

# Highlights of Stadshypotek's Annual Report

January-December

# 2016

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**Income** totalled  
SEK 12,415m (11,779).

**Operating profit** rose by  
SEK 650m and amounted  
to SEK 11,366m (10,716).

**Net loan losses** totalled  
SEK -2m (2).

**Profit after tax** totalled  
SEK 8,857m (8,322).

**Loans to the public** increased by 6%,  
or SEK 68bn, to SEK 1,151bn (1,083).

**Expenses before loan losses**  
decreased by SEK 18m and  
amounted to SEK -1,047m (-1,065).

# Highlights of Stadshypotek's Annual Report January–December 2016

## JANUARY–DECEMBER 2016 COMPARED WITH JANUARY–DECEMBER 2015

Stadshypotek's operating profit increased by 6%, or SEK 650m, to SEK 11,366m (10,716). Net interest income grew by SEK 606m to SEK 12,362m (11,756). This increase was primarily due to higher lending volumes to the private market in Sweden. Of the net interest income, SEK 577m (875) was attributable to the branch in Norway, SEK 377m (417) to the branch in Finland and SEK 345m (276) to the branch in Denmark. The decrease in net interest income at the Norwegian branch was attributable to lower margins for both the private and corporate markets, although this was offset slightly by an increase in lending volumes. The decrease in net interest income at the Finnish branch can mainly be explained by lower margins, while net interest income at the Danish branch rose due to an increase in lending volumes to the private market. Excluding the branches, net interest income increased by SEK 875m. Net gains/losses on financial transactions increased to SEK 82m (29).

Expenses decreased by SEK 18m to SEK -1,047m (-1,065), mainly due to a lower level of sales compensation paid to the parent company for the services performed by the branch operations on behalf of Stadshypotek in relation to the sale and administration of mortgage loans.

Net loan losses totalled SEK -2m (2).

## LENDING

Loans to the public increased by 6%, or SEK 68bn, to SEK 1,151bn (1,083). In Sweden, loans to the public increased by 5%, or SEK 46bn, to SEK 983bn (937). Loans to the private market in Sweden increased by 7%, or SEK 46bn, to SEK 670bn (624). The credit quality of lending operations remains very good. Impaired loans, before deduction of the provision for probable loan losses, decreased by SEK 6m and totalled SEK 103m (109). Of this amount, non-performing loans accounted for SEK 41m (66), while SEK 62m (43) 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 328m (338) that are not classed as being impaired loans. After deductions for specific provisions totalling SEK -32m (-32) and collective provisions of SEK -4m (-5) for probable loan losses, impaired loans totalled SEK 67m (72).

## FUNDING

Issues made under Stadshypotek's Swedish covered bond programme totalled SEK 112.7bn (112.8). During the year, a nominal volume totalling SEK 82.7bn (115.3) matured or was repurchased. In Norway, bonds to the value of NOK 10.2bn (1.5) were issued during the year and bonds to the value of NOK 200m were repurchased. Issues of covered bonds under the EMTCN programme totalled EUR 2.75bn (1.25), of which EUR 0.5bn related to the first issue using the cover pool that was established in Finland during the year as collateral. During the year, bonds to the value of EUR 1.5bn, CHF 225m, GBP 350m and SEK 4.7bn matured.

## CAPITAL ADEQUACY

The total capital ratio according to CRD IV was 67.4% (67.8) while the common equity tier 1 ratio calculated according to CRD IV was 39.2% (40.2). Further information on capital adequacy is provided in the Own funds and capital requirement section on page 19.

## RATINGS

During the year, Fitch upgraded Stadshypotek's long-term rating from AA- to AA. Stadshypotek's other 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

SEK m	Jul-Dec 2016	Jul-Dec 2015	Change %	Full year 2016	Full year 2015	Change %
Interest income	10,153	10,415	-3	20,295	21,884	-7
Interest expense	-3,825	-4,527	-16	-7,933	-10,128	-22
<b>Net interest income</b>	<b>6,328</b>	<b>5,888</b>	<b>7</b>	<b>12,362</b>	<b>11,756</b>	<b>5</b>
Fee and commission income	6	6	0	13	14	-7
Fee and commission expense	-21	-10	110	-42	-20	110
<b>Net fee and commission income</b>	<b>-15</b>	<b>-4</b>	<b>275</b>	<b>-29</b>	<b>-6</b>	<b>383</b>
<b>Net gains/losses on financial transactions</b>	<b>39</b>	<b>-30</b>	<b>-</b>	<b>82</b>	<b>29</b>	<b>183</b>
<b>Total income</b>	<b>6,352</b>	<b>5,854</b>	<b>9</b>	<b>12,415</b>	<b>11,779</b>	<b>5</b>
Staff costs	-46	-47	-2	-94	-89	6
Other administrative expenses	-480	-468	3	-947	-963	-2
Depreciation and amortisation	-3	-6	-50	-6	-13	-54
<b>Total expenses</b>	<b>-529</b>	<b>-521</b>	<b>2</b>	<b>-1,047</b>	<b>-1,065</b>	<b>-2</b>
<b>Profit before loan losses</b>	<b>5,823</b>	<b>5,333</b>	<b>9</b>	<b>11,368</b>	<b>10,714</b>	<b>6</b>
Net loan losses	-7	-1	600	-2	2	-
<b>Operating profit</b>	<b>5,816</b>	<b>5,332</b>	<b>9</b>	<b>11,366</b>	<b>10,716</b>	<b>6</b>
Tax	-1,288	-1,191	8	-2,509	-2,394	5
<b>Profit for the period</b>	<b>4,528</b>	<b>4,141</b>	<b>9</b>	<b>8,857</b>	<b>8,322</b>	<b>6</b>
Net earnings per share, before and after dilution, SEK	27,951	25,562		54,674	51,370	

# Statement of comprehensive income

SEK m	Jul-Dec 2016	Jul-Dec 2015	Change %	Full year 2016	Full year 2015	Change %
<b>Profit for the period</b>	<b>4,528</b>	<b>4,141</b>	<b>9</b>	<b>8,857</b>	<b>8,322</b>	<b>6</b>
<b>Other comprehensive income</b>						
<b>Items that may subsequently be reclassified to the income statement</b>						
Cash flow hedges	-3,315	-123	-	-1,262	-695	82
Translation differences for the period	170	-239	-	407	-329	-
Tax on items that may subsequently be reclassified to the income statement						
– cash flow hedges	730	27	-	278	153	82
<b>Total comprehensive income for the period</b>	<b>2,113</b>	<b>3,806</b>	<b>-44</b>	<b>8,280</b>	<b>7,451</b>	<b>11</b>

