

# Highlights of Stadshypotek's Annual Report January-December 2013

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JANUARY - DECEMBER 2013

**INCOME** totalled SEK 9,496 million (8,195).

**OPERATING PROFIT** increased by SEK 210 million and totalled SEK 8,096 million (7,886).

**NET LOAN LOSSES** totalled SEK 22 million (21).

**PROFIT AFTER TAX** amounted to SEK 6,291 million (5,801).

**LENDING TO THE PUBLIC** increased by 7 per cent, or SEK 64 billion, to SEK 955 billion (891).

# Highlights of Stadshypotek's Annual Report for January – December 2013

## JANUARY – DECEMBER 2013 COMPARED WITH JANUARY – DECEMBER 2012

Stadshypotek's operating profit increased by 3 per cent or SEK 210 million to SEK 8,096 million (7,886). Net interest income grew by SEK 1,379 million to SEK 9,431 million (8,052). The increase in lending volume and improved margins both contributed to the growth in net interest income. SEK 1,003 million (649) of the net interest income was attributable to the branch in Norway, SEK 329 million (258) to the branch in Finland and SEK 166 million (115) to the branch in Denmark. The increase in net interest income at the Norwegian branch was mainly due to higher margins. Excluding the branches, net interest income increased by SEK 903 million. Net gains/losses on financial transactions decreased to SEK 70 million (150).

Expenses rose by SEK 1,090 million to SEK 1,378 million (288). The increase was mainly due to sales compensation to the parent company. Stadshypotek's branches outside Sweden already make payments to Handelsbanken's branches in the respective countries for services rendered by them on behalf of Stadshypotek. As of 1 January 2013, the parent company is also compensated for the services performed by the branch office operations on behalf of Stadshypotek in relation to the sale and administration of mortgage loans in Sweden. In addition, staff costs increased by SEK 30 million, primarily due to the fact that all property valuers in Sweden at the parent company Handelsbanken were reorganised under Stadshypotek with effect from 1 January 2013.

Net loan losses totalled SEK 22 million (21). Before deduction of the provision for probable loan losses, the volume of impaired loans was SEK 283 million (141). Of this amount, non-performing loans accounted for SEK 227 million (94), while SEK 56 million (47) related to loans on which the borrowers pay interest and amortisation, but which are nevertheless considered impaired. There were also non-performing loans of SEK 833 million (1,008) that are not classed as being impaired loans. After deductions for specific provisions totalling SEK -48 million (-50) and collective provisions of SEK -5 million (-4) for probable loan losses, impaired loans totalled SEK 230 million (87).

## GROWTH IN LENDING

Lending to the public increased by 7 per cent, or SEK 64 billion, to SEK 955 billion (891). In Sweden, loans to the public increased by 7 per cent, or SEK 53 billion to SEK 834 billion (781). Lending to the private market in Sweden increased by 5 per cent, or SEK 28 billion, to SEK 546 billion (518).

## FUNDING

Issues of covered bonds from Stadshypotek's benchmark series totalled SEK 119.1 billion (90.0). Issues of covered bonds under the EMTCN programme totalled the equivalent of approximately EUR 5.4 billion (3.9), and under the American programme, an issue of USD 1.25 billion was carried out. In Norway, bonds to the value of NOK 4 billion were issued during the year.

## CAPITAL ADEQUACY

The capital ratio according to Basel II was 62.3 per cent (56.9) while the tier 1 ratio calculated according to Basel II was 41.2 per cent (40.6). Further information on capital adequacy is provided in the 'Capital base and capital requirement' section on page 20.

## RATING

Stadshypotek's ratings remained unchanged during the year.

Stadshypotek	Covered bonds	Long-term	Short-term
Moody's	Aaa	-	P-1
Standard & Poor's		AA-	A-1+
Fitch		AA-	F1+

# Income statement – Group

SEK m	Jul-Dec 2013	Jul-Dec 2012	Change %	Full year 2013	Full year 2012	Change %
Interest income	14,426	15,642	-8	29,023	32,163	-10
Interest expense	-9,634	-11,527	-16	-19,592	-24,111	-19
<b>Net interest income</b>	<b>4,792</b>	<b>4,115</b>	<b>16</b>	<b>9,431</b>	<b>8,052</b>	<b>17</b>
Fee and commission income	8	7	14	15	14	7
Fee and commission expense	-10	-10	0	-20	-21	-5
<b>Net fee and commission income</b>	<b>-2</b>	<b>-3</b>	<b>-33</b>	<b>-5</b>	<b>-7</b>	<b>-29</b>
<b>Net gains/losses on financial transactions</b>	<b>-27</b>	<b>75</b>	<b>-136</b>	<b>70</b>	<b>150</b>	<b>-53</b>
<b>Total income</b>	<b>4,763</b>	<b>4,187</b>	<b>14</b>	<b>9,496</b>	<b>8,195</b>	<b>16</b>
Staff costs	-41	-25	64	-79	-49	61
Other administrative expenses	-686	-125	449	-1,286	-227	467
Depreciation and amortisation	-7	-6	17	-13	-12	8
<b>Total expenses</b>	<b>-734</b>	<b>-156</b>	<b>371</b>	<b>-1,378</b>	<b>-288</b>	<b>378</b>
<b>Profit before loan losses</b>	<b>4,029</b>	<b>4,031</b>	<b>0</b>	<b>8,118</b>	<b>7,907</b>	<b>3</b>
Net loan losses	-18	-21	-14	-22	-21	5
<b>Operating profit</b>	<b>4,011</b>	<b>4,010</b>	<b>0</b>	<b>8,096</b>	<b>7,886</b>	<b>3</b>
Taxes	-906	-1,061	-15	-1,805	-2,085	-13
<b>Profit for the period</b>	<b>3,105</b>	<b>2,949</b>	<b>5</b>	<b>6,291</b>	<b>5,801</b>	<b>8</b>
Net earnings per share, before and after dilution, SEK	19,166	18,202		38,833	35,811	

# Statement of comprehensive income – Group

SEK m	Jul-Dec 2013	Jul-Dec 2012	Change %	Full year 2013	Full year 2012	Change %
<b>Profit for the period</b>	<b>3,105</b>	<b>2,949</b>	<b>5</b>	<b>6,291</b>	<b>5,801</b>	<b>8</b>
<b>Items that can be reclassified into profit or loss for the period</b>						
Cash flow hedges	674	-	-	-244	-	-
Translation differences for the period	-66	-11	500	-115	-10	-
Taxes on items that can be reclassified into profit or loss for the period						
– cash flow hedges	-148	-	-	54	-	-
<b>Total comprehensive income for the period</b>	<b>3,565</b>	<b>2,938</b>	<b>21</b>	<b>5,986</b>	<b>5,791</b>	<b>3</b>

