

Annual Report 2014

Highlights of the year

Income totalled SEK 10,240 million (9,496).

Profit after tax amounted to SEK 6,773 million (6,291).

Operating profit increased by SEK 645 million to SEK 8,741 million (8,096).

Loans to the public increased by 7 per cent, or SEK 64 billion, to SEK 1,019 billion (955).

Net loan losses totalled SEK 22 million (-22) as recovered loan losses exceeded new loan losses.

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The Chief Executive's comments

As in 2013, we witnessed considerable demand for residential properties in Sweden in 2014, particularly in growth regions. As a result, property prices continued to rise. In 2014, Stadshypotek grew in line with the mortgage loan market, by around 6 per cent, meaning that we were able to defend our position in the Swedish market. For the corporate market, demand for loans in Sweden was lower, with market growth of around 4 per cent in 2014. Stadshypotek's growth rate for its corporate market business in Sweden was 5 per cent, to be compared with 10 per cent in 2013. In those three countries where Stadshypotek has branches – Denmark, Norway and Finland – growth in lending varied. In Denmark, we noted very good business growth in the private market, whereas there was a decline in growth in Finland. For the corporate market, growth was at its strongest in Finland, where lending to municipalities and housing companies in particular was on the increase.

THE PAST YEAR

In 2014, the debt levels of Swedish households attracted considerable attention. This indebtedness can largely be attributed to the low supply of new residential properties and a continued high level of migration into major cities. Moreover, mortgage rates have been low, which has also encouraged stronger demand for residential properties.

On 1 July 2014, all banks introduced individual mortgage repayment plans to increase awareness and knowledge of amortisation, and in so doing establish a repayment culture among Swedish households. The Swedish Financial Supervisory Authority intends to tighten amortisation requirements in 2015 and will therefore soon be introducing regulations involving compulsory mortgage repayments for households.

For most households, it makes sense to tie up some savings in the home, since this will gradually create a safety net to protect against unforeseen events. Seen in this light, mortgage repayments can be regarded as a natural component in a household's overall savings portfolio, which should also include a buffer and pensions savings.

Stadshypotek defended its market share well in 2014, both for the private market and the corporate market, in a business climate that remains highly competitive.

MOST SATISFIED CUSTOMERS

Stadshypotek and Handelsbanken have been stable and successful businesses for many years – a success deriving from the simple principle that we genuinely care about our customers. We do not believe in temporary customer relationships based on one-off marketing offensives or campaigns; instead,

we simply strive, by means of qualitative and individually tailored advisory services, to be a better and more reliable alternative for our customers, for many years to come.

Our aim is to provide a better level of service and range of offerings by always focusing on the customer's requirements, and by allowing all business decisions relating to individual customers to be taken at a local branch close to the customer.

In 2014, we once again had the most satisfied private customers compared to the other major mortgage lenders. Our rating in the survey carried out by Svenskt Kvalitetsindex (SKI) was 73.9, to be compared with the industry average of 68.7. I am very pleased with this outcome, as it shows that our model is appreciated by our customers. We remain convinced that you, our customers, are worthy of a bank that will take care of you in both the short term and the long term. This is why we offer personal advisory services tailored to suit your particular circumstances.

According to the customer survey carried out by SKI, Handelsbanken/Stadshypotek received a rating of 75.1 from its corporate customers. This was the highest score for customer satisfaction among all those banks that participated. The industry average was 69.8. According to SKI, what customers appreciate above all else is the level of service we provide at our local branches and in our digital meeting places, as well as the high quality of our products and value for money.

FINANCIAL PERFORMANCE

Stadshypotek's operating profit increased by 8 per cent or SEK 645 million to SEK 8,741 million. This was due to net interest income increasing by 9 per cent or SEK 809 million to

SEK 10,240 million. Of the overall increase in net interest income, Sweden accounted for SEK 674 million, a result of both higher lending volumes and improved margins, mainly for the private market, but also for the corporate market.

