

Year-end report 2019

Swedbank Mortgage AB, 28 January 2020

Swedbank 

Interim report for second half of 2019

July-December 2019 compared with January-June 2019

- Lower net interest income due to higher funding costs
- Net gains and losses increased on the back of lower buy-back activities
- Stable asset quality
- Solid capital position

Financial information

SEKm	2019 Jul-Dec	2019 Jan-Jun	%	2018 Jul-Dec	%	2019 Full-year	2018 Full-year	%
Net interest income	6 254	6 659	-6	6 618	-6	12 913	13 330	-3
Net commissions	7	8	-13	13	-46	15	26	-42
Net gains and losses on financial items	56	-66		-218		-10	-185	
Other income	3	2	50	3	0	5	5	0
Total income	6 320	6 603	-4	6 416	-1	12 923	13 176	-2
Total general administrative expenses	140	144	-3	141	-1	284	264	8
Profit before impairments	6 180	6 459	-4	6 275	-2	12 639	12 912	-2
Credit impairments, net	-15	-9	67	32		-24	123	
Operating profit	6 195	6 468	-4	6 243	-1	12 663	12 789	-1
Appropriations				-450			-450	
Tax	1 326	1 384	-4	1 473	-10	2 710	2 913	-7
Profit for the period	4 869	5 084	-4	5 220	-7	9 953	10 326	-4

Business performance

	2019 31 Dec	2019 30 Jun	2018 31 Dec	2018 30 Jun	2017 31 Dec	2017 30 Jun	2016 31 Dec
Lending to the public, SEKbn	1029	1 022	1 009	992	968	942	920
- Private	906	898	887	869	847	823	806
of which private, mortgage	813	803	792	774	753	729	711
- Corporate	123	124	122	123	121	119	114
Number of customers, thousand	1098	1 111	1 122	1 127	1 128	1 130	1 134
Private lending							
Market share mortgages % ¹⁾	24	24	24	24	24	25	25
Market share of net growth, full and half year % ^{1) 2)}	12	13	22	23	20	17	26
Volume growth market, Δ 12-months % ¹⁾	5	5	6	6	7	7	8
Volume growth Swedbank Mortgage, Δ 12-months % ^{1) 2)}	3	4	5	6	6	7	8
LTV total portfolio %	55	57	55	56	53	53	54
LTV new mortgages, current year	70	70	68	69	67	68	66
Share of total portfolio which amortises %	72	71	70	68	67	65	63
Share of portfolio which amortises, new mortgages, current year %	89	89	88	88	87	87	82
Funding							
Issued in last six months							
Swedish market, SEKbn	24	77	18	51	48	60	46
Outside Sweden, SEKbn	6	24	4	15	4	20	4
Average maturity of outstanding issued covered bonds, months	37	42	43	40	39	38	36

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

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

Financial overview and key ratios

SEKm	2019	2019		2018		2019	2018	
	Jul-Dec	Jan-Jun	%	Jul-Dec	%	Full-year	Full-year	%
Net interest income	6 254	6 659	-6	6 618	-6	12 913	13 330	-3
Net commissions	7	8	-13	13	-46	15	26	-42
Net gains and losses on financial items	56	-66		-218		-10	-185	
Other income	3	2	50	3	0	5	5	0
Total income	6 320	6 603	-4	6 416	-1	12 923	13 176	-2
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Appropriations				-450			-450	
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Profit for the period	4 869	5 084	-4	5 220	-7	9 953	10 326	-4

SEKm	2019	2019	2018	2018	2017
	31 Dec	30 Jun	31 Dec	30 Jun	31 Dec
Profit					
Investment margin, %	1.19	1.22	1.26	1.28	1.27
Average total assets	1 088 855	1 088 733	1 060 148	1 051 801	1 016 390
Return on equity, %	21.2	21.7	22.1	21.9	21.1
Average equity	47 002	46 942	46 770	46 613	45 683
Earnings per share, SEK	432.7	221.1	449.0	222.0	419.7
Equity					
Number of shares in issue at beginning/end of period, million	23	23	23	23	23
Equity per share, SEK	2 007	2 009	2 007	2 002	2 015
Credit quality					
Loans to the public	1 028 746	1 022 354	1 008 724	992 415	968 222
Loans to credit institutions	89 159	34 291	21 783	74 290	23 534
Credit impairments, net	-24	-9	123	91	62
Credit impairment ratio, %	0.00	0.00	0.01	0.01	0.00
Total provisions	527	553	569	542	124
Share of Stage 3 loans, gross %	0.08	0.09	0.09	0.10	
Share of impaired loans, gross, loans to the public, %					0.02
Total credit impairment provision ratio, %	0.05	0.05	0.06	0.05	

For more information on definitions and calculation of key ratios, please see page 28 and the 2018 Annual Report, page 63. The first half of 2018 results reflect the adoption of IFRS 9 Financial instruments and prior periods have not been restated.