# Half-yearly performance – Group

SEK m	Jul-Dec 2013	Jan-Jun 2013	Jul-Dec 2012	Jan-Jun 2012	Jul-Dec 2011
Interest income	14,426	14,597	15,642	16,521	16,074
Interest expense	-9,634	-9,958	-11,527	-12,584	-12,751
<b>Net interest income</b>	<b>4,792</b>	<b>4,639</b>	<b>4,115</b>	<b>3,937</b>	<b>3,323</b>
Net fee and commission income	-2	-3	-3	-4	-6
Net gains/losses on financial transactions	-27	97	75	75	18
<b>Total income</b>	<b>4,763</b>	<b>4,733</b>	<b>4,187</b>	<b>4,008</b>	<b>3,335</b>
Staff costs	-41	-38	-25	-24	-25
Other administrative expenses	-686	-600	-125	-102	-114
Depreciation and amortisation	-7	-6	-6	-6	-6
<b>Total expenses</b>	<b>-734</b>	<b>-644</b>	<b>-156</b>	<b>-132</b>	<b>-145</b>
<b>Profit before loan losses</b>	<b>4,029</b>	<b>4,089</b>	<b>4,031</b>	<b>3,876</b>	<b>3,190</b>
Net loan losses	-18	-4	-21	0	-9
<b>Operating profit</b>	<b>4,011</b>	<b>4,085</b>	<b>4,010</b>	<b>3,876</b>	<b>3,181</b>

# Condensed balance sheet – Group

SEK m		31 Dec 2013	31 Dec 2012
<b>Assets</b>			
Loans to credit institutions		7,966	5,758
Loans to the public	Note 7	955,251	891,200
Value change of interest-hedged item in portfolio hedge		96	5,271
Derivative instruments	Note 8	15,235	20,708
Other assets		6,111	3,024
<b>Total assets</b>		<b>984,659</b>	<b>925,961</b>
<b>Liabilities and equity</b>			
Due to credit institutions		337,097	286,294
Issued securities		572,746	565,865
Derivative instruments	Note 8	8,186	11,988
Other liabilities and provisions		18,707	19,174
Subordinated liabilities		21,200	16,700
<b>Total liabilities</b>		<b>957,936</b>	<b>900,021</b>
Equity		26,723	25,940
<b>Total liabilities and equity</b>		<b>984,659</b>	<b>925,961</b>

# Statement of changes in equity

## – Group

Jan–Dec 2013 SEK m	Share capital*	Hedge reserve	Translation reserve	Retained earnings	Total
<b>Equity at 31 December 2012</b>	4,050		-54	21,944	25,940
Profit for the period				6,291	6,291
Other comprehensive income		-190	-115		-305
<b>Total comprehensive income for the period</b>		-190	-115	6,291	5,986
Group contributions provided				-6,670	-6,670
Tax effect on group contributions				1,467	1,467
<b>Equity at 31 December 2013</b>	4,050	-190	-169	23,032	26,723

Jan–Dec 2012 SEK m	Share capital*	Hedge reserve	Translation reserve	Retained earnings	Total
<b>Equity at 31 December 2011</b>	4,050		-44	21,361	25,367
Profit for the period				5,801	5,801
Other comprehensive income			-10		-10
<b>Total comprehensive income for the period</b>			-10	5,801	5,791
Group contributions provided				-7,080	-7,080
Tax effect on group contributions				1,862	1,862
<b>Equity at 31 December 2012</b>	4,050		-54	21,944	25,940

\*Average number of shares, before and after dilution, 162,000.

# Condensed statement of cash flows – Group

SEK m	Full year 2013	Full year 2012
Cash flow from operating activities	4,918	4,991
Cash flow from investing activities	-11	-3,923
Cash flow from financing activities	-2,580	-4,700
<b>Cash flow for the period</b>	<b>2,327</b>	<b>-3,632</b>
Liquid funds at beginning of period	686	4,319
Cash flow for the period	2,327	-3,632
Exchange rate differences on liquid funds	-92	-1
<b>Liquid funds at end of period</b>	<b>2,921</b>	<b>686</b>
<i>Liquid funds consist of funds available with banks and equivalent institutions, excluding funds in blocked account.</i>		
Liquid funds with banks and equivalent institutions	2,921	686
Funds in blocked account with banks relating to issuance of covered bonds	5,045	5,072
<b>Loans to credit institutions</b>	<b>7,966</b>	<b>5,758</b>

## Key figures – Group

	Jul-Dec 2013	Jul-Dec 2012	Full year 2013	Full year 2012
Net interest margin, %	0.99	0.90	0.99	0.89
C/I ratio before loan losses, %	15.4	3.7	14.5	3.5
C/I ratio after loan losses, %	15.8	4.2	14.7	3.8
Return on equity, %	20.3	19.9	20.3	19.6
Capital ratio according to Basel II, %	62.3	56.9	62.3	56.9
Tier 1 ratio according to Basel II, %	41.2	40.6	41.2	40.6

## Turnover of own debt instruments

Stadshypotek issues and repurchases debt instruments which it has issued on its own account. This is for the purpose of financing its operations.

### Turnover during the period was as follows:

Issued (sold)	SEK 215 billion (237)
Repurchased	SEK 76 billion (61)
Matured	SEK 112 billion (125)



# Segment information

SEK m	Full year 2013			Full year 2012		
	Private	Corporate	Group	Private	Corporate	Group
Net interest income	6,709	2,722	9,431	5,883	2,169	8,052
Net fee and commission income	-4	-1	-5	-5	-2	-7
Net gains/losses on financial transactions	49	21	70	108	42	150
<b>Total income</b>	<b>6,754</b>	<b>2,742</b>	<b>9,496</b>	<b>5,986</b>	<b>2,209</b>	<b>8,195</b>
<b>Expenses</b>	<b>-963</b>	<b>-415</b>	<b>-1,378</b>	<b>-210</b>	<b>-78</b>	<b>-288</b>
<b>Profit before loan losses</b>	<b>5,791</b>	<b>2,327</b>	<b>8,118</b>	<b>5,776</b>	<b>2,131</b>	<b>7,907</b>
Net loan losses	-26	4	-22	-29	8	-21
<b>Operating profit</b>	<b>5,765</b>	<b>2,331</b>	<b>8,096</b>	<b>5,747</b>	<b>2,139</b>	<b>7,886</b>
Loans to the public	639,871	315,385	955,256	607,018	284,186	891,204

Private market is defined as lending secured by mortgages in single-family or two-family houses, second homes, housing co-operative apartments, owner-occupied apartments or residential farms. Corporate market is defined as lending secured by mortgages in multi-family dwellings, family farms, commercial and office buildings or state and municipal loans.