For our Finnish branch, net interest income increased by SEK 69 million to SEK 398 million, while for our Danish branch, it increased by SEK 55 million to SEK 221 million. At our branch in Norway, net interest income increased by SEK 11 million to SEK 1,014 million. The increase in net interest income at the Finnish branch can mainly be explained by higher lending volumes to the corporate market, while at the Danish branch it was mainly due to an increase in lending volumes to the private market. The increase at the Norwegian branch was attributable to higher lending volumes to both the private and corporate markets, although these advances were offset by lower margins and a negative currency effect.

Our costs rose by SEK -143 million to SEK -1,521 million, mainly due to an increase in the compensation paid to the bank for the services performed by Handelsbanken's branch operations on behalf of Stadshypotek in relation to the sale and administration of mortgage loans.

CREDIT RISKS REMAIN LOW

Stadshypotek's recoveries exceeded new loan losses for the year and the net amount recovered was SEK 22 million, compared to the previous year, when net loan losses totalled SEK -22 million.

Stadshypotek's lending operations are integrated with Handelsbanken's operations and its lending is carried out via the Bank's branch network. We are convinced that Handelsbanken's decentralised way of working, combined with reliable knowledge of local

market conditions and proximity to the customer, regardless of the country Stadshypotek/ Handelsbanken is operating in, are factors which continue to contribute positively to the low level of credit risk. Of all credit exposures at Stadshypotek at the year-end, 99 per cent were to customers with an estimated repayment capacity regarded as normal or better than normal, according to the risk classification applied within the Bank. The proportion of impaired loans was very low and amounted to 0.01 per cent. In conclusion, Stadshypotek's credit portfolio remains very strong, many of our customers amortise their mortgages, and our loan-to-value ratios and debt levels are at very satisfactory levels.

AND FINALLY

Stadshypotek has once again enjoyed a successful year. This success stems from several factors. One of the most important is the considerable faith our customers have in us. Thank you.

I would also like to take this opportunity to thank all Stadshypotek and Handelsbanken employees, who through their commitment and high standards of service help ensure that our customers remain satisfied.



Ulrica Stolt Kirkegaard
Stockholm, February 2015

Key figures and definitions

Key figures	2014	2013	2012	2011	2010
Profit before loan losses, SEK m	8,719	8,118	7,907	5,982	5,370
Loan losses/recoveries, SEK m	22	-22	-21	12	38
Operating profit, SEK m	8,741	8,096	7,886	5,994	5,408
Total assets, SEK m	1,058,857	984,659	925,961	880,027	796,681
Equity, SEK m	32,368	26,723	25,940	25,367	24,431
Return on equity, %	20.9	20.3	19.6	16.3	16.2
C/I ratio before loan losses, %	14.9	14.5	3.5	4.3	4.3
C/I ratio after loan losses, %	14.6	14.7	3.8	4.1	3.6
Net interest margin, %	1.00	0.99	0.89	0.75	0.72
Loan loss ratio, %	-0.00	0.00	0.00	-0.00	-0.01
Impaired loans reserve ratio, %	24.4	17.0	35.4	39.8	38.4
Proportion of impaired loans, %	0.01	0.02	0.01	0.01	0.01
Total capital ratio, % (*), (**)	67.1	62.3	56.9	58.1	48.9
Tier 1 ratio, % (*), (**)	42.4	41.0	40.6	40.5	36.8
Common equity tier 1 ratio, % (**)	39.0	36.9			
Return on total assets, %	0.66	0.66	0.64	0.53	0.54
Average number of employees	72	69	45	41	40

*) Capital ratio and tier 1 ratio according to Basel II up to and including 2012.

***) The historical comparison figures regarding the key ratios according to CRR/CRD IV for 2013 are estimates based on Stadshypotek's interpretation of the regulations at the reporting date and assuming the full implementation of these regulations.

DEFINITIONS

C/I ratio

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

Common equity tier 1 ratio

Common equity tier 1 capital in relation to the risk-weighted exposure amount. See note 30, Capital adequacy, on page 46.

Impaired loan

A loan where payments will probably not be met according to the conditions of the contract. A loan is not an impaired loan if there is collateral which covers the principal amount, interest and penalties for late payments by a satisfactory margin.

Impaired loans reserve ratio

Provision for probable loan losses as a percentage of gross impaired loans.

Loan loss ratio

Loan losses and changes in value of repossessed property in relation to loans to the public, loans to credit institutions (excluding banks) at

the beginning of the year, repossessed property and credit guarantees.