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 household loan growth slowed slightly in 2019, it remained stable at just under 5 per cent for most of the year.

Important to note

The year-end report contains alternative performance measures that Swedbank Mortgage considers valuable information for the reader, since they are used by the Swedbank Mortgage executive management and the Swedbank Group executive management for internal governance and performance measurement as well as for comparisons between reporting periods. Further information on the alternative performance measures used in the interim report can be found on page 28.

The company's development

(Comparative figures for the balance sheet refer to 31 December 2018, unless otherwise indicated)

Result second half of 2019 compared with first half of 2019

Swedbank Mortgage reported profit of SEK 4 869m in the second half of 2019, compared with SEK 5 084m in the previous half-year. The decrease is mainly due to lower net interest income.

Net interest income decreased to SEK 6 254m (6 659). The main reason was that higher funding costs, in the wake of higher short-term market interest rates, negatively affected mortgage margins.

Net gains and losses on financial items increased to SEK 56m (-66), in part because higher short-term market interest rates positively affected the value of interest rate swaps. A lower negative effect from covered bond repurchases also positively affected the trend.

Expenses decreased slightly, to SEK 140m (144), mainly due to lower other expenses, but also because staff costs decreased slightly.

Credit impairments amounted to a gain of SEK 15m (9).

The tax expense amounted to SEK 1 326m (1 384), corresponding to an effective tax rate of 21.4 per cent (21.4).

Result full-year 2019 compared with full-year 2018

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 credit impairments provisions for private mortgage loans 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.

Lending

Total loans to the public increased by SEK 7bn, to SEK 1 029bn (1 022) compared to the first half of 2019.

Compared to 2018, total loans to the public increased by SEK 20bn, corresponding to an annual growth rate of 2 per cent.

Lending to general public, SEKbn	2019 31 Dec	2019 30 Jun	2018 31 Dec
Private customers	906	898	887
Private, mortgage	813	803	792
Tenant owner associations	93	95	95
Corporate customers	123	124	122
Agricultural, forestry, fishing	50	51	51
Property management	60	60	57
Other corporate lending	13	13	14
Total	1 029	1 022	1 009

Mortgage lending to the private segment increased by SEK 10bn, to SEK 813bn (803) compared to the first half of 2019. The total market share was 24 per cent as of 30 November 2019 (24).

Lending to tenant-owner associations decreased by SEK 2bn, to SEK 93bn (95).

Corporate lending decreased by SEK 1bn, to SEK 123bn (124). The main reason was reduced lending to the forestry- and agricultural segment while lending to property management increased slightly.

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	2019 31 Dec	2019 30 Jun	2018 31 Dec
Amounts owed to credit institutions	472	443	488
Debt securities in issue	592	582	503
Eligible liabilities	20	10	
Total	1 084	1 035	991

Demand for Swedbank Mortgage's bonds has been good. Swedbank Mortgage issued SEK 30bn (101) in covered bonds in the second half of the year. Maturities in the second half of the year were nominally SEK 4bn (16), 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. In the second half of the year SEK 10bn (14) was repurchased. The average maturity of all outstanding covered bonds was 37 months (42) at 31 December.

Capital adequacy

Swedbank Mortgage's legal capital requirement is based on the Capital Requirements Regulation (CRR). Swedbank Mortgage's total capital ratio was 16.8 per cent per 31st of December 2019 (16.9 per cent per 30th of June 2019), to be compared with the capital requirement of 13.6 per cent.

Total own funds decreased during the second half of the year by SEK 0.1bn to SEK 46.2bn (46.3). REA increased by SEK 1.2bn to 274.4bn (273.2). The increase was mainly due to article 458, the mortgage floor adjustment which increased by SEK 1.7bn. The capital adequacy is further disclosed in note 13.

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

Future capital regulations

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 the leverage in commercial real estate firms have gradually increased 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 own funds and eligible liabilities requirement will apply as of 2022.