# Geographical breakdown of business segments

SEK m	Full year 2013		Full year 2012	
	Income	Total assets	Income	Total assets
Sweden	7,990	860,405	7,167	817,203
Norway	1,003	63,570	650	60,124
Denmark	166	19,423	115	13,812
Finland	337	41,261	263	34,822
<b>Group</b>	<b>9,496</b>	<b>984,659</b>	<b>8,195</b>	<b>925,961</b>

# Income statement – Parent company

SEK m	Jul-Dec 2013	Jul-Dec 2012	Change %	Full year 2013	Full year 2012	Change %
Interest income	14,426	15,642	-8	29,023	32,163	-10
Interest expense	-9,634	-11,527	-16	-19,592	-24,111	-19
<b>Net interest income</b>	<b>4,792</b>	<b>4,115</b>	<b>16</b>	<b>9,431</b>	<b>8,052</b>	<b>17</b>
Fee and commission income	8	7	14	15	14	7
Fee and commission expense	-10	-10	0	-20	-21	-5
<b>Net fee and commission income</b>	<b>-2</b>	<b>-3</b>	<b>-33</b>	<b>-5</b>	<b>-7</b>	<b>-29</b>
<b>Net gains/losses on financial transactions</b>	<b>-27</b>	<b>75</b>	<b>-136</b>	<b>70</b>	<b>150</b>	<b>-53</b>
<b>Total income</b>	<b>4,763</b>	<b>4,187</b>	<b>14</b>	<b>9,496</b>	<b>8,195</b>	<b>16</b>
Staff costs	-41	-25	64	-79	-49	61
Other administrative expenses	-686	-125	449	-1,286	-227	467
Depreciation and amortisation	-7	-6	17	-13	-12	8
<b>Total expenses</b>	<b>-734</b>	<b>-156</b>	<b>371</b>	<b>-1,378</b>	<b>-288</b>	<b>378</b>
<b>Profit before loan losses</b>	<b>4,029</b>	<b>4,031</b>	<b>0</b>	<b>8,118</b>	<b>7,907</b>	<b>3</b>
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<b>Operating profit</b>	<b>4,011</b>	<b>4,010</b>	<b>0</b>	<b>8,096</b>	<b>7,886</b>	<b>3</b>
Taxes	-906	-1,061	-15	-1,805	-2,085	-13
<b>Profit for the period</b>	<b>3,105</b>	<b>2,949</b>	<b>5</b>	<b>6,291</b>	<b>5,801</b>	<b>8</b>

# Statement of comprehensive income – Parent company

SEK m	Jul-Dec 2013	Jul-Dec 2012	Change %	Full year 2013	Full year 2012	Change %
<b>Profit for the period</b>	<b>3,105</b>	<b>2,949</b>	<b>5</b>	<b>6,291</b>	<b>5,801</b>	<b>8</b>
<b>Items that can be reclassified into profit or loss for the period</b>						
Cash flow hedges	674	-	-	-244	-	-
Translation differences for the period	-66	-11	500	-115	-10	-
Taxes on items that can be reclassified into profit or loss for the period – cash flow hedges	-148	-	-	54	-	-
<b>Total comprehensive income for the period</b>	<b>3,565</b>	<b>2,938</b>	<b>21</b>	<b>5,986</b>	<b>5,791</b>	<b>3</b>

# Condensed balance sheet

## – Parent company

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Loans to credit institutions		7,966	5,758
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<b>Total assets</b>		<b>984,659</b>	<b>925,961</b>
<b>Liabilities and equity</b>			
Due to credit institutions		337,097	286,294
Issued securities		572,746	565,865
Derivative instruments	Note 8	8,186	11,988
Other liabilities and provisions		18,707	19,174
Subordinated liabilities		21,200	16,700
<b>Total liabilities</b>		<b>957,936</b>	<b>900,021</b>
Equity		26,723	25,940
<b>Total liabilities and equity</b>		<b>984,659</b>	<b>925,961</b>
<b>Memorandum items</b>			
Assets pledged for own debt*		624,110	612,301
Other pledged assets		None	None
Contingent liabilities		None	None
Undertakings		2,027	2,866

\* Assets pledged for own debt refers to collateral for covered bonds, which comprises loans against mortgages in single-family dwellings, second homes, multi-family dwellings and housing co-operative apartments with a loan-to-value ratio of up to 75 per cent of the market value, as well as office and commercial properties with a loan-to-value ratio of up to 60 per cent of the market value, and additional collateral in the form of cash funds on a blocked account.

# Notes

The information in these notes relates to both the Group and the parent company.

## NOTE 1 Accounting policies

Information relating to the Group has been stated in accordance with IAS 34. For both the Group and the parent company, the contents of this report also comply with the applicable provisions of the Swedish Act on Annual Reports in Credit Institutions and Securities Companies, the Swedish Financial Supervisory Authority's regulations and general guidelines FFFS 2008:25 on annual reports in credit institutions and securities companies and recommendations from the Swedish Financial Reporting Board.

IFRS 13 *Fair Value Measurement* came into effect for application in the EU on 1 January 2013. The standard deals with common principles for fair value measurement of most of the assets and liabilities at fair value in the accounts, or for which information about fair value must be provided. IFRS 13 clarifies some of the principles for fair value measurement which were previously applied in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The application of IFRS 13 has not affected the values reported for financial instru-

ments to any significant degree. However, the new standard contains more extensive requirements for disclosures of fair value measurement.

The revised IAS 1 *Presentation of financial statements*, which came into effect for application in the EU on 1 January 2013, has affected Stadshypotek's presentation of other comprehensive income. Items that can be reclassified into profit or loss for the period are separated from items that cannot be reclassified into profit or loss for the period.

None of the other changes in the accounting standards which have come into force during the period have had a material impact on the parent company's or the Group's financial reports.