# Half-yearly performance

SEK m	Jul-Dec 2016	Jan-Jun 2016	Jul-Dec 2015	Jan-Jun 2015	Jul-Dec 2014
Interest income	10,153	10,142	10,415	11,469	13,060
Interest expense	-3,825	-4,108	-4,527	-5,601	-7,647
<b>Net interest income</b>	<b>6,328</b>	<b>6,034</b>	<b>5,888</b>	<b>5,868</b>	<b>5,413</b>
Net fee and commission income	-15	-14	-4	-2	-4
Net gains/losses on financial transactions	39	43	-30	59	-75
<b>Total income</b>	<b>6,352</b>	<b>6,063</b>	<b>5,854</b>	<b>5,925</b>	<b>5,334</b>
Staff costs	-46	-48	-47	-42	-44
Other administrative expenses	-480	-467	-468	-495	-713
Depreciation and amortisation	-3	-3	-6	-7	-7
<b>Total expenses</b>	<b>-529</b>	<b>-518</b>	<b>-521</b>	<b>-544</b>	<b>-764</b>
<b>Profit before loan losses</b>	<b>5,823</b>	<b>5,545</b>	<b>5,333</b>	<b>5,381</b>	<b>4,570</b>
Net loan losses	-7	5	-1	3	26
<b>Operating profit</b>	<b>5,816</b>	<b>5,550</b>	<b>5,332</b>	<b>5,384</b>	<b>4,596</b>

# Balance sheet

SEK m		31 Dec 2016	31 Dec 2015
<b>Assets</b>			
Loans to credit institutions		12,027	10,516
Loans to the public	Note 7	1,150,611	1,082,659
Value change of interest-hedged item in portfolio hedge		35	28
Shares and participating interests in Group companies		0	0
Derivative instruments	Note 8	22,746	20,514
Intangible assets		12	14
Property and equipment		0	0
Current tax assets		-	71
Other assets		701	1,221
Prepaid expenses and accrued income		1,393	1,408
<b>Total assets</b>		<b>1,187,525</b>	<b>1,116,431</b>
<i>of which Group claims</i>	<i>Note 14</i>	<i>34,849</i>	<i>31,093</i>
<b>Liabilities and equity</b>			
Due to credit institutions		497,110	472,238
Issued securities	Note 9	612,787	568,416
Derivative instruments	Note 8	4,429	4,145
Current tax liability		188	-
Deferred tax liability		735	1,012
Other liabilities		10,143	9,273
Accrued expenses and deferred income		7,415	8,031
Subordinated liabilities		21,700	20,700
<b>Total liabilities</b>		<b>1,154,507</b>	<b>1,083,815</b>
<b>Equity</b>			
Share capital		4,050	4,050
Other funds		10,782	11,347
Retained earnings		9,329	8,897
Profit for the year		8,857	8,322
<b>Total equity</b>		<b>33,018</b>	<b>32,616</b>
<b>Total liabilities and equity</b>		<b>1,187,525</b>	<b>1,116,431</b>
<i>of which Group liabilities</i>	<i>Note 14</i>	<i>533,896</i>	<i>506,740</i>

# Statement of changes in equity

Jan–Dec 2015 SEK m	Restricted equity		Non-restricted equity		Retained earnings	Total
	Share capital *	Statutory reserve	Hedge reserve	Translation reserve		
Equity at 31 December 2014	4,050	8,106	4,133	-21	16,100	32,368
Profit for the year					8,322	8,322
Other comprehensive income			-542	-329		-871
<b>Total comprehensive income for the year</b>			<b>-542</b>	<b>-329</b>	<b>8,322</b>	<b>7,451</b>
Group contributions provided					-9,235	-9,235
Tax effect on Group contributions					2,032	2,032
<b>Equity at 31 December 2015</b>	<b>4,050</b>	<b>8,106</b>	<b>3,591</b>	<b>-350</b>	<b>17,219</b>	<b>32,616</b>

Jan–Dec 2016 SEK m	Share capital *	Statutory reserve	Fund for internally developed software	Hedge reserve	Translation reserve	Retained earnings	Total
Profit for the year						8,857	8,857
Other comprehensive income				-984	407		-577
<b>Total comprehensive income for the year</b>				<b>-984</b>	<b>407</b>	<b>8,857</b>	<b>8,280</b>
Fund for internally developed software			12			-12	-
Group contributions provided						-10,100	-10,100
Tax effect on Group contributions						2,222	2,222
<b>Equity at 31 December 2016</b>	<b>4,050</b>	<b>8,106</b>	<b>12</b>	<b>2,607</b>	<b>57</b>	<b>18,186</b>	<b>33,018</b>

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

Other comprehensive income consists primarily of the effective portion of the change in the fair value of interest rate swaps and cross-currency interest rate swaps used as hedging instruments in cash flow hedging. Cash flow hedges are applied to manage exposures to variations in cash flows relating to changes in the floating interest rates on lending and funding. Cash flow hedging is also used to hedge currency risk in

future cash flows relating to funding in foreign currencies. Lending and funding are measured at amortised cost, whereas the derivatives used to hedge these items are measured at market value. Over time, the market values of the derivatives reach zero as each individual hedge reaches maturity, but this entails volatility in other comprehensive income during the term of the hedge. During the period, changes in the

value of hedge derivatives in cash flow hedges totalled SEK -984m (-542) after tax. The changes in value derive primarily from changes in the discount rates of the respective currencies and the time factor, which means that the market values of the derivatives move towards zero up to the time of maturity.

# Condensed statement of cash flows

SEK m	Full year 2016	Full year 2015
Operating profit	11,366	10,716
Adjustment for non-cash items in profit/loss	186	506
Paid income tax	-169	-314
Changes in the assets and liabilities of operating activities	-1,841	-3,200
<b>Cash flow from operating activities</b>	<b>9,542</b>	<b>7,708</b>
<b>Cash flow from investing activities</b>	<b>-3</b>	<b>0</b>
Subordinated loans	1,000	-
Group contribution provided	-9,235	-7,180
<b>Cash flow from financing activities</b>	<b>-8,235</b>	<b>-7,180</b>
<b>Cash flow for the year</b>	<b>1,304</b>	<b>528</b>
Liquid funds at beginning of year	5,516	5,129
Cash flow for the year	1,304	528
Exchange rate difference on liquid funds	207	-141
<b>Liquid funds at end of year</b>	<b>7,027</b>	<b>5,516</b>
<i>Liquid funds consist of funds available with banks and equivalent institutions, excluding funds on a blocked account.</i>		
Liquid funds with banks and equivalent institutions	7,027	5,516
Funds on a blocked account with banks relating to issuance of covered bonds	5,000	5,000
<b>Loans to credit institutions</b>	<b>12,027</b>	<b>10,516</b>

## Key figures

	Jul-Dec 2016	Jul-Dec 2015	Full year 2016	Full year 2015
Net interest margin, %	1.08	1.07	1.07	1.08
C/l ratio before loan losses, %	8.3	8.9	8.4	9.0
C/l ratio after loan losses, %	8.4	8.9	8.4	9.0
Return on equity, %	25.2	24.1	24.4	24.2
Total capital ratio, CRD IV, %	67.4	67.8	67.4	67.8
Tier 1 ratio, CRD IV, %	39.2	43.1	39.2	43.1
Common equity tier 1 ratio, CRD IV, %	39.2	40.2	39.2	40.2

For definitions and calculation of key figures, see pages 21 and 22.