Risks

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

Credit and asset quality

Swedbank Mortgage's credit impairments and impaired loans remain at very low levels. The risks in private lending are low and customers' solvency is generally good. Swedbank Mortgage's internal rules focus on customers' long-term solvency, which ensures high quality and low risks for both the customer and the bank. For more information on asset quality, see the Factbook for the Swedbank Group and Swedbank Mortgage's section in the Swedbank Group's Pillar 3 report.

The average loan-to-value ratio for private lending was 55 per cent (57), based on property level. For new lending in the half-year the loan-to-value ratio was 70 per cent (70).

Operational risks

No incidents occurred in the second half of 2019 that significantly affected Swedbank Mortgage. Losses related to operational risks remained very low.

Rating

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

On September 27, S&P Global Ratings confirmed Swedbank Mortgage's credit rating AA-. The CreditWatch with negative implications was removed while the outlook was negative. The reason for the change is that the first report on the investigation by the Swedish FSA was postponed to early 2020.

	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

Events after 31 December 2019

No material events have occurred after 31 December 2019.

Income statement, condensed

SEKm	2019			2018			2019			2018			
	Jul-Dec	Jan-Jun	%	Jul-Dec	%	Full-year	Full-year	%	Jul-Dec	%	Full-year	Full-year	%
Interest income on financial assets measured at amortised cost	8 656	8 625	0	8 064	7	17 281	16 087	7					
Interest income	8 656	8 625	0	8 064	7	17 281	16 087	7					
Interest expense	-2 402	-1 966	22	-1 446	66	-4 368	-2 757	58					
Interest expense	-2 402	-1 966	22	-1 446	66	-4 368	-2 757	58					
Net interest income (note 3)	6 254	6 659	-6	6 618	-6	12 913	13 330	-3					
Commission income	30	27	11	30	0	57	61	-7					
Commission expenses	-23	-19	21	-17	35	-42	-35	20					
Net commissions	7	8	-13	13	-46	15	26	-42					
Net gains and losses on financial items (note 4)	56	-66		-218		-10	-185						
Other income	3	2	50	3	0	5	5	0					
Total income	6 320	6 603	-4	6 416	-1	12 923	13 176	-2					
Total general administrative expenses	140	144	-3	141	-1	284	264	8					
Profit before impairments	6 180	6 459	-4	6 275	-2	12 639	12 912	-2					
Credit impairments, net (note 5)	-15	-9	67	32		-24	123						
Operating profit	6 195	6 468	-4	6 243	-1	12 663	12 789	-1					
Appropriations				-450			-450						
Tax	1 326	1 384	-4	1 473	-10	2 710	2 913	-7					
Profit for the period	4 869	5 084	-4	5 220	-7	9 953	10 326	-4					

Statement of comprehensive income, condensed

SEKm	2019			2018			2019			2018			
	Jul-Dec	Jan-Jun	%	Jul-Dec	%	Full-year	Full-year	%	Jul-Dec	%	Full-year	Full-year	%
Profit for the period reported via income statement	4 869	5 084	-4	5 220	-7	9 953	10 326	-4					
Items that may be reclassified to the income statement													
Cash flow hedges:													
Gains and losses arising during the period	-1 972	3 760		-2 361	-16	1 788	5 366	-67					
Reclassification adjustments to income statement, net gains and losses	1 967	-3 771		2 338	-16	-1 804	-5 313	-66					
Foreign currency basis risk:													
Gains/losses arising during the period	-98	63		136		-35	-336	-90					
Tax relating to components of other comprehensive income	22	-11		-28		11	59	-81					
Total comprehensive income attributable to shareholders of Swedbank Mortgage AB	4 788	5 125	-7	5 305	-10	9 913	10 102	-2					

Balance sheet, condensed

SEKm	2019	2019	Δ		2018	
	31 Dec	30 Jun	SEKm	%	31 Dec	%
Assets						
Loans to credit institutions (note 6)	89 159	34 291	54 868		21 783	
Loans to the public (note 6)	1 028 746	1 022 354	6 392	1	1 008 724	2
Value change of interest hedged items in portfolio hedge	261	2 686	-2 425	-90	760	-66
Derivatives (note 8)	27 461	31 628	-4 167	-13	21 702	27
Deferred tax assets	130	108	22	20	119	9
Other assets	71	590	-519	-88	464	-85
Prepaid expenses and accrued income	2	294	-292	-99		
Total assets	1 145 830	1 091 951	53 879	5	1 053 552	9
Liabilities and equity						
Liabilities						
Amounts owed to credit institutions	471 623	443 219	28 404	6	488 240	-3
Debt securities in issue (note 9)	592 097	581 497	10 600	2	502 881	18
Derivatives (note 8)	2 421	3 833	-1 412	-37	2 551	-5
Current tax liabilities	23	11	12		414	-94
Accrued expenses and prepaid income	593	630	-37	-6	695	-15
Other liabilities	12 904	6 551	6 353	97	12 602	2
Eligible liabilities	20 000	10 000	10 000	100		
Total liabilities	1 099 661	1 045 741	53 920	5	1 007 383	9
Equity	46 169	46 210	-41	0	46 169	0
Total liabilities and equity	1 145 830	1 091 951	53 879	5	1 053 552	9