Stadshypotek already uses fair value hedges to protect the Group against undesirable impact on profit/loss resulting from exposure to changes in the market prices of reported assets and liabilities. As of 2013, cash flow hedges are used to hedge against the currency risk in future cash flows relating to fixed-rate funding in

foreign currencies and against variations in cash flows relating to changes in variable rates on lending and funding. The hedging instruments consist of interest rate swaps and cross-currency interest rate swaps. If the swap's value change is effective – in other words, it corresponds to future cash flows related to the hedged item – it is recognised as a component of Other comprehensive income and in the hedge reserve in equity. Ineffective components of the swap's value change are recognised in the income statement under Net gains/losses on financial transactions.

Accumulated value changes on portfolio hedges at fair value which have been terminated ahead of time are reported in the balance sheet under Other assets and are amortised in Net gains/losses on financial transactions over the remaining time to maturity of the portfolio.

In all other respects, the interim report of the Group and the parent company has been prepared in accordance with the same accounting policies and calculation methods that were applied in the annual report for 2012.

## NOTE 2 Other disclosures

### RISKS AND UNCERTAINTY FACTORS

Although the turbulence in the financial markets decreased during the year, the structural problems that brought on the crisis remain. The debt problems of certain countries are still a concern and both the financial sector and the real economy continue to be supported by massive stimulus in the form of monetary policy. Sooner or later the players in the economy must adapt to more normal circumstances. For the financial sector, apart from managing these circumstances, it also means adapting to significantly more stringent and extensive regulatory requirements – which have not yet been established in their entirety.

Stadshypotek's historically low tolerance of risk, sound capitalisation and, as part of the Handelsbanken Group, strong liquidity mean that the company is well equipped to cope with substantially more difficult market conditions than those experienced during the year. The operations will continue to be run using the same business model, even under stricter regulations.

### RISK CONTROL

Stadshypotek's operations are conducted with a controlled low level of risk. Stadshypotek's risks

are credit risk, market risk, liquidity risk, operational risk and business risk. As at 31 December 2013, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -250 million (-185), which was well within the limit set by the Board.

Credit risk is the risk of Stadshypotek facing economic loss because of its counterparties' inability to fulfil their contractual obligations. Market risk is the risk of price changes in financial markets. The market risks affecting Stadshypotek are interest rate risk and exchange rate risk. Liquidity risk is the risk that Stadshypotek will not be able to meet its payment obligations when they fall due without being affected by unacceptable costs or losses. Operational risk is the risk of processing errors in procedures and systems, and business risk is the risk of unexpected changes in financial performance. Credit risk is the most significant risk for Stadshypotek. The Stadshypotek Board establishes policies which describe how various risks should be managed and reported. In addition, Stadshypotek's Chief Executive sets guidelines and instructions for managing and controlling all types of risk. These documents have been based on the policies that the Board of

Handelsbanken has adopted for managing and reporting risks within the Handelsbanken Group as a whole. Stadshypotek's risk management aims to ensure compliance with the strict approach to risk established by the Board.

Stadshypotek's lending operations and treasury function are integrated with those of Handelsbanken, which means that Stadshypotek's lending is carried out via the Bank's branch network. A collaboration agreement regulates the overall relationship between the parties and individual outsourcing agreements specify the services which Handelsbanken is to perform on behalf of Stadshypotek. Thus, the business operations at Stadshypotek are conducted according to the same fundamental principles which apply at Handelsbanken. The Bank's corporate culture is centred around the principle of delegating responsibility to the employees who make business decisions. The person who is most familiar with the customer and the market conditions is also the best person to assess the risk. In Handelsbanken's decentralised organisation, the positive and negative outcomes of each branch are evaluated, which provides a natural risk limitation and caution in business operations.

## NOTE 2 Other disclosures, cont.

In addition to the accountability of decision-makers, control procedures are in place to ensure that excessive risks are not taken in individual transactions or local operations. In lending, this means that limits are set for large loans and these loans are assessed by a special credit organisation. Decisions on limits are made at the branch, regional or central level, depending on the size of the credit limit. Procedures also exist to limit market risk and liquidity risk at Stadshypotek. Here, the company's Board establishes limits. However, limits set by the Board of Stadshypotek must not exceed the limits for market risks and liquidity risks assigned by Handelsbanken to Stadshypotek.

Stadshypotek also has risk control independent of business operations which is responsible for the regular follow-up and monitoring of all risks applying to operations, primarily credit risk, market risk, liquidity risk and operational risk. The risk control function carries out daily measurements and checks to ensure that risk exposure remains within the set limits. Limit utilisation is reported internally within the company, and to the parent company's Central Risk Control. In addition, limit utilisation is reported regularly to the Chief Executive and Board of Stadshypotek as well as to the Group Chief Executive, CFO and Board of Handelsbanken.

Stadshypotek is also covered by Central Risk Control at Handelsbanken, which is designed to identify the Handelsbanken Group's risks, gauge them, and ensure that management of

these risks complies with the Group's low risk tolerance. Central Risk Control is responsible for the independent reporting of risks for the banking group of which Stadshypotek is a part. Central Risk Control also develops and provides models for measuring risk that are applied in Stadshypotek's operations and performs certain calculations that provide a basis for some of Stadshypotek's external reporting.

Information about credit risks regarding loan losses, non-performing loans and impaired loans can be found in notes 6 and 7 of this report.

### PREPAREDNESS FOR LIQUIDITY CRISIS

Stadshypotek has a contingency plan for managing a liquidity shortage, and this plan also describes the company's liquidity-creating measures. An agreement has been drawn up between Stadshypotek and Handelsbanken stating that the parent company is responsible for ensuring that Stadshypotek's liquidity requirements can be met at all times.

Stadshypotek's liquidity situation is regularly stress-tested. The stress tests focus on the short-term effects in the case of certain assumptions which are relevant to the operations, for example disruptions in the market for covered bonds. Central Risk Control conducts stress tests focusing on long-term disruptions for the entire Group, taking Stadshypotek's liquidity requirements into consideration.

### CAPITAL PLANNING

Stadshypotek also has a procedure for continual capital planning to ensure that it has a sufficient amount of capital to secure the company's survival if a serious loss were to occur, despite the measures taken to manage the risks. The method for calculating economic capital ensures that all risks are considered in a uniform manner when the need for capital is assessed.

### CAPITAL REQUIREMENT FOR SWEDISH MORTGAGE LOANS IN PILLAR 2

The Swedish Financial Supervisory Authority decided on 21 May that, as a supervisory measure within the framework of Pillar 2, it would introduce a capital requirement corresponding to a risk weight floor of 15 per cent for Swedish mortgage loan portfolios. This decision will result in a capital requirement under Pillar 2 of around SEK 7 billion for Stadshypotek in 2014, based on the company's Swedish mortgage loan volumes at the year-end.