# Notes

## NOTE 1 Accounting policies

This report has been prepared in accordance with IAS 34 Interim Financial Reporting. The contents of the report also comply with the applicable provisions of the Swedish Act (1995:1559) on Annual Reports in Credit Institutions and Securities Companies and the Swedish Financial Supervisory Authority's regulations and general guidelines FFFS 2008:25 on annual reports in credit institutions and securities companies. RFR 2 Accounting for legal entities, as well as statements issued by the Swedish Financial Reporting Board were also applied when preparing the accounts.

Stadshypotek's subsidiary holdings comprise the dormant company Svenska Intecknings Garanti AB Sigab. In accordance with Chapter 7, section 7 (4) of the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, Stadshypotek has not prepared consolidated accounts as its subsidiary is of marginal significance.

On 1 January 2016, regulations (FFFS 2015:20) regarding an amendment to the Swedish Financial Supervisory Authority's regulations and general guidelines (FFFS 2008:25) on

annual reports in credit institutions and securities companies came into effect. The main difference is that the amount corresponding to internally developed software for the period is transferred from unrestricted equity to restricted equity in the Fund for internally developed software item.

ESMA has published guidelines on disclosures regarding alternative performance measures which should be followed in financial reports published after 3 July 2016. The guidelines entail an increase in the disclosure of financial ratios that are not defined in IFRS. In accordance with the requirements in the guidelines, Stadshypotek provides information about definitions and reconciliation of alternative performance measures, see page 22.

In all other respects, Stadshypotek's report has been prepared in accordance with the same accounting policies and calculation methods that were applied in the annual report for 2015.

### REGULATORY CHANGES

IFRS 9 Financial Instruments, which is to replace IAS 39 Financial Instruments: Recognition and

Measurement, has been adopted for application by the EU. The standard is to be applied as of the 2018 financial year and covers three areas: classification and measurement, impairment and general hedge accounting. Stadshypotek is currently analysing the financial effects of the new standard in more detail.

Further, IFRS 15 Revenue from contracts with customers has also been adopted for application by the EU. The standard is to be applied as of the 2018 financial year. The current assessment is that the new standard will not have any material impact on Stadshypotek's financial reports, capital adequacy and large exposures.

None of the other changes in the accounting regulations issued for application are expected to have any material impact on Stadshypotek's financial reports, capital adequacy, large exposures or other matters under the applicable operating rules.

## NOTE 2 Other information

### RISKS AND UNCERTAINTY FACTORS

Regulatory developments are continuing at a fast pace. Stadshypotek's low tolerance of risk, sound capitalisation and, as part of the Handelsbanken Group, strong liquidity mean that the company is well equipped to operate in line with the new, stricter regulations and to cope with substantially more difficult market conditions than those experienced in recent years.

### 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.

Credit risk is the risk of Stadshypotek facing economic loss because its counterparties cannot fulfil their contractual obligations. Market risks stem from price changes in the financial markets. The market risks affecting Stadshypotek are interest rate risk and exchange rate risk. At 31 December 2016, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -446m (-348). Liquidity risk refers to 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 risks are defined as the risk of loss due to inadequate

or failed internal processes, human error, malfunctioning systems, or external events. The definition includes legal risk. The Stadshypotek Board establishes policies describing 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 its Board.

Stadshypotek's lending operations are integrated with those of Handelsbanken, which, among other things, means that Stadshypotek's lending is carried out via the Bank's branch network. Moreover, Stadshypotek's funding needs are managed by Handelsbanken's Treasury department. 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 characterised by a clear division of responsibility whereby each part of the business operations bears full responsibility for its

business and for risk management. The person who is most familiar with the customer and the market conditions is the person best equipped to assess the risk and also take action at an early stage in the event of problems. Each branch and each profit centre bears the responsibility for dealing with any problems that arise. This encourages high risk awareness and a cautious approach in the business operations. 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 large loans are subject to limits and assessed by a dedicated credit organisation. Decisions on limits are made at the branch, regional or central level, depending on the size of the credit limit. As regards the procedures for limiting market risk and liquidity risk at Stadshypotek, the company's Board establishes limits for this purpose.

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 performs daily calculations and checks to ensure that risk exposure remains within the set limits. Limit

## NOTE 2 Other information, cont.

utilisation is reported internally within the company, and to the parent company's Group Risk Control. In addition, limit utilisation is reported regularly to Stadshypotek's Chief Executive and Board of Directors.

Stadshypotek is also covered by Group Risk Control at Handelsbanken, which has the task of identifying the Handelsbanken Group's risks, gauging them, and ensuring that management of these risks complies with the Group's low risk tolerance. Group Risk Control is responsible for the independent reporting of risks for the banking group of which Stadshypotek is a part.

Group 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. Stadshypotek is covered by an agreement regarding liquidity support within the Handelsbanken Group. According to the agreement, Handelsbanken holds a liquidity reserve for the Handelsbanken Group as a whole and is thus responsible for Stadshypotek fulfilling the liquidity reserve requirement as stipulated in the Swedish Financial Supervisory Authority's regulation FFFS 2010:7. The agreement also stipulates that the parties, in accordance with Article 8 of CRR and Chapter 6, Section 1 of FFFS 2014:12, are required to provide each other with liquidity support as necessary.

Stadshypotek's liquidity situation is regularly stress-tested. The stress tests focus on the short-term effects in the case of certain assumptions of relevance to its operations, for example disruptions in the market for covered bonds. Group 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 consistent manner when the need for capital is assessed.

### CAPITAL REQUIREMENT

On 24 May, the Swedish Financial Supervisory Authority published two memoranda relating to higher capital requirements for corporate exposures. The first memorandum deals with the need for higher risk weights for corporate exposures under Pillar 1, while the other deals with a maturity floor of at least 2½ years under Pillar 2. Stadshypotek's assessment, even when taking these capital requirements into account, is that the company is well-capitalised.

### MATERIAL EVENTS AFTER BALANCE SHEET DATE

No material events have occurred after the balance sheet date.