Statement of changes in equity, condensed

SEKm	Restricted equity		Non-restricted equity			
	Share capital	Statutory reserve	Cash flow hedges	Foreign currency basis risk reserve	Retained earnings	Total equity
Opening balance 1 January 2019	11 500	3 100	47	-483	32 005	46 169
Group contributions paid					-12 612	-12 612
Tax on group distributions paid					2 699	2 699
Total comprehensive income for the year			-13	-27	9 953	9 913
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 on group distributions paid					2 693	2 693
Total comprehensive income for the year			42	-266	10 326	10 102
Closing balance 31 December 2018	11 500	3 100	47	-483	32 005	46 169
of which, conditional shareholders' contributions					2 400	2 400

Cash flow statement, condensed

SEKm	2019 Full-year	2018 Full-year
Operating activities		
Operating profit	12 663	12 789
Adjustments for non-cash items in operating activities	-3 385	-5 860
Taxes paid	-12	-403
Increase in loans to the public	-20 056	-40 604
Decrease in amounts owed to credit institutions	-16 617	68 631
Increase in other assets	3	-2
Increase/decrease 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 and repurchase of interest-bearing securities	-43 951	-113 864
Issuance of eligible liabilities	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
Liquid funds with banks and equivalent institutions	89 159	21 783
Loans to credit institutions	89 159	21 783

Notes

The year-end report has been prepared on a going concern basis.

On 27 January 2020, the Board of Directors and the CEO approved the year-end report for publication. Swedbank Mortgage, which maintains its registered office in Stockholm, Sweden, is a wholly owned subsidiary of Swedbank (publ). All amounts in the notes are in millions of Swedish kronor (SEKm) and at book value unless otherwise indicated.

Note 1 Accounting policies

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

The accounting policies applied in the interim report conform to those applied in the Annual Report for 2017, which was prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpretations thereof. There have been no significant changes to Swedbank Mortgage's accounting policies set out in the 2018 Annual Report, except for the new standards and change as set out below.

Changes in Swedish regulations

The amended Swedish regulations that have been adopted from 1 January 2019 have not had a significant impact on Swedbank Mortgage's financial position, results, cash flows or disclosures.

Changed presentation of net interest income

From the year-end report 2019, Swedbank Mortgage presents interest income on financial assets at amortised cost on a separate line in the income statement. Comparative numbers have been recalculated, see not 14. Swedbank Mortgage presents negative interest on financial liabilities, earlier presented in the income statement, in note 3.

Note 2 Business segments

SEKm	2019 Full-year				2018 Full-year			
	Private	Cor- porate	Forestry and Agricultural	Total	Private	Cor- porate	Forestry and Agricultural	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	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

Reconciliation of segment reporting and income statement, condensed

SEKm	2019 Full-year				2018 Full-year			
	Total income	Total expen- ses	Credit impair- ments	Opera- ting profit	Total income	Total expenses	Credit impair- ments	Opera- ting profit
Total segments	12 650	238	-24	12 436	13 150	242	123	12 785
Return on legal equity	278			278	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
Total financial report	12 923	284	-24	12 663	13 176	264	123	12 789

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

Note 3 Net interest income

SEKm	2019			2018			2019		
	Jul-Dec	Jan-Jun	%	Jul-Dec	%	Full-year	Full-year	%	
Interest income									
Loans to credit institutions	30	25	20	4		55	8		
Loans to the public	8 626	8 600	0	8 060	7	17 226	16 079	7	
Total interest income	8 656	8 625	0	8 064	7	17 281	16 087	7	
Interest expense									
Amounts owed to credit institutions	-574	-268		100		-842	244		
Debt securities in issue	-2 557	-2 572	-1	-2 646	-3	-5 129	-5 555	-8	
Derivatives	1 071	1 176	-9	1 522	-30	2 247	3 400	-34	
Eligible liabilities	-60	-22				-82			
Other	-282	-280	1	-422	-33	-562	-846	-34	
of which resolution	-280	-280	0	-423	-34	-560	-846	-34	
Total interest expense	-2 402	-1 966	22	-1 446	66	-4 368	-2 757	58	
Total net interest income	6 254	6 659	-6	6 618	-6	12 913	13 330	-3	
Negative yield on financial assets	4	9	-56	127	-97	13	326	-96	
Interest expense on financial liabilities at amortised cost	3 416	3 076	11	2 857	20	6 492	5 889	10	