### MATERIAL EVENTS AFTER BALANCE SHEET DATE

There have been no material events after the balance sheet date.

## NOTE 3 Net interest income

SEK m	Jul-Dec 2013	Jul-Dec 2012	Change %	Full year 2013	Full year 2012	Change %
<b>Interest income</b>						
Loans to the public	14,284	15,471	-8	28,729	31,822	-10
Loans to credit institutions	142	171	-17	294	341	-14
<b>Total</b>	<b>14,426</b>	<b>15,642</b>	<b>-8</b>	<b>29,023</b>	<b>32,163</b>	<b>-10</b>
<b>Interest expense</b>						
Due to credit institutions	-2,245	-2,915	-23	-4,542	-6,524	-30
Issued securities	-7,711	-8,574	-10	-15,657	-17,168	-9
Subordinated liabilities	-284	-336	-15	-566	-720	-21
Derivative instruments*	720	415	73	1,386	529	162
Fee to the Swedish Stabilisation Fund	-112	-113	-1	-211	-216	-2
Other	-2	-4	-50	-2	-12	-83
<b>Total</b>	<b>-9,634</b>	<b>-11,527</b>	<b>-16</b>	<b>-19,592</b>	<b>-24,111</b>	<b>-19</b>
<b>Net interest income</b>	<b>4,792</b>	<b>4,115</b>	<b>16</b>	<b>9,431</b>	<b>8,052</b>	<b>17</b>

\* Net interest income from derivative instruments which are related to Stadshypotek's funding and can have both a positive and a negative impact on interest expenses.

## NOTE 4 Net gains/losses on financial transactions

SEK m	Jul-Dec 2013	Jul-Dec 2012	Change %	Full year 2013	Full year 2012	Change %
Hedge accounting	-76	45	-269	-51	67	-176
<i>of which fair value hedges</i>	-71	45	-258	-46	67	-170
<i>of which ineffectiveness on cash flow hedges</i>	-5	-	-	-5	-	-
Loans, valued at cost	136	149	-9	267	267	0
Financial liabilities, valued at cost	-115	-104	11	-247	-188	31
Derivatives not recognised as hedges	12	-62	-119	84	-43	-295
Other	16	47	-66	17	47	-64
<b>Total</b>	<b>-27</b>	<b>75</b>	<b>-136</b>	<b>70</b>	<b>150</b>	<b>-53</b>

The profit/loss item 'Fair value hedges' includes the net result of unrealised and realised changes in the fair value of financial assets and liabilities which are subject to hedge accounting. Interest income and interest expenses for these instruments are recognised under net interest income. Changes in the value of hedging instruments in cash flow hedges which exceed the changes in value-hedged future cash flows, are recognised under the item "Ineffectiveness on cash flow hedges". Derivatives not recognised as hedges are included in the held-for-trading category.

Loans, valued at cost, refers to the early redemption charge for loans and receivables which are repaid ahead of time.

Financial liabilities, valued at cost, refers to realised price differences when repurchasing bonds.

## NOTE 5 Other administrative expenses

SEK m	Jul-Dec 2013	Jul-Dec 2012	Change %	Full year 2013	Full year 2012	Change %
Cost of premises	-3	-2	50	-6	-4	50
IT costs	-50	-53	-6	-101	-104	-3
Communication	-1	0	-	-1	-1	0
Travel and marketing	-1	-1	0	-3	-2	50
Purchased services	-617	-58	-	-1,156	-100	-
Supplies	0	0	0	0	0	0
Other expenses	-14	-11	27	-19	-16	19
<b>Total</b>	<b>-686</b>	<b>-125</b>	<b>449</b>	<b>-1,286</b>	<b>-227</b>	<b>467</b>

## NOTE 6 Loan losses

SEK m	Jul-Dec 2013	Jul-Dec 2012	Change %	Full year 2013	Full year 2012	Change %
<b>Specific provision for individually assessed loans</b>						
Provision for the period	-13	-17	-24	-24	-28	-14
Reversal of previous provisions	3	0	-	7	3	133
<b>Total</b>	<b>-10</b>	<b>-17</b>	<b>-41</b>	<b>-17</b>	<b>-25</b>	<b>-32</b>
<b>Collective provision</b>						
Collective provision for individually assessed loans	-1	2	-	-1	2	-
<b>Write-offs</b>						
Actual loan losses for the period	-27	-30	-10	-59	-56	5
Utilised share of previous provisions	5	6	-17	19	18	6
Reversal of actual loan losses in previous years	15	18	-17	36	40	-10
<b>Total</b>	<b>-7</b>	<b>-6</b>	<b>17</b>	<b>-4</b>	<b>2</b>	<b>-300</b>
<b>Net loan losses</b>	<b>-18</b>	<b>-21</b>	<b>-14</b>	<b>-22</b>	<b>-21</b>	<b>5</b>

Impaired loans SEK m	31 Dec 2013	31 Dec 2012
Impaired loans	283	141
Specific provision for individually assessed loans	-48	-50
Collective provision for individually assessed loans	-5	-4
<b>Impaired loans, net</b>	<b>230</b>	<b>87</b>
Proportion of impaired loans, %	0.02	0.01
Reserve ratio for impaired loans, %	17.0	35.4
Loan loss ratio, %	0.00	0.00
Non-performing loans which are not impaired loans	833	1,008

## NOTE 7 Loans to the public

Loans to the public, by borrower category	31 Dec 2013			31 Dec 2012		
	Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses	Loans after provisions
SEK m						
Households	668,204	-36	668,168	632,258	-33	632,225
Public sector, municipal companies	30,904	-	30,904	26,237	-	26,237
Housing co-operative associations	129,273	-9	129,264	117,827	-12	117,815
Other legal entities	126,923	-3	126,920	114,932	-5	114,927
<b>Total loans to the public, before collective provisions</b>	<b>955,304</b>	<b>-48</b>	<b>955,256</b>	<b>891,254</b>	<b>-50</b>	<b>891,204</b>
Collective provision		-5	-5		-4	-4
<b>Total loans to the public</b>	<b>955,304</b>	<b>-53</b>	<b>955,251</b>	<b>891,254</b>	<b>-54</b>	<b>891,200</b>
<b>of which in operations outside Sweden</b>						
Households	90,876	-	90,876	85,685	-	85,685
Public sector, municipal companies	9,431	-	9,431	5,626	-	5,626
Housing co-operative associations	15,337	-	15,337	12,484	-	12,484
Other legal entities	4,760	-	4,760	4,580	-	4,580
<b>Total loans to the public in operations outside Sweden</b>	<b>120,404</b>	<b>-</b>	<b>120,404</b>	<b>108,375</b>	<b>-</b>	<b>108,375</b>