## NOTE 3 Net interest income

SEK.m	Jul-Dec 2016	Jul-Dec 2015	Change %	Full year 2016	Full year 2015	Change %
<b>Interest income</b>						
Loans to the public	10,065	10,321	-2	20,116	21,691	-7
Loans to credit institutions	88	94	-6	179	193	-7
<b>Total</b>	<b>10,153</b>	<b>10,415</b>	<b>-3</b>	<b>20,295</b>	<b>21,884</b>	<b>-7</b>
<b>Interest expense</b>						
Due to credit institutions	-1,196	-934	28	-2,241	-2,184	3
Issued securities	-3,981	-5,004	-20	-8,479	-10,434	-19
Subordinated liabilities	-235	-226	4	-448	-479	-6
Derivative instruments*	1,720	1,742	-1	3,503	3,177	10
Fee to Resolution Fund (Stability Fund in 2015)	-133	-104	28	-267	-207	29
Other	0	-1	-100	-1	-1	0
<b>Total</b>	<b>-3,825</b>	<b>-4,527</b>	<b>-16</b>	<b>-7,933</b>	<b>-10,128</b>	<b>-22</b>
<b>Net interest income</b>	<b>6,328</b>	<b>5,888</b>	<b>7</b>	<b>12,362</b>	<b>11,756</b>	<b>5</b>

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

## NOTE 4 Net gains/losses on financial transactions

SEK m	Jul-Dec 2016	Jul-Dec 2015	Change %	Full year 2016	Full year 2015	Change %
Hedge accounting	-4	-36	-89	-8	-111	-93
<i>of which fair value hedges</i>	-6	-35	-83	-11	-112	-90
<i>of which ineffective portion of cash flow hedges</i>	2	-1	-	3	1	200
Loans, valued at cost	136	144	-6	272	304	-11
Financial liabilities, valued at cost	-112	-206	-46	-224	-361	-38
Derivatives not recognised as hedges	-3	53	-	-4	181	-
Other	22	15	47	46	16	188
<b>Total</b>	<b>39</b>	<b>-30</b>	<b>-</b>	<b>82</b>	<b>29</b>	<b>183</b>

The profit/loss item Fair value hedges includes the net result of unrealised and realised changes in the fair value of financial assets which are subject to this hedge accounting. Interest income and interest expenses relating to hedging 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 Ineffective portion of cash flow hedges. Derivatives not recognised as hedges are included in the held-for-trading category.

The line item Loans, valued at cost refers to early redemption charges for loans and receivables which have been repaid ahead of time. The line item Financial liabilities, valued at cost refers to realised price differences when repurchasing bonds.

## NOTE 5 Other administrative expenses

SEK m	Jul-Dec 2016	Jul-Dec 2015	Change %	Full year 2016	Full year 2015	Change %
Cost of premises	-4	-4	0	-7	-7	0
IT costs	-56	-57	-2	-114	-116	-2
Communication	-1	-1	0	-1	-1	0
Travel and marketing	-1	-1	0	-3	-3	0
Purchased services	-407	-395	3	-802	-816	-2
Supplies	0	0	0	0	0	0
Other expenses	-11	-10	10	-20	-20	0
<b>Total</b>	<b>-480</b>	<b>-468</b>	<b>3</b>	<b>-947</b>	<b>-963</b>	<b>-2</b>

## NOTE 6 Loan losses

SEK m	Jul-Dec 2016	Jul-Dec 2015	Change %	Full year 2016	Full year 2015	Change %
<b>Specific provision for individually assessed loans</b>						
Provisions for the period	-14	-4	250	-15	-11	36
Reversal of previous provisions	3	1	200	5	4	25
<b>Total</b>	<b>-11</b>	<b>-3</b>	<b>267</b>	<b>-10</b>	<b>-7</b>	<b>43</b>
<b>Collective provision</b>						
Collective provision for individually assessed loans	-1	-2	-50	1	-1	-
<b>Write-offs</b>						
Actual loan losses for the period	-12	-12	0	-24	-36	-33
Utilised share of previous provisions	3	5	-40	10	18	-44
Reversal of actual loan losses in previous years	14	11	27	21	28	-25
<b>Total</b>	<b>5</b>	<b>4</b>	<b>25</b>	<b>7</b>	<b>10</b>	<b>-30</b>
<b>Net loan losses</b>	<b>-7</b>	<b>-1</b>	<b>600</b>	<b>-2</b>	<b>2</b>	<b>-</b>

Impaired loans SEK m	31 Dec 2016	31 Dec 2015
Impaired loans	103	109
Specific provision for individually assessed loans	-32	-32
Collective provision for individually assessed loans	-4	-5
<b>Net impaired loans</b>	<b>67</b>	<b>72</b>
Proportion of impaired loans, %	0.01	0.01
Impaired loans reserve ratio, %	31.2	29.6
Loan loss ratio, %	0.00	-0.00
Non-performing loans which are not impaired loans	328	338

## NOTE 7 Loans to the public

Loans to the public, by borrower category	31 Dec 2016			31 Dec 2015		
	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	830,089	-18	830,071	765,109	-18	765,091
Public sector, municipal companies	24,701	-	24,701	30,111	-	30,111
Housing co-operative associations	162,125	-12	162,113	152,046	-7	152,039
Other legal entities	133,732	-2	133,730	135,430	-7	135,423
<b>Total loans to the public, before collective provision</b>	<b>1,150,647</b>	<b>-32</b>	<b>1,150,615</b>	<b>1,082,696</b>	<b>-32</b>	<b>1,082,664</b>
Collective provision		-4	-4		-5	-5
<b>Total loans to the public</b>	<b>1,150,647</b>	<b>-36</b>	<b>1,150,611</b>	<b>1,082,696</b>	<b>-37</b>	<b>1,082,659</b>
<b>of which in operations outside Sweden</b>						
Households	120,154	-1	120,153	103,253	-	103,253
Public sector, municipal companies	10,383	-	10,383	11,193	-	11,193
Housing co-operative associations	30,067	-	30,067	24,945	-	24,945
Other legal entities	6,735	-	6,735	6,550	-	6,550
<b>Total loans to the public in operations outside Sweden before collective provision</b>	<b>167,339</b>	<b>-1</b>	<b>167,338</b>	<b>145,941</b>	<b>-</b>	<b>145,941</b>
Collective provision		-1	-1		-	-
<b>Total loans to the public in operations outside Sweden</b>	<b>167,339</b>	<b>-2</b>	<b>167,337</b>	<b>145,941</b>	<b>-</b>	<b>145,941</b>

