements. The associated credit impairment provisions are also presented. This credit quality information is at 31 December 2019 and the risk grade information is found on page 24.

Gross carrying amount by credit risk rating 2019	Not credit-impaired		Credit-impaired		
SEKm	Stage 1	Stage 2	Stage 3	Purchased or Originated	Total
Loans to the public					
Low risk	934 313	8 759	70		943 142
Normal risk	46 434	20 439	11		66 884
Augmented risk	4 620	9 232	54		13 906
High risk	254	4 289	144		4 687
Defaults			654		654
Non-rated exposures					
Impairment provision	-44	-330	-153		-527
Total	985 577	42 389	780		1 028 746

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

Loans to the public and credit institutions, at amortised cost, carrying amount 2019

	Non credit-impaired						Credit impaired			**Total**
	Stage 1			Stage 2			Stage 3			
	12 month ECL			Life time ECL			Life time ECL			
SEKm	Gross carrying amount	Impair-ment provi-sion	Net	Gross carrying amount	Impair-ment provi-sion	Net	Gross carrying amount	Impair-ment provi-sion	Net	
Loans to credit institutions										
Banks	89 159		89 159							89 159
Loans to credit institutions	**89 159**		**89 159**							**89 159**
Loans to the public										
Private customers	877 645	17	877 628	27 464	82	27 382	743	127	616	905 626
Private, mortgage	786 187	12	786 175	25 879	72	25 807	694	124	570	812 552
Tenant owner associations	91 458	5	91 453	1 585	10	1 575	49	3	46	93 074
Private,other										
Corporate customers	107 976	27	107 949	15 255	248	15 007	190	26	164	123 120
Agriculture, forestry, fishing	44 146	6	44 140	5 620	66	5 554	98	8	90	49 784
Manufacturing	671		671	78	1	77	1		1	749
Public sector and utilities	1 850	1	1 849	191	6	185	3	1	2	2 036
Construction	2 599	1	2 598	444	5	439	37	10	27	3 064
Retail	1 014	0	1 014	185	3	182				1 196
Transportation	353	0	353	44	2	42	1	0	1	396
Shipping and offshore	1		1	3		3				4
Hotels and restaurants	649	0	649	156	3	153				802
Information and communications	206	0	206	14	0	14				220
Finance and insurance	756	1	755	52	1	51				806
Property management	52 539	16	52 523	7 764	148	7 616	39	4	35	60 174
Residential properties	39 541	11	39 530	5 283	87	5 196				44 726
Commercial	7 928	3	7 925	1 568	32	1 536	34	2	32	9 493
Industrial and Warehouse	642	1	641	255	18	237				878
Other	4 428	1	4 427	658	11	647	5	2	3	5 077
Professional services	1 951	1	1 950	479	6	473	4	2	2	2 425
Other corporate lending	1 241	1	1 240	225	7	218	7	1	6	1 464
Loans to the public	**985 621**	**44**	**985 577**	**42 719**	**330**	**42 389**	**933**	**153**	**780**	**1 028 746**
Loans to the public and credit institutions	**1 074 780**	**44**	**1 074 736**	**42 719**	**330**	**42 389**	**933**	**153**	**780**	**1 117 905**
Collateral held as security										
Residential properties including tenant-owner apartments	896 132	21	896 111	31 869	137	31 732	732	123	609	928 452
Other real estate	81 753	14	81 739	9 755	132	9 623	173	22	151	91 513
Municipalities guaranteed	12		12				3	1	2	14
Other collateral	7 724	9	7 715	1 095	61	1 034	25	7	18	8 767
Total	**985 621**	**44**	**985 577**	**42 719**	**330**	**42 389**	**933**	**153**	**780**	**1 028 746**
Credit institutions guaranteed by Swedbank AB	89 159		89 159							89 159
Total loans to the public and credit institutions	**1 074 780**	**44**	**1 074 736**	**42 719**	**330**	**42 389**	**933**	**153**	**780**	**1 117 905**

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

SEKm	Non credit-impaired Stage 1 12 month ECL Gross carrying amount	Impair-ment provi-sion	Net	Stage 2 Life time ECL Gross carrying amount	Impair-ment provi-sion	Net	Credit impaired Stage 3 Life time ECL Gross carrying amount	Impair-ment provi-sion	Net	Total
Loans to credit institutions										
Banks	21 783		21 783							21 783
Loans to credit institutions	**21 783**		**21 783**							**21 783**
Loans to the public										
Private customers	853 791	21	853 770	32 241	131	32 110	784	133	651	886 531
Private, mortgage	760 359	16	760 343	30 971	119	30 852	765	132	633	791 828
Tenant owner associations	93 432	5	93 427	1 270	12	1 258	19	1	18	94 703
Private,other										
Corporate customers	108 548	29	108 519	13 735	222	13 513	194	33	161	122 193
Agriculture, forestry, fishing	45 037	8	45 029	6 324	85	6 239	86	10	76	51 344
Manufacturing	697		697	95	1	94	5	1	4	795
Public sector and utilities	2 072	1	2 071	174	4	170	3	1	2	2 243
Construction	2 894	1	2 893	501	7	494	19	1	18	3 405
Retail	1 036		1 036	169	3	166	2		2	1 204
Transportation	367		367	48	2	46				413
Shipping and offshore	2		2	3	0	3				5
Hotels and restaurants	694		694	117	2	115				809
Information and communications	236		236	16	0	16				252
Finance and insurance	816	1	815	13	0	13				828
Property management	51 321	16	51 305	5 538	104	5 434	67	17	50	56 789
Residential properties	38 520	11	38 509	3 861	58	3 803	57	17	40	42 352
Commercial	7 481	2	7 479	1 023	21	1 002	4		4	8 485
Industrial and Warehouse	982	2	980	119	12	107	4		4	1 091
Other	4 338	1	4 337	535	13	522	2		2	4 861
Professional services	2 102	1	2 101	517	7	510	8	2	6	2 617
Other corporate lending	1 274	1	1 273	220	7	213	4	1	3	1 489
Loans to the public	**962 339**	**50**	**962 289**	**45 976**	**353**	**45 623**	**978**	**166**	**812**	**1 008 724**
Loans to the public and credit institutions	**984 122**	**50**	**984 072**	**45 976**	**353**	**45 623**	**978**	**166**	**812**	**1 030 507**
Collateral held as security										
Residential properties including tenant-owner apartments	875 941	26	875 915	35 242	161	35 081	781	127	654	911 650
Other real estate	76 949	16	76 933	9 695	148	9 547	167	29	138	86 618
Municipalities guaranteed	134		134	39	2	37	1		1	172
Other collateral	9 315	8	9 307	1 000	42	958	29	10	19	10 284
Total	**962 339**	**50**	**962 289**	**45 976**	**353**	**45 623**	**978**	**166**	**812**	**1 008 724**
Credit institutions guaranteed by Swedbank AB	21 783		21 783							21 783
Total loans to the public and credit institutions	**984 122**	**50**	**984 072**	**45 976**	**353**	**45 623**	**978**	**166**	**812**	**1 030 507**

Concentration risk, customer exposure

At end of 2019, Swedbank Mortgage did not have any exposures against individual counterparties that exceeded 10 per cent of the capital base.