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).

Restructured loan

A loan where some kind of concession has been made due to the borrower's inadequate payment capacity.

Return on equity

Earnings for the period after appropriations and tax in relation to average equity adjusted for rights issues, dividends and changes in the value of derivatives in cash flow hedges.

Return on total assets

Net profit in relation to average total assets.

Tier 1 ratio

Tier 1 capital in relation to the risk-weighted exposure amount. See note 30, Capital adequacy, on page 46.

Total capital ratio

Own funds in relation to the risk-weighted exposure amount. See note 30, Capital adequacy, on page 46.

Organisation and personnel

Stadshypotek AB, corporate identity number 556459-6715, is a public credit market company authorised to conduct operations under the Swedish Banking and Financing Business Act. Its core business comprises the financing of residential property and also office and commercial buildings. Since 1997, the company has been a wholly owned subsidiary of Svenska Handelsbanken AB (publ), corporate identity number 502007-7862.

GROUP STRUCTURE

Stadshypotek AB is the parent company of a sub-group that is responsible for Handelsbanken's mortgage business in Sweden, Denmark, Finland and Norway. In Sweden, the business comprises the financing of residential property and also office and commercial buildings. The business operations of Stadshypotek's branches in Denmark, Finland and Norway focus primarily on the financing of residential property. During the year, the Stadshypotek Group comprised the parent company Stadshypotek and the dormant company Svenska Intecknings Garanti AB Sigab.

Since 1 August 2008, Stadshypotek's operations have included a branch in Norway called Handelsbanken Eiendoms kreditt. This development was accompanied by the acquisition of a mortgage loan portfolio amounting to some NOK 40 billion from Handelsbanken's branch in Norway. On 1 May 2010, Stadshypotek established a branch in Denmark under the name Handelsbanken Kredit and on 1 October a loan portfolio of around DKK 3 billion was acquired from Handelsbanken's branch in Denmark. On 1 May 2011, a branch was started in Finland under the name Stadshypotek AB (publ), branch operations in Finland and on 1 August, a mortgage loan portfolio of some EUR 3 billion was acquired from Handelsbanken's branch in Finland. On 1 September 2012, Stadshypotek's branch in Finland acquired a further EUR 0.5 billion in mortgage loans from Handelsbanken's branch in Finland. These businesses were set up to expand the Handelsbanken Group's collateral for covered bonds, thereby enabling increased funding via such bonds.

The Stadshypotek Group is covered in the administration report. However, as the information reported for the parent company is identical to that reported for the Group, no separate disclosures have been made in respect of the parent company.

INTEGRATION WITH HANDELSBANKEN

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 in Sweden are run via Handelsbanken's Swedish branch operations, while the lending operations in Stadshypotek's branches in Denmark, Finland and Norway are run via Handelsbanken's branch operations in each of the respective countries. Stadshypotek's treasury function is integrated with Handelsbanken's Treasury Department. Functions necessary for management and control of the company remain within Stadshypotek. 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.

Handelsbanken's decentralised method of working has been successfully applied since Handelsbanken's acquisition of the company in 1997; this is the main reason for the strong market position of Stadshypotek.

ENVIRONMENTAL WORK

Work on environmental issues is today a well-established part of Stadshypotek's operations, in terms of internal work, granting credit and other operations. Environmental work is carried out in close co-operation with Handelsbanken and is thereby covered by the agreements and policy decisions that apply within the Handelsbanken Group.

Environmental issues associated with granting loans

Environmental aspects are observed in accordance with the credit policies of the Handelsbanken Group and Stadshypotek, which state that the Bank must maintain sound ethical standards in its lending operations. When evaluating credit risk, any environmental risks are included in the assessment of repayment capacity. For property-related lending, it is important to take into account whether environmentally harmful activities are or have been conducted in the property, or whether the property itself has a harmful effect on the environment. Environmental factors in the vicinity of the property are also taken into consideration as much as possible.

The customer is always responsible for how operations are conducted, and compliance with the environmental requirements prescribed in laws

and public authority directives. The Handelsbanken Group's assessment of repayment capacity, and thus credit risk, is affected by the customer's willingness and ability to manage these risks.