Loans to the public, by type of collateral	31 Dec 2016			31 Dec 2015		
	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	564,661	-16	564,645	527,725	-17	527,708
Housing co-operative apartments	209,448	-2	209,446	184,313	-1	184,312
Owner-occupied apartments	16,848	-	16,848	15,767	-	15,767
<b>Private market</b>	<b>790,957</b>	<b>-18</b>	<b>790,939</b>	<b>727,805</b>	<b>-18</b>	<b>727,787</b>
Multi-family dwellings	293,904	-14	293,890	283,784	-14	283,770
Offices and commercial buildings	65,786	-	65,786	71,107	-	71,107
<b>Corporate market</b>	<b>359,690</b>	<b>-14</b>	<b>359,676</b>	<b>354,891</b>	<b>-14</b>	<b>354,877</b>
<b>Total loans to the public, before collective provision</b>	<b>1,150,647</b>	<b>-32</b>	<b>1,150,615</b>	<b>1,082,696</b>	<b>-32</b>	<b>1,082,664</b>
Collective provision		-4	-4		-5	-5
<b>Total loans to the public</b>	<b>1,150,647</b>	<b>-36</b>	<b>1,150,611</b>	<b>1,082,696</b>	<b>-37</b>	<b>1,082,659</b>
<b>of which in operations outside Sweden</b>						
Single-family housing	98,165	-1	98,164	83,256	-	83,256
Housing co-operative apartments	5,251	-	5,251	4,333	-	4,333
Owner-occupied apartments	16,848	-	16,848	15,767	-	15,767
<b>Private market</b>	<b>120,264</b>	<b>-1</b>	<b>120,263</b>	<b>103,356</b>	<b>-</b>	<b>103,356</b>
Multi-family dwellings	46,820	-	46,820	42,286	-	42,286
Offices and commercial buildings	255	-	255	299	-	299
<b>Corporate market</b>	<b>47,075</b>	<b>-</b>	<b>47,075</b>	<b>42,585</b>	<b>-</b>	<b>42,585</b>
<b>Total loans to the public in operations outside Sweden before collective provision</b>	<b>167,339</b>	<b>-1</b>	<b>167,338</b>	<b>145,941</b>	<b>-</b>	<b>145,941</b>
Collective provision		-1	-1		-	-
<b>Total loans to the public in operations outside Sweden</b>	<b>167,339</b>	<b>-2</b>	<b>167,337</b>	<b>145,941</b>	<b>-</b>	<b>145,941</b>

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

Non-performing loans by borrower category	31 Dec 2016		31 Dec 2015	
	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	308	35	316	50
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	-	-	-	-
Other legal entities	20	6	22	16
<b>Total</b>	<b>328</b>	<b>41</b>	<b>338</b>	<b>66</b>
<b>of which in operations outside Sweden</b>				
Households	68	4	70	2
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	-	-	-	-
Other legal entities	3	0	8	1
<b>Total non-performing loans in operations outside Sweden</b>	<b>71</b>	<b>4</b>	<b>78</b>	<b>3</b>

Non-performing loans by type of collateral	31 Dec 2016		31 Dec 2015	
	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	237	33	254	46
Housing co-operative apartments	39	7	31	9
Owner-occupied apartments	22	0	21	2
<b>Private market</b>	<b>298</b>	<b>40</b>	<b>306</b>	<b>57</b>
Multi-family dwellings	1	1	14	9
Offices and commercial buildings	29	-	18	0
<b>Corporate market</b>	<b>30</b>	<b>1</b>	<b>32</b>	<b>9</b>
<b>Total</b>	<b>328</b>	<b>41</b>	<b>338</b>	<b>66</b>
<b>of which in operations outside Sweden</b>				
Single-family housing	49	4	56	1
Housing co-operative apartments	-	-	1	-
Owner-occupied apartments	22	0	21	2
<b>Private market</b>	<b>71</b>	<b>4</b>	<b>78</b>	<b>3</b>
Multi-family dwellings	-	-	-	-
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>71</b>	<b>4</b>	<b>78</b>	<b>3</b>

NOTE 7 Loans to the public, cont.

Impaired loans by borrower category	31 Dec 2016			31 Dec 2015		
	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans
SEK m						
Households	69	-18	51	72	-18	54
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	27	-12	15	21	-7	14
Other legal entities	7	-2	5	16	-7	9
<b>Total</b>	<b>103</b>	<b>-32</b>	<b>71</b>	<b>109</b>	<b>-32</b>	<b>77</b>
<b>of which in operations outside Sweden</b>						
Households	8	-1	7	2	0	2
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>8</b>	<b>-1</b>	<b>7</b>	<b>3</b>	<b>0</b>	<b>3</b>
Impaired loans by type of collateral	31 Dec 2016			31 Dec 2015		
	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	65	-16	49	68	-17	51
Housing co-operative apartments	8	-2	6	10	-1	9
Owner-occupied apartments	0	0	0	1	0	1
<b>Private market</b>	<b>73</b>	<b>-18</b>	<b>55</b>	<b>79</b>	<b>-18</b>	<b>61</b>
Multi-family dwellings	30	-14	16	30	-14	16
Offices and commercial buildings	0	0	0	0	0	0
<b>Corporate market</b>	<b>30</b>	<b>-14</b>	<b>16</b>	<b>30</b>	<b>-14</b>	<b>16</b>
<b>Total</b>	<b>103</b>	<b>-32</b>	<b>71</b>	<b>109</b>	<b>-32</b>	<b>77</b>
<b>of which in operations outside Sweden</b>						
Single-family housing	8	-1	7	2	0	2
Housing co-operative apartments	-	-	-	-	-	-
Owner-occupied apartments	0	0	0	1	0	1
<b>Private market</b>	<b>8</b>	<b>-1</b>	<b>7</b>	<b>3</b>	<b>0</b>	<b>3</b>
Multi-family dwellings	-	-	-	-	-	-
Offices and commercial buildings	-	-	-	-	-	-
<b>Corporate market</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total impaired loans in operations outside Sweden</b>	<b>8</b>	<b>-1</b>	<b>7</b>	<b>3</b>	<b>0</b>	<b>3</b>

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

## NOTE 8 Derivative instruments

SEK.m	Market value 31 Dec 2016	Market value 31 Dec 2015
<b>Positive values</b>		
Interest rate instruments	8,708	10,599
Currency instruments	14,038	9,915
<b>Total</b>	<b>22,746</b>	<b>20,514</b>
<b>Negative values</b>		
Interest rate instruments	1,388	1,255
Currency instruments	3,041	2,890
<b>Total</b>	<b>4,429</b>	<b>4,145</b>
<b>Net</b>	<b>18,317</b>	<b>16,369</b>

## NOTE 9 Issued securities

SEK.m	2016	2015
<b>Issued securities at beginning of year</b>	<b>568,416</b>	<b>579,485</b>
Issued	155,758	171,274
Repurchased	-41,932	-56,841
Matured	-68,170	-112,183
Price differences, exchange rate effects, etc.	-1,285	-13,319
<b>Issued securities at end of year</b>	<b>612,787</b>	<b>568,416</b>