Reconciliations of gross carrying amount and credit impairment provisions

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

Loans to the public and credit institutions 2019

	Non Credit-Impaired		Credit-Impaired	
SEKm	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
Gross carrying amount as of 1 January 2019	**984 122**	**45 976**	**978**	**1 031 076**
Gross carrying amount as of 31 December 2019	**1 074 780**	**42 719**	**933**	**1 118 432**
Credit impairment provisions				
Credit impairment provisions as of 1 January 2019	**50**	**353**	**166**	**569**
Movements affecting Credit impairments line				
New and derecognised financial assets, net	5	-24	-64	-83
Changes in risk factors (EADF, PD, LGD)	14	-111	26	-71
Changes in macroeconomic scenarios	-6	-11	-2	-19
Changes due to expert credit judgement (manual adjustments and individual assessments)				
Stage transfers	-19	123	27	131
from stage 1 to stage 2	-16	172		156
from stage 1 to stage 3	-5		12	7
from stage 2 to stage 1	2	-43		-41
from stage 2 to stage 3		-8	26	18
from stage 3 to stage 2		2	-7	-5
from stage 3 to stage 1			-4	-4
Other			-3	-3
Total movements affecting Credit impairments line	-6	-23	-16	-45
Movements recognised outside Credit impairments line				
Discount unwind (presented in Interest income)			3	3
Credit impairment provisions as of 31 December 2019	**44**	**330**	**153**	**527**
Carrying amount				
Opening balance as of 1 January 2019	**984 072**	**45 623**	**812**	**1 030 507**
Closing balance as of 31 December 2019	**1 074 736**	**42 389**	**780**	**1 117 905**

Loans to the public and credit institutions 2018

SEKm	Non Credit-Impaired Stage 1	Stage 2	Credit-Impaired Stage 3	Total
Gross carrying amount				
Gross carrying amount as of 1 January 2019	**949 019**	**42 144**	**1 196**	**992 359**
Gross carrying amount as of 31 December 2018	**984 122**	**45 976**	**978**	**1 031 076**
Credit impairment provisions				
Credit impairment provisions as of 1 January 2018	**41**	**259**	**151**	**451**
Movements affecting Credit impairments line				
New and derecognised financial assets, net	9	1	-23	-13
Changes in risk factors (EADF, PD, LGD)	22	-39	32	15
Changes in macroeconomic scenarios	6	21	8	35
Changes due to expert credit judgement (manual adjustments and individual assessments)			24	24
Stage transfers	-28	111	-26	57
from stage 1 to stage 2	-23	162		139
from stage 1 to stage 3	-7	0	9	2
from stage 2 to stage 1	2	-36		-34
from stage 2 to stage 3		-22	25	3
from stage 3 to stage 2		7	-28	-21
from stage 3 to stage 1			-32	-32
Other			-3	-3
Total movements affecting Credit impairments line	9	94	12	115
Movements recognised outside Credit impairments line	0	0	3	3
Discount unwind (presented in Interest income)	0	0	3	3
Credit impairment provisions as of 31 December 2018	**50**	**353**	**166**	**569**
Carrying amount				
Opening balance as of 1 January 2018	**948 978**	**41 885**	**1 045**	**991 908**
Closing balance as of 31 December 2018	**984 072**	**45 623**	**812**	**1 030 507**

Forborne loans

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

Loan write-offs

Loans are written off when the loss amount is ultimately established or after the disposal of credit-impaired loans. The remaining loan amount for those that are partially written off is still included in credit-impaired (stage 3) loans or and forborne loans. Previous provisions are utilised in connection with the write-off. The loss amount is ultimately determined when a receiver has presented a bankruptcy distribution, when a bankruptcy settlement has been reached, when a concession has been granted, or when the Swedish Enforcement Agency, or a collection company Swedbank Mortgage partners with, has reported that an individual has no distrainable assets. A write-off normally does not mean that the claim against the borrower has been forgiven. Generally, a proof of claim is filed against the borrower or guarantor after the write-off. A proof of claim is not filed when a legal entity has ceased to exist due to a bankruptcy, when a bankruptcy settlement has been reached or when receivables have been completely forgiven. The contractual amount outstanding on loans that were written off during 2019 and are still subject to enforcement activity is SEK 15m.

Gross carrying amount of forborne loans

SEKm	2019	2018
Performing (Not-credit impaired)	87	56
Non-Performing (Credit-impaired)	8	7
Total	**95**	**63**

4b Liquidity risk

Definition
Liquidity risk refers to the risk of Swedbank Mortgage not being able to meet payment obligations at maturity.

Swedbank Mortgage's liquidity can be predicted, since the maturities and interest payments are known in advance for mortgages and funding. With the help of rigorous forecasts and diversified funding in various geographical markets, Swedbank Mortgage reduces liquidity risk.

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

Liquidity risk is also limited by covered bond regulations. The high credit rating of covered bonds broadens the investor base, facilitates favourable funding costs and constitutes approved collateral when pledged with the Swedish Riksbank. Swedbank Mortgage has access to the parent company's liquidity reserve, where the purpose of building up and maintaining a liquidity reserve is to reduce the Swedbank Mortgage's liquidity risk.

When Swedbank Mortgage faces a high volume of maturing bonds that exceeds lending maturity, the liquidity reserve must be adjusted to meet these maturities in various types of stressed scenarios in the capital markets where access to financing may be limited or where markets are fully or partly closed over an extended period of time. This also means that when Swedbank Mortgage´s maturities are lower, the liquidity reserve can be reduced, since refinancing needs decrease, as does liquidity risk.

Summary of maturities
In the summary of maturities, undiscounted contractual cash flows are distributed on the basis of remaining maturities until the agreed time of maturity. For lending to the public, amortising loans are distributed based on amortisation schedule. Liabilities whose contracts contain a prepayment option have been distributed based on the earliest date on which repayment can be demanded. The difference between the nominal amount and the carrying amount, discounting effect, is reported in the column Without maturity date/discount effect. This column also includes items without an agreed maturity date and where the probable repayment date has not been determined.

Undiscounted contractual cash flows, remaining maturity

SEKm

2019	Payable on demand	< 3 mths	3 mths-1 yr	1-5 yrs	5-10 yrs	> 10 yrs	Without maturity date/discount effect [1]	Total
Assets								
Loans to credit instiutions	89 159							89 159
Loans to the public		7 726	17 644	75 208	84 278	860 377	-16 487	1 028 746
Derivatives		692	6 645	13 269	3 477	1 689	1 689	27 461
Other assets							464	464
Total assets	**89 159**	**8 418**	**24 289**	**88 477**	**87 755**	**862 066**	**-14 334**	**1 145 830**
Liabilities								
Amounts owed to credit institutions		1 225	471 603	622			-1 827	471 623
Debt securities in issue		1 777	142 193	390 843	46 850	20 967	-10 533	592 097
Derivatives		210	417	1 586	741	27	-560	2 421
Eligible liabilities				20 000				20 000
Other liabilities							13 520	13 520
Total liabilities		**3 212**	**614 213**	**413 051**	**47 591**	**20 994**	**600**	**1 099 661**