Note 4 Net gains and losses on financial items

SEKm	2019			2018			2019		
	Jul-Dec	Jan-Jun	%	Jul-Dec	%	Full-year	Full-year	%	
Fair value through profit and loss									
Debt securities in issue	58	43	35	103	-44	101	260	-61	
Derivatives	-79	-58	36	-160	-51	-137	-309	-56	
Total fair value through profit and loss	-21	-15	40	-57		-36	-49	-27	
Hedge accounting									
Ineffective part in hedge accounting at fair value	92	-95		25		-3	-14		
of which hedging instruments	-3 668	5 862		-852		2 194	-301		
of which hedged items	3 760	-5 957		877		-2 197	287		
Ineffective part in portfolio hedge accounting at fair value	-34	77		-74		43	-38		
of which hedging instruments	2 392	-1 849		581		543	-8		
of which hedged items	-2 426	1 926		-655		-500	-30		
Ineffective part in cash flow hedge	4	3		1		7	2		
Total hedge accounting	62	-15		-48		47	-50		
Derecognition gain or loss for financial liabilities at amortised cost	-60	-97	-38	-159	-62	-157	-255	-38	
Derecognition gain or loss for loans at amortised cost	73	57	28	61	20	130	116	12	
Change in exchange rates	2	4	-50	-15		6	53	-89	
Total net gains and losses on financial items	56	-66		-218		-10	-185		

Note 5 Credit impairments, net

SEKm	2019	2019	%	2018	%	2019	2018	%
	Jul-Dec	Jan-Jun		Jul-Dec		Full-year	Full-year	
Loans at amortised cost								
Credit impairment provisions - Stage 1	-9	3		-5	80	-6	9	
Credit impairment provisions - Stage 2	-12	-11	9	3		-23	94	
Credit impairment provisions - Stage 3	-7	-9	-22	27		-16	12	
Total	-28	-17	65	25		-45	115	
Write-offs	16	12	33	10	60	28	14	100
Recoveries	-3	-4	-25	-3	0	-7	-6	17
Total	13	8	63	7	86	21	8	
Total loans at amortised cost	-15	-9	67	32		-24	123	
Total Credit impairments	-15	-9	67	32		-24	123	
Credit impairment ratio, %	0.00	0.00		0.00		0.00	0.01	

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

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

Further details on the key inputs and assumptions used as at 31 December 2019 are provided below.

Determination of a significant increase in credit risk

Swedbank Mortgage uses both quantitative and qualitative indicators for assessing a significant increase in credit risk. The criteria are disclosed in the Annual Report of 2018 on page 20. The tables below show the quantitative thresholds, namely:

- changes in the 12-month PD and internal risk rating grades, which have been applied for the portfolio of loans originated before 1 January 2018. For instance, for exposures originated with a risk grade between 0 and 5, a downgrade by 1 to 2 grades from initial recognition is assessed as a significant change in credit risk. Alternatively, for exposures originated with a risk grade between 13 and 21, a downgrade by 5 to 7 grades from initial recognition is considered significant. Internal risk ratings are assigned according to the risk management framework outlined in Note 4 Risks in the 2018 Annual Report.
- changes in the lifetime PD, which have been applied for the portfolio of loans originated on or after 1 January 2018. For instance, for exposures originated with a risk grade between 0 and 5, a 50 per cent increase in the lifetime PD from initial recognition is assessed as a significant change in credit risk. Alternatively, for exposures originated with a risk grade between 13 and 21, an increase of 150-300 per cent from initial recognition is considered significant.

These limits reflect a lower sensitivity to change in the low risk end of the risk scale and a higher sensitivity to change in the high risk end of the scale. Swedbank Mortgage has performed a sensitivity analysis on how credit impairment provisions would change if thresholds applied were increased or decreased. A lower threshold would increase the number of loans that have migrated from Stage 1 to Stage 2 and also increase the estimated credit impairment provisions. A higher threshold would have the opposite effect. The tables below disclose the impacts of this sensitivity analysis on the 31 December 2019 credit impairment provisions. Positive amounts represent higher credit impairment provisions that would be recognized.