Loans to the public, by type of collateral	31 Dec 2013			31 Dec 2012		
	Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses	Loans after provisions
SEK m						
Single-family housing	481,331	-29	481,302	460,369	-24	460,345
Housing co-operative apartments	145,354	-1	145,353	134,874	-4	134,870
Owner-occupied apartments*	12,674	-	12,674	11,803	-	11,803
<b>Private market</b>	<b>639,359</b>	<b>-30</b>	<b>639,329</b>	<b>607,046</b>	<b>-28</b>	<b>607,018</b>
Multi-family housing	247,875	-17	247,858	220,799	-22	220,777
Offices and commercial buildings	68,070	-1	68,069	63,409	0	63,409
<b>Corporate market</b>	<b>315,945</b>	<b>-18</b>	<b>315,927</b>	<b>284,208</b>	<b>-22</b>	<b>284,186</b>
<b>Total loans to the public, before collective provision</b>	<b>955,304</b>	<b>-48</b>	<b>955,256</b>	<b>891,254</b>	<b>-50</b>	<b>891,204</b>
Collective provision		-5	-5		-4	-4
<b>Total loans to the public</b>	<b>955,304</b>	<b>-53</b>	<b>955,251</b>	<b>891,254</b>	<b>-54</b>	<b>891,200</b>
<b>of which in operations outside Sweden</b>						
Single-family housing	75,640	-	75,640	71,064	-	71,064
Housing co-operative apartments	4,215	-	4,215	4,563	-	4,563
Owner-occupied apartments*	12,674	-	12,674	11,803	-	11,803
<b>Private market</b>	<b>92,529</b>	<b>-</b>	<b>92,529</b>	<b>87,430</b>	<b>-</b>	<b>87,430</b>
Multi-family housing	27,417	-	27,417	20,568	-	20,568
Offices and commercial buildings	458	-	458	377	-	377
<b>Corporate market</b>	<b>27,875</b>	<b>-</b>	<b>27,875</b>	<b>20,945</b>	<b>-</b>	<b>20,945</b>
<b>Total loans to the public in operations outside Sweden</b>	<b>120,404</b>	<b>-</b>	<b>120,404</b>	<b>108,375</b>	<b>-</b>	<b>108,375</b>

\* Owner-occupied apartments entail individual ownership of a specific apartment in a multi-family dwelling, consisting either of an undivided interest in the property where the apartment is situated (direct ownership), or an interest in a legal entity which owns the property where the apartment is situated (indirect ownership).



**NOTE 7** Loans to the public, cont.

Non-performing loans by borrower category	31 Dec 2013		31 Dec 2012	
	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans
SEK m				
Households	707	95	950	83
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	1	-	3	-
Other legal entities	125	132	55	11
<b>Total</b>	<b>833</b>	<b>227</b>	<b>1,008</b>	<b>94</b>
<b>of which in operations outside Sweden</b>				
Households	73	11	93	3
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	-	-	-	-
Other legal entities	6	-	12	1
<b>Total non-performing loans in operations outside Sweden</b>	<b>79</b>	<b>11</b>	<b>105</b>	<b>4</b>

Non-performing loans by type of collateral	31 Dec 2013		31 Dec 2012	
	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans
SEK m				
Single-family housing	592	87	750	67
Housing co-operative apartments	84	5	133	14
Owner-occupied apartments*	27	1	30	1
<b>Private market</b>	<b>703</b>	<b>93</b>	<b>913</b>	<b>82</b>
Multi-family housing	87	79	55	11
Offices and commercial buildings	43	55	40	1
<b>Corporate market</b>	<b>130</b>	<b>134</b>	<b>95</b>	<b>12</b>
<b>Total</b>	<b>833</b>	<b>227</b>	<b>1,008</b>	<b>94</b>
<b>of which in operations outside Sweden</b>				
Single-family housing	52	10	75	3
Housing co-operative apartments	-	-	-	-
Owner-occupied apartments*	27	1	30	1
<b>Private market</b>	<b>79</b>	<b>11</b>	<b>105</b>	<b>4</b>
Multi-family housing	-	-	-	-
Offices and commercial buildings	-	-	-	-
<b>Corporate market</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total non-performing loans in operations outside Sweden</b>	<b>79</b>	<b>11</b>	<b>105</b>	<b>4</b>

\* For definition, see page 14.

NOTE 7 Loans to the public, cont.

Impaired loans by borrower category	31 Dec 2013			31 Dec 2012		
	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans
SEK m						
Households	124	-36	88	100	-33	67
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	26	-9	17	29	-12	17
Other legal entities	133	-3	130	12	-5	7
<b>Total</b>	<b>283</b>	<b>-48</b>	<b>235</b>	<b>141</b>	<b>-50</b>	<b>91</b>
<b>of which in operations outside Sweden</b>						
Households	11	0	11	3	0	3
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-
Other legal entities	0	0	0	1	0	1
<b>Total impaired loans in operations outside Sweden</b>	<b>11</b>	<b>0</b>	<b>11</b>	<b>4</b>	<b>0</b>	<b>4</b>

Impaired loans by type of collateral	31 Dec 2013			31 Dec 2012		
	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans
SEK m						
Single-family housing	115	-30	85	83	-24	59
Housing co-operative apartments	6	-1	5	15	-4	11
Owner-occupied apartments*	1	0	1	1	0	1
<b>Private market</b>	<b>122</b>	<b>-31</b>	<b>91</b>	<b>99</b>	<b>-28</b>	<b>71</b>
Multi-family housing	106	-17	89	42	-22	20
Offices and commercial buildings	55	0	55	0	0	0
<b>Corporate market</b>	<b>161</b>	<b>-17</b>	<b>144</b>	<b>42</b>	<b>-22</b>	<b>20</b>
<b>Total</b>	<b>283</b>	<b>-48</b>	<b>235</b>	<b>141</b>	<b>-50</b>	<b>91</b>
<b>of which in operations outside Sweden</b>						
Single-family housing	10	0	10	3	0	3
Housing co-operative apartments	-	-	-	-	-	-
Owner-occupied apartments*	1	0	1	1	0	1
<b>Private market</b>	<b>11</b>	<b>0</b>	<b>11</b>	<b>4</b>	<b>0</b>	<b>4</b>
Multi-family housing	-	-	-	-	-	-
Offices and commercial buildings	-	-	-	-	-	-
<b>Corporate market</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total impaired loans in operations outside Sweden</b>	<b>11</b>	<b>0</b>	<b>11</b>	<b>4</b>	<b>0</b>	<b>4</b>

\* For definition, see page 14.