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

2018	Payable on demand	< 3 mths	3 mths-1 yr	1-5 yrs	5-10 yrs	> 10 yrs	Without maturity date/discount effect 1)	Total
Assets								
Loans to credit instiutions	21 783							21 783
Loans to the public		3 802	12 053	62 918	77 811	850 562	1 578	1 008 724
Derivatives		779	2 436	14 084	3 432	655	316	21 702
Other assets							1 343	1 343
Total assets	**21 783**	**4 581**	**14 489**	**77 002**	**81 243**	**851 217**	**3 237**	**1 053 552**
Liabilities								
Amounts owed to credit institutions		5 506	481 923	1 487			-676	488 240
Debt securities in issue		1 178	31 103	428 843	32 516	24 223	-14 982	502 881
Derivatives		389	1 034	1 015	385	488	-760	2 551
Other liabilities							13 711	13 711
Total liabilities		**7 073**	**514 060**	**431 345**	**32 901**	**24 711**	**-2 707**	**1 007 383**

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

4c Market risk - Interest rate risk

Definition

Interest rate risk refers to the risk that Swedbank Mortgage's results, equity or value will be negatively affected by changes in interest rates or other relevant risk factors. The majority of Swedbank Mortgage's interest rate risk is structural and arises within the banking operations when there is a mismatch between the interest fixing periods of assets and liabilities, including derivatives. The interest rate risk in fixed rate assets, primarily customer loans, accounts for the large part of this risk and is hedged through fixed-rate funding or by entering into various types of swap agreements with Swedbank AB. An increase in all market interest rates of one percentage point would have reduced the value of the Swedbank Mortgage's assets and liabilities, including derivativesby SEK 407m (loss: 571) as of 31 December 2019.

Net gains and losses on financial items, before taking into account cash flow hedges, would have increased by SEK 33m (increased 146) for the portion of Swedbank Mortgage's balance sheet measured at fair value through the income statement. This would have increased equity by SEK 26m (increased 114).

Change in value if the market rates rise by one percentage point

SEKm

Impact on the value of assets and liabilities, including derivatives, if market rates are raised by one percentage point

2019

	< 3 mths	3-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	> 10 yrs	Total
SEK	133	-39	-56	-134	-22	34	-87	-124	19	-276
Foreign currency	-17	-4	7	-3	-1	-4	-18	-29	-62	-131
Total	**116**	**-43**	**-49**	**-137**	**-23**	**30**	**-105**	**-153**	**-43**	**-407**
of which financial instruments measured at fair value through profit and loss										
SEK	48	4	13	16	0	0	0	0	0	81
Foreign currency	-43	-2	-1	-1	0	0	0	-1	0	-48
Total	**5**	**2**	**12**	**15**	**0**	**0**	**0**	**-1**	**0**	**33**

2018

	< 3 mths	3-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	> 10 yrs	Total
SEK	-11	-7	-23	-74	-99	-96	-43	-6	-5	-364
Foreign currency	0	0	-9	-25	-24	-15	-28	-49	-57	-207
Total	**-11**	**-7**	**-32**	**-99**	**-123**	**-111**	**-71**	**-55**	**-62**	**-571**
of which financial instruments measured at fair value through profit and loss										
SEK	32	16	86	36	24	0	0	0	0	194
Foreign currency	-28	-2	-11	-3	4	0	0	-7	-1	-48
Total	**4**	**14**	**75**	**33**	**28**	**0**	**0**	**-7**	**-1**	**146**

4d Market risk – Currency risk

Definition

Currency risk refers to the risk that the value of the Swedbank Mortgage's assets and liabilities, including derivatives, will be negatively affected by changes in exchange rates or other relevant risk factors. Currency risk arises as Swedbank Mortgage's lending in SEK is partly financed with funding in other liquid currencies.

Swedbank Mortgage's policy is to hedge any exposure to currency risk. Currency risk is essentially neutralised through derivatives on the currency market. The table below shows assets and liabilities broken down by currency.

Currency distribution

2019

SEKm	SEK	EUR	USD	GBP	NOK	Other	Total
Assets							
Loans to credit institutions	89 159						89 159
Loans to the public	1 028 746						1 028 746
Other assets, not distributed	27 925						27 925
Total	**1 145 830**						**1 145 830**
Liabilities							
Amounts owed to credit institutions	471 623						471 623
Debt securities in issue	390 780	170 146	9 482	8 750	9 324	3 615	592 097
Senior non preferred debt	20 000						20 000
Other liabilities, not distributed	15 941						15 941
Total	**898 344**	**170 146**	**9 482**	**8 750**	**9 324**	**3 615**	**1 099 661**
Other assets and liabilities, including derivative positions		**170 146**	**9 482**	**8 750**	**9 324**	**3 615**	
Net position in currencies		**0**	**0**	**0**	**0**	**0**	

2018

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

5 Capital adequacy

Capital adequacy analysis

The capital adequacy regulation is the legislator's requirement of how much capital, designated as the own funds, a bank must have in relation to the size of the risks it faces. For Swedbank Mortgage, the capital adequacy regulation (CRR) states that the minimum capital requirement for credit risks, with permission from the Swedish Financial Supervisory Authority (SFSA), is based on internal risk measurement according to the Internal Risk Classification Method (IRB method) developed by Swedbank. For a small part of the assets, the capital requirement for credit risks is calculated according to the standard method. The capital requirement for operational risk is calculated, with the approval by the SFSA, according to the standard method.

Swedbank's own methods and processes are also established and documented to evaluate the Group's capital needs. This evaluation includes Swedbank Mortgage. The need for capital is systematically assessed based on the total level of risks that Swedbank Mortgage is exposed to. All risks are considered, including risks in addition to those included in the calculation of capital adequacy.

The note contains the information that must be published according to the SFSA's regulations (FFFS 2008:25), Chapter 6 paragraph 4. Additional periodic information according to the European Parliament's and the Council's regulation (EU) No 575/2013 on prudential requirements for credit institutions and the Commission's implementing regulation (EU) No 1423/2013 can be found in Swedbank group reporting at Swedbank's website https://www.swedbank.com/investor-relations/reports-and-presentations/risk-reports.html

Capital adequacy

SEKm	2019	2018
Shareholders' equity according to the balance sheet	46 169	46 169
Unrealised value changes in own financial liabilities due to changes in own credit valuation	5	18
Cash flow hedges	-34	-47
Additional valuation adjustments [1]	-5	-4
Common Equity Tier 1 capital	**46 135**	**46 136**
Total Tier 1 capital	**46 135**	**46 136**
Tier 2 capital	80	98
Total own funds	**46 215**	**46 234**
Minimum capital requirement for credit risks, standardised approach		24
Minimum capital requirement for credit risks, IRB	3 360	3 371
Minimum capital requirement for operational risks	1 492	1 359
Additional minimum capital requirement, Article 3 CRR	74	32
Additional minimum capital requirement, Article 458 CRR [4]	17 030	16 609
Minimum capital requirement [2]	**21 956**	**21 395**
Risk exposure amount credit risks, standardised approach		297
Risk exposure amount credit risks, IRB	42 001	42 135
Risk exposure amount operational risks [3]	18 656	16 986
Additional risk exposure amount, Article 3 CRR	916	403
Additional risk exposure amount, Article 458 CRR [4]	212 871	207 615
Risk exposure amount	**274 444**	**267 436**
Common Equity Tier 1 ratio, %	16.8	17.3
Tier 1 capital ratio, %	16.8	17.3
Total capital ratio, %	**16.8**	**17.3**

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

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

[3] According to standardised method, retail bank

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

Leverage ratio	2019	2018
Tier 1 capital, SEKm	46 135	46 136
Leverage ratio exposure measure, SEKm	1 033 376	1 015 054
Leverage ratio, %	4.5	4.6

Capital requirements[1]	SEKm		Per cent	
	2019	2018	2019	2018
Capital requirement Pillar 1	35 678	33 430	13.0	12.5
of which Buffer requirements [2]	13 722	12 035	5.0	4.5
Total capital requirement Pillar 2 [3]	1 667	2 116	0.6	0.8
Total capital requirement Pillar 1 and 2	**37 345**	**35 569**	**13.6**	**13.3**
Own funds	**46 215**	**46 234**		

[1] Swedbank Morgage's calculation based on the SFSA's announced capital requirements, including Pillar 2 requirements.