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		Recognised credit impairment provisions 31 December 2019	Share of total portfolio (%) in terms of gross carrying amount 31 December 2019
			Increase in threshold by 1 grade	Decrease in threshold by 1 grade		
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%		9	1%
			-29.2%	26.0%	271	72%
Financial instruments subject to the low credit risk exemption						0%
Stage 3 financial instruments						150
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.

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 PD4)	Increase in threshold by 100%	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	
						Impairment provision impact of
13-21	100%-300%	-41.1%	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%
Stage 3 financial instruments						3
Total provisions						106
						28%

⁴⁾ Thresholds vary within given ranges depending on the borrower's segment and internal risk rating.

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. The formulation and incorporation of multiple forward-looking scenarios are described in Note 4 Risks page 29 in the 2018 Annual Report. Set out below are 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 per cent.

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

Note 6 Loans

SEKm	31 Dec 2019			30 Jun 2019	31 Dec 2018		
	Gross carrying amount	Credit impairment provision	Carrying amount	Carrying amount	%	Carrying amount	%
Loans to credit institutions							
Banks	89 159		89 159	34 291		21 783	
Loans to credit institutions	89 159		89 159	34 291		21 783	
Loans to the public							
Private customers	905 852	226	905 626	897 962	1	886 531	2
Private, mortgage	812 760	208	812 552	803 180	1	791 828	3
Tenant owner associations	93 092	18	93 074	94 782	-2	94 703	-2
Private, other							
Corporate customers	123 421	301	123 120	124 392	-1	122 193	1
Agriculture, forestry, fishing	49 864	80	49 784	50 755	-2	51 344	-3
Manufacturing	750	1	749	776	-3	795	-6
Public sector and utilities	2 044	8	2 036	2 296	-11	2 243	-9
Construction	3 080	16	3 064	3 190	-4	3 405	-10
Retail	1 199	3	1 196	1 188	1	1 204	-1
Transportation	398	2	396	393	1	413	-4
Shipping and offshore	4		4	4	0	5	-20
Hotels and restaurants	805	3	802	817	-2	809	-1
Information and communications	220		220	233	-6	252	-13
Finance and insurance	808	2	806	811	-1	828	-3
Property management	60 342	168	60 174	59 738	1	56 789	6
Residential properties	44 824	98	44 726	42 798	5	42 352	6
Commercial	9 530	37	9 493	10 354	-8	8 485	12
Industrial and Warehouse	897	19	878	1 089	-19	1 091	-20
Other	5 091	14	5 077	5 497	-8	4 861	4
Professional services	2 434	9	2 425	2 539	-4	2 617	-7
Other corporate lending	1 473	9	1 464	1 652	-11	1 489	-2
Loans to the public	1 029 273	527	1 028 746	1 022 354	1	1 008 724	2
Loans to the public and credit institutions	1 118 432	527	1 117 905	1 056 645	6	1 030 507	8

Note 7 Loan stage allocation and credit impairment provisions

The following table presents loans to the public and credit institutions at amortised cost by stage.

SEKm	2019 31 Dec	2019 30 Jun	2018 31 Dec
Loans to credit institutions			
Stage 1			
Gross Carrying amount	89 159	34 291	21 783
Carrying amount	89 159	34 291	21 783
Loans to public, private customers			
Stage 1			
Gross carrying amount	877 645	867 673	853 791
Credit impairment provisions	17	19	21
Carrying amount	877 628	867 654	853 770
Stage 2			
Gross carrying amount	27 464	29 732	32 241
Credit impairment provisions	82	103	131
Carrying amount	27 382	29 629	32 110
Stage 3			
Gross carrying amount	743	804	784
Credit impairment provisions	127	125	133
Carrying amount	616	679	651
Total carrying amount for public, private customers	905 626	897 962	886 531
Loans to public, corporate customers			
Stage 1			
Gross carrying amount	107 976	110 672	108 548
Credit impairment provisions	27	34	29
Carrying amount	107 949	110 638	108 519
Stage 2			
Gross carrying amount	15 255	13 894	13 735
Credit impairment provisions	248	239	222
Carrying amount	15 007	13 655	13 513
Stage 3			
Gross carrying amount	190	132	194
Credit impairment provisions	26	33	33
Carrying amount	164	99	161
Total carrying amount for public, corporate customers	123 120	124 392	124 392
Totals			
Gross carrying amount Stage 1	1 074 780	1 012 636	984 122
Gross carrying amount Stage 2	42 719	43 626	45 976
Gross carrying amount Stage 3	933	936	978
Total Gross carrying amount	1 118 432	1 057 198	1 031 076
Credit impairment provisions Stage 1	44	53	50
Credit impairment provisions Stage 2	330	342	353
Credit impairment provisions Stage 3	153	158	166
Total credit impairment provisions	527	553	569
Total carrying amount	1 117 905	1 056 645	1 030 507
Share of Stage 3 loans, gross, %	0.08	0.09	0.09
Share of Stage 3 loans, net, %	0.07	0.07	0.08
Credit impairment provision ratio Stage 1 loans, %	0.00	0.01	0.01
Credit impairment provision ratio Stage 2 loans, %	0.77	0.78	0.77
Credit impairment provision ratio Stage 3 loans, %	16.40	16.88	16.97
Total credit impairment provision ratio, %	0.05	0.05	0.06