## NOTE 10 Classification of financial assets and liabilities

31 Dec 2016 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives designated as hedging instruments	Financial liabilities recognised at amortised cost	Non-financial assets/liabilities	Total	Fair value
<b>Assets</b>							
Loans to credit institutions	12,027					12,027	12,027
Loans to the public	1,150,611					1,150,611	1,161,681
Value change of interest-hedged item in portfolio hedge	35					35	
Derivative instruments		-	22,746			22,746	22,746
Other assets	2,094				12	2,106	2,106
<b>Total assets</b>	<b>1,164,767</b>	<b>-</b>	<b>22,746</b>		<b>12</b>	<b>1,187,525</b>	<b>1,198,560</b>
<b>Liabilities</b>							
Due to credit institutions				497,110		497,110	501,783
Issued securities				612,787		612,787	623,522
Derivative instruments		1	4,428			4,429	4,429
Other liabilities				17,558	923	18,481	18,481
Subordinated liabilities				21,700		21,700	23,350
<b>Total liabilities</b>		<b>1</b>	<b>4,428</b>	<b>1,149,155</b>	<b>923</b>	<b>1,154,507</b>	<b>1,171,560</b>

31 Dec 2015 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives designated as hedging instruments	Financial liabilities recognised at amortised cost	Non-financial assets/liabilities	Total	Fair value
<b>Assets</b>							
Loans to credit institutions	10,516					10,516	10,516
Loans to the public	1,082,659					1,082,659	1,093,346
Value change of interest-hedged item in portfolio hedge	28					28	
Derivative instruments		2	20,512			20,514	20,514
Other assets	2,629				85	2,714	2,714
<b>Total assets</b>	<b>1,095,832</b>	<b>2</b>	<b>20,512</b>		<b>85</b>	<b>1,116,431</b>	<b>1,127,090</b>
<b>Liabilities</b>							
Due to credit institutions				472,238		472,238	474,250
Issued securities				568,416		568,416	578,295
Derivative instruments		70	4,075			4,145	4,145
Other liabilities				17,304	1,012	18,316	18,316
Subordinated liabilities				20,700		20,700	22,079
<b>Total liabilities</b>		<b>70</b>	<b>4,075</b>	<b>1,078,658</b>	<b>1,012</b>	<b>1,083,815</b>	<b>1,097,085</b>

## NOTE 11 Fair value measurement of financial instruments

31 December 2016 SEK m	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Derivative instruments	-	22,746	-	22,746
<b>Total financial assets measured at fair value</b>	<b>-</b>	<b>22,746</b>	<b>-</b>	<b>22,746</b>
<b>Liabilities</b>				
Derivative instruments	-	4,429	-	4,429
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>4,429</b>	<b>-</b>	<b>4,429</b>
<b>31 December 2015 SEK m</b>				
<b>Assets</b>				
Derivative instruments	-	20,514	-	20,514
<b>Total financial assets measured at fair value</b>	<b>-</b>	<b>20,514</b>	<b>-</b>	<b>20,514</b>
<b>Liabilities</b>				
Derivative instruments	-	4,145	-	4,145
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>4,145</b>	<b>-</b>	<b>4,145</b>

### VALUATION PROCESS

Stadshypotek's independent risk control is responsible for the existence of fit-for-purpose instructions and processes for the 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 practices and established financial theory. New or revised valuation models are always validated before they come into use.

Stadshypotek is also covered by 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 risk control and financial functions from both Group and local levels. 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 reporting 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 trans-

ferred 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 source, and where the price information received can be easily 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 derivative 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 is also based on a reasonable assumption of market-based input data such as volatility.

### VALUATION HIERARCHY

In the tables, financial instruments measured 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 substantial extent are based on input data that is not possible to verify using external market information are categorised as level 3.

### PRINCIPLES FOR INFORMATION ABOUT THE FAIR VALUES OF FINANCIAL INSTRUMENTS AT COST OR AMORTISED COST

Information about the fair values of financial instruments which are measured at cost or amortised cost is shown in the table below. These instruments essentially comprise lending and funding. For means of payment and short-term receivables and liabilities, the carrying amount is considered to be an acceptable estimate of the fair value. Receivables and liabilities with the maturity date or the date for next interest rate fixing falling within 30 days are defined as short-term.

The valuation of fixed-rate lending is based on the current market rate with an adjustment for an assumed credit and liquidity risk premium on market terms. The premium is assumed to be the same as the average margin for new lending at the time of the measurement. Issued securities have been valued at the current mar-

**NOTE 11** Fair value measurement of financial instruments, cont.

ket price where this has been available. Funding where market price information has not been available has been valued using a valuation model based on market data in the form of prices or interest rates for similar instruments. In the table below, the valuation used for the

information about the fair value of financial instruments carried at cost or amortised cost is categorised in the valuation hierarchy described above. Level 1 refers to interest-bearing liabilities for which there is a current market price. Lending has been categorised as level 3 due to the

assumptions about credit and liquidity premiums which have been used. Other instruments are categorised as level 2.

Financial instruments at cost or amortised cost				
31 December 2016				
SEK m				
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Loans to the public	-	-	1,161,681	1,161,681
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,161,681</b>	<b>1,161,681</b>
<b>Liabilities</b>				
Due to credit institutions	-	501,783	-	501,783
Issued securities	552,897	70,625	-	623,522
Subordinated liabilities	-	23,350	-	23,350
<b>Total</b>	<b>552,897</b>	<b>595,758</b>	<b>-</b>	<b>1,148,655</b>

Financial instruments at cost or amortised cost				
31 December 2015				
SEK m				
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Loans to the public	-	-	1,093,346	1,093,346
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,093,346</b>	<b>1,093,346</b>
<b>Liabilities</b>				
Due to credit institutions	-	474,250	-	474,250
Issued securities	514,080	64,215	-	578,295
Subordinated liabilities	-	22,079	-	22,079
<b>Total</b>	<b>514,080</b>	<b>560,544</b>	<b>-</b>	<b>1,074,624</b>

**NOTE 12** Pledged assets and contingent liabilities

31 December		
SEK m		
	2016	2015
Assets pledged for own debt*	667,920	622,726
Other pledged assets	-	-
<b>Pledged assets</b>	<b>667,920</b>	<b>622,726</b>
Guaranteed commitments	-	-
Commitments	1,592	2,178
<b>Contingent liabilities</b>	<b>1,592</b>	<b>2,178</b>

\* The collateral comprises loans against mortgages in single-family housing, second homes, multi-family dwellings and housing co-operative apartments with a loan-to-value ratio of up to 75% of the market value. It also comprises office and commercial buildings with a loan-to-value ratio of up to 60% of the market value plus additional collateral in the form of cash funds on a blocked account. A separate specification is kept of the assets and the covered bonds, and also derivatives relating to these. In the event of the company's insolvency, pursuant to the Swedish Right of Priority Act, the holders of Stadshypotek's covered bonds have prior rights to the assets registered as collateral. If, at the time of a bankruptcy decision, the assets in the total collateral fulfil the terms of the Act, these must instead be kept separate from the bankruptcy estate's other assets and liabilities. In this event, the holders of the bonds must receive contractual payments under the terms of the bond for the period until maturity.