[2] Buffer requirements includes systemic risk buffer, capital conservation buffer and countercyclical capital buffer

[3] Systemisk buffer and Individual Pillar 2 charge as of 31December 2019. The individual Pillar 2 charge items as of 31December 2018, according to SFSA's SREP report of 30 September 2019, in relation to REA as of December 2019

Credit risks, IRB	2019			2018		
SEKm	Exposure amount	Average risk weight, %	Minimum capital rqmnt.	Exposure amount	Average risk weight, %	Minimum capital rqmnt.
Central government or central banks exposures	5 281	4	16	6 094	4	19
Institutional exposures				217	32	6
Corporate exposures	51 127	22	883	46 172	22	822
Retail exposures	977 336	3	2 435	963 050	3	2 524
Non-credit obligations	185	177	26	45	13	0
Total credit risks according to IRB approach	1 033 929	4	3 360	1 015 578	4	3 371
Total credit risks according to standardised approach	129 899	0	0	56 603	1	24
Total	**1 163 828**	**4**	**3 360**	**1 072 181**	**4**	**3 395**

Capital buffer requirement [1],%	2019	2018
CET 1 capital requirement including buffer requirements	9.5	9.0
of which minimum CET 1 requirement	4.5	4.5
of which capital conservation buffer	2.5	2.5
of which countercyclical capital buffer	2.5	2.0
CET 1 capital available to meet buffer requirement [2]	8.8	9.3

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

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

Exposure amount, risk exposure amount and minimum capital requirement		**2019**			**2018**	
SEKm	Exposure amount	Risk exposure amount	Minimum capital rqmnt.	Exposure amount	Risk exposure amount	Minimum capital rqmnt.
Credit risks, standardised approach	**129 899**	**0**	**0**	**56 603**	**297**	**24**
Institutional exposures	129 899	0	0	56 484		
Equity exposures				119	297	24
Credit risks, IRB	**1 033 929**	**42 001**	**3 360**	**1 015 578**	**42 135**	**3 371**
Central government or central banks exposures	5 281	202	16	6 094	233	19
Institutional exposures				217	70	6
Corporate exposures	51 127	11 034	883	46 172	10 277	822
Retail exposures	977 336	30 437	2 435	963 050	31 548	2 524
of which mortgage lending	973 131	30 301	2 424	958 011	31 381	2 511
of which other lending	4 205	136	11	5 039	167	13
Non-credit obligations	185	328	26	45	7	0
Operational risks		**18 656**	**1 492**		**16 986**	**1 359**
of which standardised approach		18 656	1 492		16 986	1 359
Additional risk exposure amount according to article 3 CRR		**916**	**74**		**403**	**32**
Additional risk exposure amount according to article 458 CRR		**212 871**	**17 030**		**207 615**	**16 609**
Total	**1 163 828**	**274 444**	**21 956**	**1 072 181**	**267 436**	**21 395**

Internal Capital Adequacy Assessment Process (ICAAP)

The Internal Capital Adequacy Assessment Process (ICAAP) aims to ensure that Swedbank Mortgage is adequately capitalised to cover its risks and to operate and develop the business.

Measurement
Swedbank Mortgage prepares and documents its own methods and processes to evaluate its capital requirement. The ICAAP takes into account all relevant risks that arise.

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

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

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

Other risks such as reputational risk and liquidity risk are not quantified, even though the capital buffer also implicitly protects against such risks. These risks remain an important part of Swedbank Mortgage's risk exposure and are therefore carefully monitored and managed.

Total capital requirement
Swedbank Mortgage's internal capital requirement as of 31 December 2019 amounted to SEK 4.8bn. The capital that meets this requirement, i.e. the capital base, amounted to SEK 46.2bn.

6 Operating segments

SEKm	2019				2018			
	Private	Corporate	Forestry and Agriculture	Total	Private	Corporate	Forestry and Agriculture	Total
Net interest income	10 307	1 509	819	12 635	10 869	1 380	875	13 124
Net commissions	12	2	1	15	20	4	2	26
Total income	**10 319**	**1 511**	**820**	**12 650**	**10 889**	**1 384**	**877**	**13 150**
Total cost	215	3	20	238	217	3	22	242
Profit before impairments	**10 104**	**1 508**	**800**	**12 412**	**10 672**	**1 381**	**855**	**12 908**
Credit impairments	-47	45	-22	-24	67	62	-6	123
Operating profit, segments	**10 151**	**1 463**	**822**	**12 436**	**10 605**	**1 319**	**861**	**12 785**
Loans to the public	813 089	157 035	58 622	1 028 746	792 654	155 756	60 314	1 008 724

Reconcilitation of segment reporting and income statement

SEKm	2019					2018				
	Net interest income	Total income	Total expenses	Credit impair-ments	Opera-ting profit	Net interest income	Total income	Total expenses	Credit impair-ments	Opera-ting profit
Total segments	12 635	12 650	238	-24	12 436	13 124	13 150	242	123	12 785
Return on legal equity	278	278			278	206	206			206
Net gains and losses on financial items		-10			-10		-185			-185
Other income		5			5		5			5
Other expenses			46		46			22		22
Operating profit according to income statement	**12 913**	**12 923**	**284**	**-24**	**12 663**	**13 330**	**13 176**	**264**	**123**	**12 789**

Results and balance in the Private segment relate to consumer loans to finance residential housing. The coresponding items for Corporate relate to loans to municipal housing companies and tenant-ow ner associations w ith underlying collateral in multi-family housing. The Forestry and Agriculture segment comprises loans to finance forest and agricultural properties. The commission income in net commissions are services provided point in time and are related to payment processing commissions. The alloction to segments is based on business volume.
Items in operating profit/loss that are not included in the segments consist of changes in the value of financial instruments, the return on legal equity and other undistributed minor items. Return on equity comprises interest income on assets funded by equity. Sw edbank Mortgage does not have any single customer that generates 10% or more of the Company´s total income.