The reserved amount for probable losses in the tables showing impaired loans consists of a specific provision for individually assessed receivables.

## NOTE 8 Derivative instruments

SEK m	Market value 31 Dec 2013	Market value 31 Dec 2012
<b>Positive values</b>		
Interest rate instruments	13,684	20,272
Currency instruments	1,551	436
<b>Total</b>	<b>15,235</b>	<b>20,708</b>
<b>Negative values</b>		
Interest rate instruments	3,470	3,469
Currency instruments	4,716	8,519
<b>Total</b>	<b>8,186</b>	<b>11,988</b>
<b>Net</b>	<b>7,049</b>	<b>8,720</b>

## NOTE 9 Classification of financial assets and liabilities

31 Dec 2013 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives designated as hedging instruments	Financial liabilities valued at amortised cost	Non-financial assets/liabilities	Total	Fair value
<b>Assets</b>							
Loans to credit institutions	7,966					7,966	7,966
Loans to the public	955,251					955,251	958,625
Value change of interest- hedged item in portfolio hedge	96					96	
Derivative instruments		361	14,874			15,235	15,235
Other assets	5,993				118	6,111	6,111
<b>Total assets</b>	<b>969,306</b>	<b>361</b>	<b>14,874</b>		<b>118</b>	<b>984,659</b>	<b>987,937</b>
<b>Liabilities</b>							
Due to credit institutions				337,097		337,097	336,856
Issued securities				572,746		572,746	577,554
Derivative instruments		455	7,731			8,186	8,186
Other liabilities				18,707		18,707	18,707
Subordinated liabilities				21,200		21,200	22,996
<b>Total liabilities</b>		<b>455</b>	<b>7,731</b>	<b>949,750</b>		<b>957,936</b>	<b>964,299</b>

31 Dec 2012 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives designated as hedging instruments	Financial liabilities valued at amortised cost	Non-financial assets/liabilities	Total	Fair value
<b>Assets</b>							
Loans to credit institutions	5,758					5,758	5,758
Loans to the public	891,200					891,200	897,360
Value change of interest- hedged item in portfolio hedge	5,271					5,271	
Derivative instruments		125	20,583			20,708	20,708
Other assets	2,983				41	3,024	3,024
<b>Total assets</b>	<b>905,212</b>	<b>125</b>	<b>20,583</b>		<b>41</b>	<b>925,961</b>	<b>926,850</b>
<b>Liabilities</b>							
Due to credit institutions				286,294		286,294	286,558
Issued securities				565,865		565,865	571,105
Derivative instruments		1,053	10,935			11,988	11,988
Other liabilities				19,125	49	19,174	19,174
Subordinated liabilities				16,700		16,700	18,023
<b>Total liabilities</b>		<b>1,053</b>	<b>10,935</b>	<b>887,984</b>	<b>49</b>	<b>900,021</b>	<b>906,848</b>

## NOTE 10 Fair value measurement of financial instruments

31 Dec 2013				
SEK m				
Assets	Level 1	Level 2	Level 3	Total
Derivative instruments	-	15,235	-	15,235
<b>Total financial assets at fair value</b>	<b>-</b>	<b>15,235</b>	<b>-</b>	<b>15,235</b>
Liabilities				
Derivative instruments	-	8,186	-	8,186
<b>Total financial liabilities at fair value</b>	<b>-</b>	<b>8,186</b>	<b>-</b>	<b>8,186</b>

  

31 Dec 2012				
SEK m				
Assets	Level 1	Level 2	Level 3	Total
Derivative instruments	-	20,708	-	20,708
<b>Total financial assets at fair value</b>	<b>-</b>	<b>20,708</b>	<b>-</b>	<b>20,708</b>
Liabilities				
Derivative instruments	-	11,988	-	11,988
<b>Total financial liabilities at fair value</b>	<b>-</b>	<b>11,988</b>	<b>-</b>	<b>11,988</b>

### Valuation process

Stadshypotek's independent risk control is responsible for the existence of appropriate instructions and processes for fair value measurement of financial instruments. In general, the valuations are based on externally generated data as far as is possible considering the circumstances in each case. In the case of model valuation, valuation models that are established in the market are always used. The models and input data which form the basis of the valuations are regularly validated by the independent risk control function to ensure that they are consistent with market practice and established financial theory. New and revised valuation models are always validated before they come into use. Stadshypotek is also subject to the Handelsbanken Group's guidelines and instructions for valuation of financial instruments. Valuation matters which are of principle importance are discussed by the Handelsbanken Group's valuation committee which includes representatives of both central and local risk control as well as financial functions. The valuation committee ensures that general instructions for valuation of financial instruments are consistently followed throughout the Handelsbanken Group and serve as support for decision-making in valuation and accounting matters.

### Principles for fair value measurement of financial instruments

Fair value is defined as the price at which an asset could be sold or a liability could be transferred in a normal transaction between independent market participants. For financial instruments traded on an active market, the fair value is the same as the quoted market price. An active market is one where quoted prices are readily and regularly available from a regulated market, execution venue, reliable news service or equivalent, and where the price information received can be verified by means of regularly occurring transactions. The current market price is generally the same as the current bid price for financial assets or the current asking price for financial liabilities.

For financial instruments where there is no reliable information about market prices, fair value is established using valuation models. The valuation models used are based on input data which essentially can be verified using market observations such as market rates. If necessary, an adjustment is made for other variables which a market participant would be expected to take into consideration when setting a price.

Stadshypotek's derivatives contracts, including interest rate swaps and various types of linear currency derivatives, are valued using valuation models based on listed market rates and other market prices. The valuation of non-linear derivative contracts that are not actively traded are also based on a reasonable estimate of market-based input data such as volatility.

### Valuation hierarchy

In the tables, financial instruments at fair value have been categorised in terms of how the valuations have been carried out and the extent of market data used in the valuation.

The categorisation is shown as levels 1-3 in the table. The categorisation is based on the valuation method used on the balance sheet date. Financial instruments which are valued at the current market price are categorised as level 1. Financial instruments which are valued using valuation models which are essentially based on market data are categorised as level 2. Level 2 includes interest and currency-related derivatives. Financial instruments valued using models which to a material extent are based on input data that is not possible to verify using external market information, are categorised as level 3.