## NOTE 13 Segment information

Income statement SEK m	Full year 2016			Full year 2015		
	Private	Corporate	Total	Private	Corporate	Total
Net interest income	9,229	3,133	12,362	8,566	3,190	11,756
Net fee and commission income	-22	-7	-29	-4	-2	-6
Net gains/losses on financial transactions	62	20	82	21	8	29
<b>Total income</b>	<b>9,269</b>	<b>3,146</b>	<b>12,415</b>	<b>8,583</b>	<b>3,196</b>	<b>11,779</b>
<b>Costs</b>	<b>-784</b>	<b>-263</b>	<b>-1,047</b>	<b>-777</b>	<b>-288</b>	<b>-1,065</b>
<b>Profit before loan losses</b>	<b>8,485</b>	<b>2,883</b>	<b>11,368</b>	<b>7,806</b>	<b>2,908</b>	<b>10,714</b>
Net loan losses	-1	-1	-2	4	-2	2
<b>Operating profit</b>	<b>8,484</b>	<b>2,882</b>	<b>11,366</b>	<b>7,810</b>	<b>2,906</b>	<b>10,716</b>
Loans to the public	790,939	359,672	1,150,611	727,787	354,872	1,082,659

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 2016		Full year 2015	
	Income	Total assets	Income	Total assets
Sweden	11,087	1,015,817	10,202	967,279
Norway	598	80,881	875	67,777
Denmark	345	39,676	276	31,642
Finland	385	51,151	426	49,733
<b>Total</b>	<b>12,415</b>	<b>1,187,525</b>	<b>11,779</b>	<b>1,116,431</b>

## NOTE 14 Related-party transactions

Group claims/Group liabilities SEK m	31 Dec 2016	31 Dec 2015
<b>BALANCE SHEET</b>		
<b>Group claims</b>		
Loans to credit institutions	12,027	10,516
Derivative instruments	22,746	20,512
Other assets	76	65
<b>Total</b>	<b>34,849</b>	<b>31,093</b>
<b>Group liabilities</b>		
Due to credit institutions	497,110	472,220
Derivative instruments	4,429	4,145
Other liabilities	10,657	9,675
Subordinated liabilities	21,700	20,700
<b>Total</b>	<b>533,896</b>	<b>506,740</b>
<b>INCOME STATEMENT</b>		
Interest income	180	195
Interest expense*	809	509
Fee and commission expense	-7	0
Other administrative expenses	-908	-925
<b>Total</b>	<b>74</b>	<b>-221</b>

\* Interest expense includes interest from derivative instruments which may have both a positive and a negative impact on interest expenses.

The business operations of Stadshypotek are highly decentralised. The basic principle is that the organisation and working practices are centred around 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 while the lending operations at 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 Stadshypotek's Credit Policy and Credit Instructions, which are established annually by the

Board of Stadshypotek. These credit instructions include the maximum permitted loan-to-value ratio for various property types, as well as the decision limits which apply to Stadshypotek's lending via the Bank's branches. In addition, the credit instructions also stipulate that for loan amounts in excess of a certain limit, an advance examination of the case and an approval of the

**NOTE 14** Related-party transactions, cont.

property by Stadshypotek's credit committee is required before the loan can be disbursed. Moreover, Stadshypotek's funding needs are managed by Handelsbanken's Treasury department. The 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. In addition, inter-company transactions consist of funding from the parent company, derivative transactions and lending to the parent company.

## NOTE 15 Capital adequacy

The disclosures reported in this section refer to the minimum capital requirements under Pillar 1. On 1 January 2014, the European Capital Requirements Regulation (CRR) came into force, and on 2 August 2014 the CRD IV Directive was implemented in Sweden. Own funds and capital requirement as of 2014 are calculated in accordance with the new EU regulations. All references to CRD IV in this report refer to the new regulations in their entirety regardless of legislative form (regulation, directive, executive decree or national implementation).

Own funds SEK m	31 Dec 2016	31 Dec 2015
Equity	33,018	32,616
Deduction for profit for the year	-	-
Deduction for intangible assets	-12	-14
Price adjustments (fair value)	0	0
Adjustment for cash flow hedges	-2,607	-3,591
Special deduction for IRB institutions	-236	-214
<b>Common equity tier 1 capital</b>	<b>30,163</b>	<b>28,797</b>
Additional tier 1 capital	-	2,100
<b>Tier 1 capital</b>	<b>30,163</b>	<b>30,897</b>
Perpetual subordinated loans	5,300	5,300
Dated subordinated loans	16,400	12,400
<b>Tier 2 capital</b>	<b>21,700</b>	<b>17,700</b>
<b>Own funds</b>	<b>51,863</b>	<b>48,597</b>
<b>Capital requirement</b> SEK m	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Credit risk according to standardised approach	18	33
Credit risk according to IRB Approach	4,782	4,500
Operational risk	1,360	1,205
<b>Total capital requirement</b>	<b>6,160</b>	<b>5,738</b>
Adjustment according to Basel I floor	39,017	36,555
<b>Capital requirement, Basel I floor</b>	<b>45,177</b>	<b>42,293</b>
<b>Total own funds, Basel I floor</b>	<b>52,099</b>	<b>48,811</b>
<b>Capital adequacy analysis</b>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Common equity tier 1 ratio, CRD IV	39.2%	40.2%
Tier 1 ratio, CRD IV	39.2%	43.1%
Total capital ratio, CRD IV	67.4%	67.8%
Risk exposure amount CRD IV, SEK m	76,997	71,718
Own funds in relation to capital requirement according to Basel I floor	115%	115%
Institution-specific buffer requirement	3.8%	3.5%
<i>of which capital conservation buffer requirement</i>	2.5%	2.5%
<i>of which countercyclical buffer requirement</i>	1.3%	1.0%
Common equity tier 1 capital available for use as a buffer	34.7%	35.7%

## NOTE 15 Capital adequacy, cont.

Credit risks IRB						
31 December						
SEK m	Exposure amount		Average risk weight, %		Capital requirement	
	2016	2015	2016	2015	2016	2015
<b>Corporate</b>	<b>311,382</b>	<b>303,628</b>	<b>6.6</b>	<b>6.8</b>	<b>1,640</b>	<b>1,646</b>
<i>of which other lending, foundation approach</i>	5	463	49.1	8.0	0	3
<i>of which other lending, advanced approach</i>	311,377	303,165	6.6	6.8	1,640	1,643
- Large corporates	164	191	31.8	43.5	4	7
- Medium-sized companies	10,723	8,687	19.8	20.1	170	139
- Property companies	145,265	148,258	10.0	10.2	1,159	1,206
- Housing co-operative associations	155,225	146,029	2.5	2.5	307	291
<b>Retail</b>	<b>805,338</b>	<b>741,976</b>	<b>4.9</b>	<b>4.8</b>	<b>3,142</b>	<b>2,854</b>
<i>of which Private individuals</i>	798,588	735,284	4.8	4.7	3,053	2,770
<i>of which Small companies</i>	6,750	6,692	16.5	15.7	89	84
<b>Total IRB</b>	<b>1,116,720</b>	<b>1,045,604</b>	<b>5.4</b>	<b>5.4</b>	<b>4,782</b>	<b>4,500</b>