Reconciliation of credit impairment provisions for loans

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

Loans to the public and credit institutions SEKm	Non Credit-Impaired		Credit-Impaired	Total
	Stage 1	Stage 2	Stage 3 incl. purchased or originated	
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
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
Stage transfers	-19	123	27	131
<i>from stage 1 to stage 2</i>	-16	172		156
<i>from stage 1 to stage 3</i>	-5		12	7
<i>from stage 2 to stage 1</i>	2	-43		-41
<i>from stage 2 to stage 3</i>		-8	26	18
<i>from stage 3 to stage 2</i>		2	-7	-5
<i>from stage 3 to stage 1</i>	0		-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 SEKm	Non Credit-Impaired		Credit-Impaired	Total
	Stage 1	Stage 2	Stage 3 incl. purchased or originated	
Gross carrying amount				
Gross carrying amount as of 1 January 2018	949 019	42 144	1 196	992 359
Gross carrying amount as of 31 December 2018	984 122	45 976	978	1 031 076
Credit impairment provisions				
Credit impairment provisions as of 1 January 2018	41	259	151	451
Movements affecting Credit impairments line				
New and derecognised financial assets, net	9	1	-23	-13
Changes in risk factors (EADF, PD, LGD)	22	-39	32	15
Changes in macroeconomic scenarios	6	21	8	35
Changes due to expert credit judgement (manual adjustments and individual assessments)			24	24
Stage transfers	-28	111	-26	57
<i>from stage 1 to stage 2</i>	-23	162		139
<i>from stage 1 to stage 3</i>	-7		9	2
<i>from stage 2 to stage 1</i>	2	-36		-34
<i>from stage 2 to stage 3</i>		-22	25	3
<i>from stage 3 to stage 2</i>		7	-28	-21
<i>from stage 3 to stage 1</i>			-32	-32
Other			-3	-3
Total movements affecting Credit impairments line	9	94	12	115
Movements recognised outside Credit impairments line			3	3
Discount unwind (presented in Interest income)			3	3
Credit impairment provisions as of 31 December 2018	50	353	166	569
Carrying amount				
Opening balance as of 1 January 2018	948 978	41 885	1 045	991 908
Closing balance as of 31 December 2018	984 072	45 623	812	1 030 507

Note 8 Derivatives

SEKm	2019			2018		
	Interest	Currency	Total	Interest	Currency	Total
Derivatives with positive book value	12 458	15 003	27 461	9 734	11 968	21 702
of which in hedge accounting	12 249	11 928	24 177	9 419	9 951	19 370
Derivatives with negative book value	1 679	742	2 421	1 772	779	2 551
of which in hedge accounting	1 639	588	2 227	1 659	271	1 930
Nominal amount	897 028	192 878	1 089 906	785 118	164 299	949 417

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

Note 9 Debt securities in issue and subordinated liabilities

SEKm	2019	2019	2018		
	31 Dec	30 Jun	%	31 Dec	%
Bond loans	582 273	567 819	3	495 315	18
Change in value due to hedge accounting at fair value	9 824	13 678	-28	7 566	30
Total	592 097	581 497	2	502 881	18