7 Net interest income

SEKm	2019	2018
Interest income		
Loans to credit institutions	55	8
Loans to the public	17 226	16 079
Total interest income	**17 281**	**16 087**
Interest expense		
Amounts owed to credit institutions	-842	244
Debt securities in issue	-5 129	-5 555
Derivatives	2 247	3 400
Eligible liabilities	-82	
Other	-562	-846
of which resolution fee	-560	-846
Total interest expense	**-4 368**	**-2 757**
Total net interest income	**12 913**	**13 330**
Average balance		
Loans to credit institutions	37 392	45 166
Loans to the public	1 021 570	990 010
Amount owed to credit institutions	461 100	460 257
Debt securities in issue	570 263	540 438
Negative yield on financial liabilities	13	326
Interest expense on financial liabilities at amortised cost	6 492	5 889
Interest income on Stage 3 loans	15	18

8 Net commission income

SEKm	2019	2018
Commission income		
Payment processing	57	61
Total	**57**	**61**
Commission expenses		
Fees to the Swedish National Board of Housing, Building and Planning	0	0
Market maker fees	-42	-35
Total	**-42**	**-35**
Total net commission income	**15**	**26**

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

9 Net gains and losses on financial items

SEKm	2019	2018
Fair value through profit and loss		
Debt securities in issue	101	260
Derivatives	-137	-309
Total fair value through profit and loss	**-36**	**-49**
Hedge accounting		
Ineffective part in hedge accounting at fair value	-3	-14
of which hedging instruments	2 194	-301
of which hedged items	-2 197	287
Ineffective part in portfolio hedge accounting at fair value	43	-38
of which hedging instruments	543	-8
of which hedged items	-500	-30
Ineffective part in cash flow hedge	7	2
Total hedge accounting	**47**	**-50**
Derecognition gain or loss for financial liabilities at amortised cost	**-157**	**-255**
Derecognition gain or loss for loans at amortised cost	**130**	**116**
Change in exchange rates	**6**	**53**
Total net gains and losses on financial items	**-10**	**-185**

Swedbank Mortgage uses the fair value option as an alternative to hedge accounting.

10 Staff expenses

Remuneration within Swedbank Mortgage

The Board receives compensation from Swedbank AB (publ). Swedbank has a common remuneration policy for the Group.

SEKm	2019	2018
President		
Salaries and other remuneration	1.2	1.1
Pension costs	0.7	0.5
Social insurance charges	0.4	0.4
Other employees		
Salaries and other remuneration	5.7	5.1
Pension costs	2.3	2.0
Social insurance charges	1.5	1.9
Other staff costs	0.2	0.0
Total	**12.0**	**11.0**
of which profit-based staff costs	0.0	0.0

Number of employees

The number of employees at year-end were 8 persons, of whom 50 per cent were women and 50 percent men.

Loans to the Board and employees

SEKm	2019	2018
Loans to the President	4	3
Loans to Board members	14	14
No. of employees with loans	7	7

The company has not pledged any assets, other security or accepted any contingent liabilities on behalf of any members of the companys executive management.

Gender distribution

number of persons	2019	2018
Board of Directors	4	5
of which men	3	2
of which women	1	3

11 Other expenses

SEKm	2019	2018
Purchased services	239	242
Other	33	8
of which Deloitte AB [1]		
Statutory audit	1	2
Other audit		1
of which PWC AB [2]		
Statutory audit	1	
Other audit		
Total	**272**	**253**

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

[2] Remuneration to Auditors elected by Annual General Meeting, PWC AB

12 Credit impairments

SEKm	2019	2019
Loans at amortised cost		
Credit impairment provisions - Stage 1	-6	9
Credit impairment provisions - Stage 2	-23	94
Credit impairment provisions - Stage 3	-16	12
Total	**-45**	**115**
Write-offs	28	14
Recoveries	-7	-6
Total	**21**	**8**
Total loans at amortised cost	**-24**	**123**
Total Credit impairments	**-24**	**123**
Credit impairment ratio, %	**0.00**	**0.01**

13 Tax

SEKm	2019	2018
Tax expense		
Tax related to previous years	0	0
Current tax	2 710	2 913
Total	**2 710**	**2 913**

The tax expense corresponds to 21.4% (22%) of the company's pretax profit. The difference between the company's tax expense and the tax expense based on current tax rates is explained below:

	SEKm	%	SEKm	%
Result	2 710	21.4	2 913	22
Prevailing tax rate	2 710	21.4	2 913	22
Difference	**0**	**0**	**0**	**0**

14 Earnings per share

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

SEKm	2019	2018
Profit attributable to the shareholders of Swedbank Mortgage, SEKm	9 953	10 326
Average number of shares outstanding, million	23	23
Earnings per share, SEK	**432.74**	**448.96**

15 Tax for each component in other comprehensive income

SEKm	2019		
	Amount before tax	Deferred tax	Amount after tax
Cash flow hedges	-16	3	-13
Foreign currency basis risk reserve	-35	8	-27
Other comprehensive income	**-51**	**11**	**-40**

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

16 Loans to the public

SEKm	2019	2018
Loans to the public	1 028 746	1 008 724
Total loans to the public	**1 028 746**	**1 008 724**
Number of loans	1 622 999	1 636 265

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

17 Derivatives

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

SEKm	2019				2018	2019	2018	2019	2018
	Remaining contractual maturity, nominal amount					Positive market values		Negative market values	
SEKm	<1 year	1-5 year	> 5 year	Total	Total				
Derivatives in hedge accounting									
Fair value hedge									
Interest-rate swaps	109 011	299 010	59 841	467 862	392 844	11 547	9 212	317	258
Portfolio fair value hedge									
Interest-rate swaps	113 800	267 955	10 565	392 320	335 805	702	207	1 323	1 401
Cash flow hedge									
Cross currency basis swaps	30 195	72 945	54 714	157 854	133 339	11 928	9 951	587	271
Total	**253 006**	**639 910**	**125 120**	**1 018 036**	**861 988**	**24 177**	**19 370**	**2 227**	**1 930**
Other derivatives									
Interest-rate related contracts									
Interest-rate swaps	35 220	1 522	104	36 846	56 469	209	315	40	113
Currency-related contracts									
Cross currency basis swaps	11 688	22 866	470	35 024	30 960	3 075	2 017	154	508
Total	**46 908**	**24 388**	**574**	**71 870**	**87 429**	**3 284**	**2 332**	**194**	**621**
Grand total	**299 914**	**664 298**	**125 694**	**1 089 906**	**949 417**	**27 461**	**21 702**	**2 421**	**2 551**

Fair value hedge

Swedbank Mortgage´s approach to managing market risk, including interest rate risk, and its exposure to those risks are presented in note 4. The risk of changes in interest rates on the fair value of certain fixed rate financial instruments is mitigated in accordance with the Swedbank Mortgage´s risk management strategy by using interest rate swaps. Where hedge accounting is applied, interest rate risk on fixed rate loans to the public is hedged on a portfolio basis whereas debt securities in issue are identified and hedged on an issuance by issuance basis. Interest rate swaps designated as the hedging instruments are reported in the balance sheet in the Derivatives line.

Designated fair value hedge relationships are used to hedge the benchmark interest rate risk, which is an observable and reliably measurable component of the interest rate risk and of the fair value. Where hedge accounting is applied, Swedbank Mortgage ensures that the relationships meet the criteria outlined in note 2 including the effectiveness requirements.