Capital requirement credit risks standardised approach*						
31 December						
SEK m	2016			2015		
	Exposure value	Average risk weight, %	Capital requirement	Exposure value	Average risk weight, %	Capital requirement
Sovereign and central banks	3,397	0.0	0	4,427	0.0	0
Municipalities	27,277	0.0	0	29,632	0.0	0
Institutions	46,895	0.0	0	43,686	0.0	0
Companies	8	100.0	1	11	100.0	1
Other items	211	100.0	17	402	100.0	32
<b>Total</b>	<b>77,788</b>	<b>0.3</b>	<b>18</b>	<b>78,158</b>	<b>0.5</b>	<b>33</b>

\* Details of capital requirement for exposure classes where applicable.

### Leverage ratio

Effective as of 2015, the provisions of CRD IV include a reporting requirement regarding a non risk-based leverage ratio. No decision regarding a binding requirement has yet been taken, but on 23 November 2016, the European Commission published its proposal, advocating that a rate of 3% be applied.

31 December		
SEK m	2016	2015
Balance sheet according to the reporting regulations	1,187,525	1,116,431
Adjustment for differences between the carrying amount and the leverage exposure for derivatives	7,823	7,719
Assets reported off the balance sheet, gross (before adjustments of credit conversion factors)	422	805
Deductions from assets off the balance sheet after application of credit conversion factors	-211	-403
Assets reported off the balance sheet, net	211	402
Further adjustments according to CRR, Article 429.4	-2,855	-3,819
<b>Assets used in the calculation of the leverage ratio</b>	<b>1,192,704</b>	<b>1,120,733</b>
<b>Capital that may be used in the calculation of the leverage ratio</b>		
Tier 1 capital	30,163	30,897
<b>Leverage ratio</b>		
Leverage ratio calculated on the basis of tier 1 capital	2.53%	2.76%

## NOTE 16 Material events after balance sheet date

No material events have occurred after the balance sheet date.

# Calculation of key figures

For definitions, see page 22.

Return on equity SEK m	Jul–Dec 2016	Jul–Dec 2015	Full year 2016	Full year 2015
<b>Equity at 31 December</b>	33,018	32,616	33,018	32,616
Adjustment of hedge reserve	-2,607	-3,591	-2,607	-3,591
Reversal of Group contribution provided	7,878	7,203	7,878	7,203
<b>Total adjusted equity at 31 December</b>	<b>38,289</b>	<b>36,228</b>	<b>38,289</b>	<b>36,228</b>
<b>Adjusted equity, average*</b>	<b>35,980</b>	<b>34,298</b>	<b>36,368</b>	<b>34,444</b>
<b>Profit for the period</b>	<b>4,528</b>	<b>4,141</b>	<b>8,857</b>	<b>8,322</b>
<b>Return on equity</b>	<b>25.2%</b>	<b>24.1%</b>	<b>24.4%</b>	<b>24.2%</b>

\* An average of the closing balance for the past three and five quarters respectively.

# Definitions

## ALTERNATIVE PERFORMANCE MEASURES

Alternative Performance Measures (APMs) are financial measures of historical and future performance, financial position or cash flow that are neither defined in IFRS nor the Capital Requirements Regulation. Stadshypotek uses APMs to describe the operational performance and to improve comparability between periods. These need not be comparable with similar key figures (performance measures) presented by other companies.

### C/I ratio

Total expenses in relation to total income. The C/I ratio is calculated before and after loan losses, including changes in the value of repossessed property.

### Impaired loan

Loans are classified as impaired loans if contracted cash flows are not likely to be fulfilled. The full amount of each receivable that gives rise to a specific provision is included in impaired loans even if this amount is partly covered by collateral.

### Loan loss ratio

Loan losses in relation to loans to the public at the beginning of the year.

### Net interest margin

Net interest income in relation to average total assets.

### Non-performing loan

A loan where interest, repayments or overdrafts have been due for payment for more than 60 days.

### Proportion of impaired loans

Net impaired loans in relation to total loans to the public and credit institutions (excluding banks).

### Reserve ratio excluding collective provisions

Total provisions excluding collective provisions in relation to gross impaired loans.

### Return on equity

Profit for the year in relation to average equity adjusted for rights issues, dividends and changes in the value of derivatives in cash flow hedges.

## KEY FIGURES DEFINED IN THE CAPITAL REQUIREMENTS REGULATION

### Additional tier 1 capital

Additional tier 1 capital comprises perpetual subordinated loans which meet the requirements stated in Regulation (EU) No 575/2013 and can therefore be included in the tier 1 capital.

### Common equity tier 1 capital

Common equity tier 1 capital is one of the components of own funds and mainly comprises equity. Deductions are made for, inter alia, dividends generated, goodwill and other intangible assets, and also the difference between an expected loss and provisions made for probable loan losses.

### Common equity tier 1 ratio

Common equity tier 1 capital in relation to risk-weighted assets.

### Common equity tier 1 ratio available for use as a buffer

The common equity tier 1 ratio after a deduction for the part of common equity tier 1 capital required to comply with all formal requirements.

### Leverage ratio

Tier 1 capital in relation to total assets, including certain off-balance-sheet items recalculated with conversion factors defined in the standard approach and regulatory adjustments from own funds.

### Own funds/Total capital

Own funds are the sum of tier 1 and tier 2 capital.

### Risk-weighted assets

Total risk exposure amount. The statutory capital requirement is based on this.

### Tier 1 capital

Common equity tier 1 capital including additional tier 1 capital.

### Tier 1 ratio

Tier 1 capital in relation to risk-weighted assets.

### Tier 2 capital

Tier 2 capital is one of the components of own funds, and consists of subordinated loans which meet the requirements stated in Regulation (EU) No 575/2013 to be included as tier 2 capital.

### Total capital ratio

Total own funds for capital adequacy purposes in relation to risk-weighted assets.



# Submission of report

I herewith submit this report.  
Stockholm, 8 February 2017

**Ulrica Stolt Kirkegaard**  
Chief Executive

The 2016 Annual Report will be published in the week beginning 20 February and will be available at [www.stadshypotek.se](http://www.stadshypotek.se)

Next report: to be published on 18 July 2017

## Facts about the company

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

**Corporate identity number:** 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.

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