# Related-party transactions

Group claims/group liabilities SEK m	31 Dec 2013	31 Dec 2012
<b>BALANCE SHEET</b>		
<b>Group claims</b>		
Loans to credit institutions	7,966	5,758
Derivative instruments	15,235	20,618
Other assets	55	60
<b>Total</b>	<b>23,256</b>	<b>26,436</b>
<b>Group liabilities</b>		
Due to credit institutions	337,096	286,294
Derivative instruments	8,186	11,769
Other liabilities	7,342	7,791
Subordinated liabilities	21,200	16,700
<b>Total</b>	<b>373,824</b>	<b>322,554</b>
<b>INCOME STATEMENT</b>		
Interest income	289	286
Interest expense	-4,892	-7,058
Fee and commission expense	-2	-5
Other administrative expenses	-1,251	-192
<b>Total</b>	<b>-5,856</b>	<b>-6,969</b>

The business operations of Stadshypotek are highly decentralised. The basic principle is that organisation and working practices are determined by the branch offices of the Handelsbanken Group, which are responsible for all the business of individual customers. One consequence of this approach is that Stadshypotek's lending operations are run via Handelsbanken's Swedish branch operations and the lending operations in Stadshypotek's branches in Norway, Denmark and Finland are run via Handelsbanken's branch operations in the respective countries. Lending is to be carried out to the extent and on the terms stated in Guidelines for granting credits, established annually by the Board of Stadshypotek. These guidelines include the maximum permitted loan-to-value ratio for various property types, as well as the decision limits which apply to the branches' lending. In addition, for loan amounts in excess of a certain limit, an advance examination of the case is to be conducted by Stadshypotek's credit department before the loan can be disbursed. Stadshypotek's treasury function is also integrated with Handelsbanken's treasury department. Functions necessary for management and control of the company remain within Stadshypotek. Those services which Handelsbanken performs on behalf of Stadshypotek are regulated in outsourcing agreements between the parties.

Most of the inter-company transactions are thus with the parent company, Handelsbanken. The services that Stadshypotek purchases from the parent company, which are included in other administrative expenses, consist primarily of sales compensation, IT services and the treasury function. Stadshypotek's branches outside Sweden already make payments to Handelsbanken's branches in the respective countries for services rendered by them on behalf of Stadshypotek. As of 1 January 2013, the parent company is also compensated for the services performed by the branch office operations on behalf of Stadshypotek in relation to the sale and administration of mortgage loans in Sweden. In addition, inter-company transactions consist of funding from the parent company, derivative transactions and lending to the parent company.

# Capital base and capital requirement

Capital base SEK m	31 Dec 2013	31 Dec 2012
Equity	26,723	25,940
Tier 1 capital contribution	3,000	3,000
Deduction for intangible assets	-40	-41
Adjustment for cash flow hedges	190	-
Special deduction for IRB institutions	-95	-34
<b>Tier 1 capital</b>	<b>29,778</b>	<b>28,865</b>
Perpetual subordinated loans	5,300	5,300
Dated subordinated loans	10,100	6,300
Special deduction for IRB institutions	-95	-34
<b>Tier 2 capital</b>	<b>15,305</b>	<b>11,566</b>
<b>Capital base</b>	<b>45,083</b>	<b>40,431</b>
<b>Capital requirement</b> SEK m	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
Credit risk according to standardised approach	21	31
Credit risk according to IRB approach	4,907	4,897
Operational risk	857	760
<b>Total capital requirement according to Basel II</b>	<b>5,785</b>	<b>5,688</b>
Adjustment according to transitional rules	31,095	28,960
<b>Capital requirement according to Basel II, transitional rules</b>	<b>36,880</b>	<b>34,648</b>
Risk-weighted assets in accordance with transitional rules	461,002	433,104
Risk-weighted assets according to Basel II (capital requirement/8%)	72,313	71,100
<b>Capital adequacy analysis</b> %	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
Capital requirement in Basel II compared with transitional rules	16	16
Capital ratio according to Basel II	62.3	56.9
Capital ratio according to transitional rules	9.8	9.3
Tier 1 ratio according to Basel II	41.2	40.6
Tier 1 ratio according to transitional rules	6.5	6.7
Capital base in relation to capital requirement Basel II	779	711
Capital base in relation to capital requirement according to transitional rules	122	117

The figures reported in this section refer to the minimum capital requirements under Pillar 1 of the capital adequacy rules, Basel II. Table references marked "According to Basel II" mean that the figures are based on the minimum capital requirements after the transitional rules have ceased to apply.

Stadshypotek has applied the advanced IRB approach for retail exposures (households and small companies) since 2007. Since 31 December 2010, the advanced IRB approach has been applied for medium-sized companies, housing co-operative associations and property companies. For the remaining credit risk exposures, the capital requirement is measured using the Basel II standardised regulations.

# Credit risks

Credit risks SEK m	Standardised approach	IRB approach		
	Capital requirement	Exposure after credit risk protection (EAD)	Average risk weight	Capital requirement
<b>31 Dec 2013</b>				
Institutions	0	-	-	-
Corporate	2	273,836	10.0%	2,184
<i>of which advanced approach</i>	-	273,311	10.0%	2,108
<i>of which foundation approach</i>	-	525	9.8%	4
Households	16	647,809	5.3%	2,723
Other	3	-	-	-
<b>Total</b>	<b>21</b>	<b>921,645</b>	<b>6.7%</b>	<b>4,907</b>

Credit risks SEK m	Standardised approach	IRB approach		
	Capital requirement	Exposure after credit risk protection (EAD)	Average risk weight	Capital requirement
<b>31 Dec 2012</b>				
Institutions	7	-	-	-
Corporate	9	247,998	11.2%	2,218
<i>of which advanced approach</i>	-	246,956	11.1%	2,194
<i>of which foundation approach</i>	-	1,042	28.3%	24
Households	11	612,132	5.5%	2,679
Other	4	-	-	-
<b>Total</b>	<b>31</b>	<b>860,130</b>	<b>7.1%</b>	<b>4,897</b>

# Submission of report

## Submission of report

I hereby submit this report.

Stockholm, 5 February 2014

## Per Beckman

Chief Executive

**Next report:** to be published on 17 July 2014

As of 2013, Stadshypotek publishes six-monthly reports.

# Facts about the company

**Registered name:** Stadshypotek AB (publ).

**Corporate identity no:** 556459-6715.

**Ownership:** A subsidiary of Svenska Handelsbanken AB (publ), corporate identity number 502007-7862.

The Bank publishes consolidated annual accounts in which Stadshypotek AB is included.

## ADDRESS

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