Hedge ineffectiveness is reported in the income statement as Net gains and losses on financial items. Potential sources of hedge ineffectiveness are primarily related to different discount curves applied for the valuation of the respective hedged item and the interest rate swaps.

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

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

Portfolio hedges– effectiveness test under IAS 39

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

Hedging instruments and hedge ineffectiveness

		Carrying amount [1]			
	Nominal amount	Assets	Liabilities	Change in fair value used for measuring hedge ineffectiveness (for the period)	Ineffectiveness recognised in Profit or loss [2]
Interest rate risk					
Interest rate swap, Portfolio hedge	392 320	702	1 323	543	43
Interest rate swap, Debt securities in issue	467 862	11 547	317	2 194	-3
Total	**860 182**	**12 249**	**1 640**	**2 737**	**40**

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

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

Hedged items

	Carrying amount		value hedge adjustment on		
	Assets	Liabilities	Assets	Liabilities	Change in value used for measuring hedge ineffectiveness (for the period)
Portfolio hedge, Loans to the public	392 581		261		-500
Debt securities in issue		483 585		-9 825	-2 197
Total	**392 581**	**483 585**	**261**	**-9 825**	**-2 697**

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

	Remaining contractual maturity		
	<1 yr	**1-5 yrs.**	**>5 yrs.**
Portfolio hedge			
Nominal amount (m SEK)	113 800	267 955	10 565
Average fixed interest rate %	0.04	0.24	0.90
Fair value hedges			
Nominal amount (m SEK)	109 011	299 010	59 841
Average fixed interest rate %	0.55	0.40	1.59

Hedge relationships in scope for Interest rate benchmark reform

Currency ditribution fair value hedges

2019

SEKm	CHF	GBP	USD
Hedged items and hedging instruments			
Total	2 398	6 903	9 376
Maturity before Ibor reform	959	6 903	9 320
Directly attributal to Ibor reform	1 439		56
Hedged reference rates in scope for			
Interest rate benchmark reform:	Libor	Libor	Libor
Estimated end of use	2022	2022	2022
See further information in note 4			

Cash flow hedge

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

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

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

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

Hedging instruments and hedge ineffectiveness

	Nominal amount	Carrying amount [1)] Assets	Liabilities	Change in fair value used for measuring hedge ineffectiveness (for the period)	Change in value of the hedging instrument recognised OCI	Amount reclassified from the Cash flow hedge reserve to Profit or loss	Cash flow hedge reserve
Foreign currency risk							
Cross currency basis swaps, EUR/SEK	157 854	11 928	588	1 792	1 788	-1 804	34

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

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

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

Hedged items

	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in Profit or loss
Foreign currency risk		
EUR Debt securities in issue and Interest rate swaps	-1 793	7

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

	< 1 yr	1-3 yrs	3-5 yrs	5-10 yrs	>10 yrs
Negative cash flows	29 954	48 738	24 286	42 267	14 048

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

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

	Remaining contractual maturity <1 yr	1-5 yrs.	>5 yrs.
Foreign currency risk			
Nominal amount (m SEK)	30 195	72 945	54 714
Average EUR FX rate	9.16	9.43	10.17

18 Other assets

SEKm	2019	2018
Tax account	18	414
Other assets	53	50
Total	**71**	**464**

19 Prepaid expenses and accrued income

SEKm	2019	2018
Other	2	
Total	**2**	

20 Debt securities in issue and subordinated liabilities

SEKm	2019	2018
Covered bonds	582 273	495 315
Change in value due to hedge accounting at fair value	9 824	7 566
Total debt securities in issue	**592 097**	**502 881**

Turnover during the period

SEKm	2019	2018
Opening balance	**502 881**	**527 283**
Issued	131 040	87 906
Repurchased	-23 533	-51 378
Repaid	-20 418	-62 486
Interest, change in market value or in hedged item in fair value hedge accounting	-1 066	-6 444
Changes in exchange rates	3 193	8 000
Closing balance	**592 097**	**502 881**

21 Other liabilities

SEKm	2019	2018
Current tax liabilities	23	414
Debt to group entity	12 612	12 240
Other liabilities	292	362
Total	**12 927**	**13 016**

22 Accrued expenses and prepaid income

SEKm	2019	2018
Other	593	695
Total	**593**	**695**

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

SEKm	2019	2018
Restricted equity		
Share capital	11 500	11 500
Statutory reserve	3 100	3 100
Total	**14 600**	**14 600**
Non-restricted equity		
Conditional shareholders' contributi	2 400	2 400
Unconditional shareholders' contrib	9 745	9 745
Cash flow hedge reserve	34	47
Foreign currency basis reserve	-510	-483
Other retained earnings	19 900	19 860
Total	**31 569**	**31 569**
Total equity	**46 169**	**46 169**
Changes in equity during the period are reported in the statement of changes in equity	0	555
Number of shares		
Approved and issued, million	23	23

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

24 Pledged assets, contingent liabilities and commitments

SEKm	2019	2018
Assets pledged		
Loans receivable pledged for covered bonds [1]	578 758	497 691
Repos [2]	107	4 456
Commitments	6 988	13 525
Total	**585 853**	**515 672**

[1] Consists of collateral for covered bonds. This collateral is reported as the customers nominal loan principal, including accrued interest. The holders of the covered bonds have preferentail rights to the collateral in the event of a bankruptcy.

[2] Relate to repos in Sw edbank Mortgage´s debt securities in issue.

25 Related parties

Parent company

Sw edbank Mortgage is a w holly-ow ned subsidiary of Sw edbank AB (publ). The follow ing headings in the balance sheet and statement of comprehensive income include transactions w ith the parent company in the amounts specified.

SEKm	2019	2018
Group receivables		
Loans to credit institutions	89 159	21 783
Derivatives	27 461	21 702
Other assets	24	23
Total	**116 644**	**43 508**
Group liabilities		
Amounts ow ed to credit institutions [1]	471 623	488 240
Debt securities in issue	2 470	4 945
Derivatives	2 421	2 551
Other liabilities	12 620	12 283
Eligible liabilities	20 000	
Total	**509 134**	**508 019**
Statement of comprehensive income		
Interest income	56	8
Interest expense	1 287	3 633
Other expenses	-9	-16
Total	**1 334**	**3 625**

Other companies in the Swedbank Group

The follow ing headings in the balance sheet and statement of comprehensive income include transactions w ith other companies in the Sw edbank Group in the amounts specified.

SEKm	2019	2018
Group receivables		
Other assets	28	17
Total	**28**	**17**
Group liabilities		
Accrued expenses and prepaid income		9
Total		**9**
Statement of comprehensive income		
Commission expense	0	-18
Interest income	28	24
Total	**28**	**6**

Senior executives

See note 10 for further information.