Turnover during the period SEKm	2019	2019	2018			2019	2018	
	Jul-Dec	Jan-Jun	%	Jul-Dec	%	Full-year	Full-year	
Opening balance	581 497	502 881	16	568 902	2	502 881	527 283	-5
Issued	29 974	101 066	-70	22 291	34	131 040	87 906	49
Repurchased	-9 198	-14 335	-36	-35 426	-74	-23 533	-51 378	-54
Repaid	-4 175	-16 243	-74	-46 923	-91	-20 418	-62 486	-67
Change in market value or in hedged item in fair value hedge accounting	-5 118	4 374		-3 115	64	-744	-5 311	-86
Changes in exchange rates	-1 933	5 126		-3 224	-40	3 193	8 000	-60
Change in accrued interest	1 050	-1 372		376		-322	-1 133	-72
Closing balance	592 097	581 497	2	502 881	18	592 097	502 881	18

Note 10 Financial instruments at fair value

SEKm	2019 31 Dec			2018 31 Dec		
	Fair value	Carrying amount	Diff- erence	Fair value	Carrying amount	Diff- erence
Assets						
Loans to credit institutions	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
Value change of interest hedged item 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						
Amounts owed to credit institutions	472 688	471 623	1 065	489 617	488 240	1 377
Debt securities in issue	594 198	592 097	2 101	505 790	502 881	2 909
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	426			
Total	1 103 230	1 099 638	3 592	1 011 255	1 006 969	4 286
Non-financial liabilities		23			414	
Total		1 099 661			1 007 383	

31 Dec 2019	Instruments with quoted market prices in an active market	Valuation techniques using observable market data	Valuation techniques using non-observable market data	Total
SEKm	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Derivatives		27 461		27 461
Total		27 461		27 461
Liabilities				
Debt securities in issue		1 876		1 876
Derivatives		2 421		2 421
Total		4 297		4 297

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

The methods are divided into three different levels:

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

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

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

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

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

Note 11 Assets pledged, contingent liabilities and commitments

SEKm	2019 31 Dec	2019 30 Jun	%	2018 31 Dec	%
Loans, used as collateral for covered bonds ¹⁾	578 758	563 735	3	497 691	16
Repos ²⁾	107	863	-88	4 456	-98
Commitments	6 988	12 515	-44	13 525	-48
Pledged assets and contingent liabilities	585 853	577 113	2	515 672	14

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

²⁾ Relate to repos in Swedbank Mortgage's debt securities in issue.

Note 12 Related parties

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

SEKm	2019 31 Dec	2019 30 Jun	2018 31 Dec
Group receivables			
Loans to credit institutions	89 159	34 291	21 783
Derivatives	27 461	31 628	21 702
Other assets	52	50	40
Total	116 672	65 969	43 525
Group payables			
Amounts owed to credit institutions	471 623	443 219	488 240
Debt securities in issue	2 470	4 308	4 945
Derivatives	2 421	3 833	2 551
Other liabilities	12 620	6 477	12 292
Eligible liabilities	20 000	10 000	
Total	509 134	467 837	508 028
Income statement			
Interest income	84	29	32
Interest expense	1 287	864	3 633
Other expenses	-9	-15	-34
Total	1 362	878	3 631

Note 13 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 2014:12), chap. 8. 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	2019	2018
SEKm	31 Dec	31 Dec
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	0	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	0	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

	2019	2018
Leverage ratio	31 Dec	31 Dec
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	mSEK		Per cent	
	2019 31 Dec	2018 31 Dec	2019 31 Dec	2018 31 Dec
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 capital conservation buffer and countercyclical capital buffer

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

Credit risks, IRB SEKm	2019 31 Dec			2018 31 Dec		
	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
	31 Dec	31 Dec
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 CET1 items used to meet the Tier 1 and total capital requirements

Exposure amount, risk exposure amount and minimum capital requirement	2019			2018		
	Exposure amount	Risk exposure amount	Minimum capital reqmnt.	Exposure amount	Risk exposure amount	Minimum capital reqmnt.
SEKm						
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

Note 14 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 amortised cost	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

Alternative performance measures

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

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

Signatures of the Board of Directors and the President

The Board of Directors and the CEO certify that the year-end report for 2019 provides a fair and accurate overview of the operations, financial position and the results of the Company and that it describes the significant risks and uncertainties faced by the Company.

Stockholm 27 January 2019

Leif Karlsson
Chairman

Magdalena Frostling
CEO

Johan Smedman

Eva de Falck

Thomas Johansson

Auditor's report

Introduction

We have reviewed the condensed interim financial information (interim report) of Swedbank Hypotek AB for the period 1 January 2019 to 31 December 2019. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

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

Conclusion

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

Stockholm 27 January 2020

PricewaterhouseCoopers AB

Anneli Granqvist
Authorised Public Accountant
Auditor in charge

Martin By
Authorised Public Accountant

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