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

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

SEKm	2019	2018
Assets		
Financial assets, which have not been offset or are subject to netting or similar agreements	0	0
Financial assets, which have been offset or are subject to netting or similar agreements	27 461	21 702
Carrying amount presented in the balance sheet	**27 461**	**21 702**
Related amount not offset in the balance sheet		
Derivatives, netting agreements	2 421	2 551
Net amount - assets	**25 040**	**19 151**
Liabilities		
Financial liabilities, which have not been offset and not subject to netting or similar agreements		
Financial liabilities, which have been offset or are subject to netting or similar agreements	2 421	2 551
Carrying amount presented in the balance sheet	**2 421**	**2 551**
Related amount not offset in the balance sheet		
Derivatives, netting agreements	2 421	2 551
Net amount - liabilities	**0**	**0**

27 Valuation categories of financial instruments

Financial assets	2019			
	Fair value through profit or loss	Hedging Instruments	Amortised cost	Total
	Mandatorily			
Carrying Amount in SEKm	Trading			
Loans to credit institutions			89 159	89 159
Loans to the public			1 028 746	1 028 746
Derivatives	3 284	24 177		27 461
Other financial assets			73	73
Total	**3 284**	**24 177**	**1 117 978**	**1 145 439**

Financial liabilities	2019					
	Fair value through profit or loss		Total	Hedging Instruments	Amortised cost	Total
Carrying Amount in SEKm	Trading	Designated				
institutions					471 623	471 623
Debt securites in issue [1)]		1 876	1 876		590 221	592 097
Derivatives	194		194	2 227		2 421
Other financial liabilities					13 497	13 497
Eligible liabilities					20 000	20 000
Total	**194**	**1 876**	**2 070**	**2 227**	**1 095 341**	**1 099 638**

[1)] Nominal amount of debt securities designated at fair value through profit or loss was SEK 1 676m

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

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

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

28 Fair value of financial instruments

Carrying amounts and fair values of financial instruments

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

Carrying amount and fair value of financial instruments

SEKm	2019			2018		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Financial assets, IAS 39						
Loans to credit institutions	89 159	89 159		21 783	21 783	
of which measured at amortised cost	89 159	89 159		21 783	21 783	
Loans to the public	1 030 534	1 028 746	1 788	1 011 852	1 008 724	3 128
of which measured at amortised cost	1 030 534	1 028 746	1 788	1 011 852	1 008 724	3 128
Value change of interest hedged items in portfolio hedge	261	261		760	760	
Derivatives	27 461	27 461		21 702	21 702	
Other financial assets	73	73		464	464	
Total	**1 147 488**	**1 145 700**	**1 788**	**1 056 561**	**1 053 433**	**3 128**
Non-financial assets		**130**			**119**	
Total		**1 145 830**			**1 053 552**	
Liabilities						
Financial liabilities, IAS 39						
Amounts owed to credit institutions	472 688	471 623	1 065	489 617	488 240	1 377
of which measured at amortised cost	472 688	471 623	1 065	489 617	488 240	1 377
Debt securities in issue etc.	594 198	592 097	2 101	505 790	502 881	2 909
of which measured at amortised cost	592 322	590 221	2 101	501 786	498 877	2 909
of which measured at fair value through profit or loss	1 876	1 876		4 004	4 004	
Derivatives	2 421	2 421		2 551	2 551	
Other financial liabilities	13 497	13 497		13 297	13 297	
Eligible liabilities	20 426	20 000				
Total	**1 103 230**	**1 099 638**	**3 166**	**1 011 255**	**1 006 969**	**4 286**
Non-financial liabilities		**23**			**414**	
Total		**1 099 661**			**1 007 383**	

Determination of fair value of financial instruments

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

The methods are divided into three different levels:

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

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

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

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

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

Financial instruments recognised at fair value

The below table shows assets and liabilities that are recongnised at fair value disaggregated by valuation technique (fair value hierarchy).
Level 1 contains debt securities in issue that are traded on an active market. Fair values are determined using unadjusted quoted market prices.
Level 2 contains derivatives and debt securities in issue that are not traded on an active market. Fair value of these instruments is determined based on discounted cash flow models using market implied curves. The change in the value of debt securities in issue in Level 2, which are measured according to the fair value option and attributable to changes in own creditworthiness, amounted to SEK 16m (23) during the period. The value change is recognised in net gains and losses on financial items at fair value. Cumulative value changes amounted to SEK -7m (–23). The change due to own credit risk has been determined by calculating the difference in value based on current prices from external dealers for own credit risk in its own unquoted issues and the value based on prices of its own credit risk for its own unquoted issues on the origination date.

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

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

SEKm	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Derivatives		27 461		27 461		21 702		21 702
Total		**27 461**		**27 461**		**21 702**		**21 702**
Liabilities								
Debt securities in issue		1 876		1 876	58	3 946		4 004
Derivatives		2 421		2 421		2 551		2 551
Total		**4 297**		**4 297**	**58**	**6 497**		**6 555**

Financial instruments at amortised cost

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

SEKm	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Loans to credit institutions		89 159		89 159		21 783		21 783
Loans to the public		1 030 534		1 030 534		1 011 852		1 011 852
Total		**1 119 693**		**1 119 693**		**1 033 635**		**1 033 635**
Liabilities								
Amounts owed to credit institutions			472 688	472 688			489 617	489 617
Debt securities in issue	379 714	212 608		592 322	327 062	174 724		501 786
Eligible liabilities			20 426	20 426				
Total	**379 714**	**212 608**	**493 114**	**1 085 436**	**327 062**	**174 724**	**489 617**	**991 403**

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

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

29 Effects of changes in presentation related to negative yield and interest income on financial assets at amortised cost

Income statement

SEKm	New reporting 2018	Negative yield	Previous reporting 2018
Interest income on financial assets measured at amorti	16 087		
Other interest income			
Interest income	**16 087**		
Interest expense	-2 757		
Interest expense	**-2 757**		
Net interest income	**13 330**		
Interest income			**16 087**
Interest expense		326	-3 083
Negative yield on financial liabilities		-326	326
Interest expense, including negative yield on financial liabilities			**-2 757**
Net interest income			**13 330**

30 Proposed distribution of profit

In accordance with the balance sheet for Swedbank Mortgage, the following profit after deduction for a paid group contribution of SEK 12 612m are at the disposal of the annual general meeting:

SEKm	2019
Retained earnings earlier years	**22 092**
Fair value fund	-476
Profit for the year	9 953
Total at disposal	**31 569**
The Board proposes that the profit be carried forward to the next year	31 569
Total	**31 569**

31 Events after 31 December 2019

No material events have occurred.

32 Sustainability report

Swedbank Mortgage does not publish a statutory Sustainability Report according to Chapter 7, 31 a. Parent Company, Swedbank AB org. No. 502017-7753, which is based in Stockholm, publishes a Sustainability Report for the Group in which the company is included. The Group's sustainability report is available in Swedbank AB's annual report on page 194 och 216.

Definitions

Capital adequacy ratio
The capital base in relation to the risk-weighted amount.

Capital base
The sum of Tier 1 and Tier 2 capital according to Article 72 in CRR.

Common Equity Tier 1 capital
Common Equity Tier 1 capital according to Article 26 after applicable adjustments specified in Articles 32-35, deductions according to Article 36 and the exemptions and alternatives in Articles 48, 49 and 79 in CRR.

Common Equity Tier 1 capital ratio
Common Equity Tier 1 capital in relation to the risk exposure amount.

Credit impairment
Established losses and provisions less recoveries related to loans as well as the year's net expenses for guarantees and other contingent liabilities.

Earnings per share before and after dilution
Profit for the year allocated to shareholders in relation to the weighted average number of shares outstanding during the period.

Impaired loans
Loans where there is, on individual level, objective evidence of a loss event, and where this loss event has an impact on the cash flow of the exposure. Impaired loans, gross, less specific provisions for loans assessed individually constitute impaired loans, net.

Leverage ratio
Tier 1 capital in relation to the total exposure measure, where the exposure measure includes both on- and off-balance sheet items.

Loan-to-value ratio (LTV)
Loan amount in relation to the market value of the collateral, according to definition by the Association of Swedish Covered Bond Issuers (ASCB, www.ascb.se).

Past due
A loan is past due when the counterparty has failed to make a payment within 5 days of the due date.

Provision for credit impairment
Impairment of loans if the solvency of the borrower is not expected to improve sufficiently within two years and the value of the collateral does not cover the loan amount.

Restructured loan
Loan for which the borrower has been granted some form of concession due to the borrower's deteriorated financial position.

Risk exposure amount
Risk weighted exposure value i.e. the exposure value after considering the risk inherent in the asset.

Tier 1 capital
The sum of Common Equity Tier 1 capital and additional Tier 1 capital according to Article 25 in CRR.

Tier 1 capital ratio
Tier 1 capital in relation to risk exposure amount.

Alternative performance measures

Swedbank Mortgage AB prepares its financial statements in accordance with IFRS as issued by the IASB, as set out in Note 1. The annual report includes a number of alternative performance measures, which provide more comparative information between periods. The executive management believes that inclusion of these measures provides information to the readers that enable comparability between periods. These alternative performance measures are set out below.

Credit impairment ratio
Credit impairment on loans and other credit risk provisions, net, in relation to the opening balance of loans to credit institutions and loans to public after provisions.

Equity per share
Shareholders' equity in relation to the number of shares outstanding.

Investment margin
Net interest income in relation to average total assets. The average is calculated based on monthly figures, including the previous year's financial statements.

Provision ratio for individually assessed impaired loans
Provisions for impaired loans assessed individually in relation to impaired loans, gross.

Return on equity
Profit for the period allocated to shareholders in relation to average (calculated on month-end figures) shareholders' equity.

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

Share of impaired loans, net
Carrying amount of impaired loans, net, in relation to the carrying amount of loans to credit institutions and the public.

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

Total provision ratio for impaired loans
All provisions for loans in relation to impaired loans, gross.

Signatures of the Board of Directors and the CEO

The Board of Directors and the CEO hereby affirm that the annual report has been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the instructions and general guidelines of the Swedish Financial Supervisory Authority (FFFS 2008:25) and the Swedish Financial Accounting Standards Council's recommendation RFR 2 Accounting for Legal Entities, and provides an accurate portrayal of the company's position and earnings and that the Board of Directors' Report provides an accurate review of trends in the company's operations, position and earnings, as well as describes significant risks and instability factors faced by the company.

Stockholm 18 February 2020

Leif Karlsson
Chairman

Magdalena Frostling
CEO

Eva de Falck

Thomas Johansson

Stefan Olsson

Johan Smedman

Auditor's report submitted on 19 February 2020
PricewaterhouseCoopers AB

Anneli Granqvist
Authorised Public Accountant
Author in charge

Martin By
Public accountant

Auditor’s report

To the general meeting of the shareholders of Swedbank Mortgage AB (publ) corporate identity number 556003-3283

Report on the annual accounts

Opinions

We have audited the annual accounts of Swedbank Hypotek AB (publ) for the financial year 2019 except for the corporate governance statement on page 9. The annual accounts of the company are included on pages [1-8 & 10-58] in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of Swedbank Hypotek AB (publ) as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on page 9. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

Our opinions in this report on the annual accounts are consistent with the content of the additional report that has been submitted to the company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor’s Responsibilities section. We are independent of the company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Other matter

The audit of the annual accounts for year 2018 was performed by another auditor who submitted an auditor´s report dated 19 February 2019, with unmodified opinions in the Report on the annual accounts.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management and the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the Entity structure, the accounting processes and controls, and the industry in which the entity operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Impairment of loans to customers	
Accounting for impairment of loans to customers requires subjective judgement over both timing of recognition of impairment and the size of any such impairment. Swedbank makes provisions for expected credit losses (ECL) in accordance with IFRS 9 which categorises loans into three stages depending on the level of credit risk or changes in credit risk for each individual loan. Stage 1 representing a probable 12-month ECL applies to all loans unless there is a significant increase in credit risk since initial recognition. For loans where there is a significant increase in credit risk, stage 2, or loans in default, stage 3, a lifetime ECL is calculated. The ECL is calculated as a function of the probability of default, the exposure at default and the loss given default, as well as the timing of the loss. IFRS 9 also allows for expert credit judgement to be applied to loan loss provisioning. Refer to Annual Report Note [3,4 and 12]	Our audit included a combination of testing of internal controls over financial reporting and substantive testing. The testing of internal controls included procedures relating to the governance structure, segregation of duties and key controls in the lending processes. In addition, our quantitative modelling experts have performed detailed recalculations for a sample of loans and model outputs in order for us to obtain comfort that the ECL is calculated correctly and that it is in line with our expectations. These recalculations were performed on the most significant models used in the portfolio. We have also audited adjustments to model calculations related to expert credit judgement. We have assessed that rationale exists to have these adjustments accounted for at year end and we have reviewed minutes of credit committee and risk committee meetings to ensure that the correct governance procedures have been performed over these expert credit judgement adjustments. Based on our work, we had no material observations for the overall audit on the level of loan loss provisions as at 31 December 2019.
Valuation of financial instruments held at fair value	
The valuation of financial instruments held at fair value was an area of audit focus due to their significance in presenting both financial position and performance. Determining fair value of financial instruments is inherently complex as many instruments are complex whilst input values to valuation models such as risks and market prices are ever changing. For some instruments there is also limited availability of observable prices or rates. Because of these factors, the valuation of some instruments involves significant judgement. Refer to the Annual Report note [3,27 and 28].	In our audit, we assessed the design and tested the operating effectiveness of key controls supporting the identification, measurement and oversight of valuation risk of financial instruments. In addition to test appropriate segregation of duties, we examined Swedbank's model validation and approval processes, controls over data feeds and valuation inputs as well as Swedbank's governance and reporting processes and controls. For valuations dependent on unobservable inputs or models which involved a higher degree of judgement for other reasons, we used our valuation specialists to evaluate the assumptions, methodologies and models used by Swedbank. We performed independent valuations of a sample of positions. Based on our work, we have not identified any significant notes for the audit regarding financial instruments valued at fair value on December 31, 2019.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.
In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.
A further description of our responsibility for the audit of the annual accounts is available on Revisorsinspektionen's website www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Directors of Swedbank Hypotek AB (publ) for the financial year 2019 and the proposed appropriations of the company's profit or loss.
We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Directors be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Swedbank Hypotek AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.
The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.
A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on page 9 has been prepared in accordance with the Annual Accounts Act.
Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.
A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and are in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

PricewaterhouseCoopers AB, was appointed auditor of Swedbank Hypotek AB (publ) by the general meeting of the shareholders on 28 March 2019 and has been the company's auditor since 2019.

Stockholm 19 February 2020
PricewaterhouseCoopers AB

Anneli Granqvist
Authorised Public Accountant
Auditor in charge

Martin By
Authorised Public Accountant

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