PERSONNEL

In 2014, the average number of employees at Stadshypotek was 72 (69). Of these, 50 per cent (51) were women and 50 per cent (49) were men. Stadshypotek's branches in Finland and Norway have no employees. They buy all services from Handelsbanken's branch in each of the respective countries. At Stadshypotek's branch in Denmark, three people work part-time and, in addition, administrative services are purchased from Handelsbanken's branch in Denmark. The heads of Handelsbanken's regional banks in Denmark, Finland and Norway also represent Stadshypotek's branches in each of the respective countries.

Staff development

The decentralised way of working adopted by the parent company Handelsbanken also applies to the employees at Stadshypotek. The Handelsbanken Group's decentralised method of working and its idea of how to run a successful business is essentially based on trust in and respect for the individual. The most important source of increased professionalism is learning in your daily work, where all employees are responsible for constant development – their own and that of the operations. All employees are therefore involved when their unit's business plan is produced. This also forms the basis of the PLUS performance dialogue, which every employee has with his/her line manager. Each employee then puts together an action plan setting out the goals to be attained and the conditions necessary for this. Based on the action plan and follow-ups, all employees then have a salary dialogue review with their line manager at the end of the year.

Stadshypotek is part of the Handelsbanken Group's internal labour market. Since the corporate culture and the Handelsbanken Group's values are so vital to the operations, internal recruitment is important. Employees with many years' experience and extensive knowledge acquired from different parts of the Handels-

banken Group make a vital contribution to the Group having satisfied customers. The need for employees at various levels is therefore primarily met through internal recruitment and promotion. Managers must be exemplary ambassadors for the Bank's corporate culture, which explains why most managers are recruited internally.

Gender equality and diversity

At Stadshypotek, women and men must have the same opportunities to develop. Regardless of background, the staff have their own characteristics and strengths and their own way of expressing themselves as individuals. No type of discrimination is allowed within Stadshypotek. Gender equality work is constantly in progress, and it is vital for Stadshypotek to be able to attract and retain competent employees. A prioritised element of the work related to equality is increasing awareness of how social and cultural norms affect us in our daily lives. During the year, Stadshypotek conducted a separate study of salaries aimed at identifying any remaining differences related to unwarranted pay differentials between women and men.

Work environment and health

The overall, long-term goal of working environment efforts is for the employees to enjoy good health, to develop on a personal level and to function in an optimal way. A work environment status report is carried out at least once a year by managers, together with work environment representatives and employees, and this covers both the physical and the psycho-social working environment. The results of the report must be discussed as part of the unit's business planning.

OKTOGONEN – THE HANDELSBANKEN GROUP'S PROFIT-SHARING SCHEME

Stadshypotek's employees are covered by the Handelsbanken Group's profit-sharing scheme. Allocations to the profit-sharing scheme are subject to the Handelsbanken Group achieving its goal of higher return on equity than a weighted average of other comparable listed Nordic, British and Dutch banks. One-third of the extra profit can be allocated to the employees. If the Bank lowers the dividends paid to the shareholders, or decides not to pay a dividend at all, no allocation is paid to Oktogonen. The amount is limited to 10 per cent of the dividends to shareholders. The funds allocated are managed by the Oktogonen Foundation. Each employee receives an equal part of the allocated amount. Payments can start to be made in the year the holder reaches the age of 60.

Corporate governance report

The shareholders ultimately make the decisions about Stadshypotek's governance. At the annual general meeting, the shareholders appoint the Board and the auditors. The Board is responsible to the owners for the company's organisation and management of the company's affairs, and it appoints a Chief Executive to run the company's operating activities. The auditors examine the financial reporting, among other matters, and submit an audit report.

BOARD AND CHIEF EXECUTIVE

The Board is to continuously assess the company's financial situation and ensure that Stadshypotek is organised such that the accounting records, management of funds and other aspects of the company's financial circumstances are satisfactorily controlled. The Board establishes policies and instructions on how this should be executed, and establishes rules of procedure for the Board and also instructions for the Chief Executive.

The fundamental rules regarding the distribution of competence among the Board, the Chairman and the Chief Executive are manifested in the Board's rules of procedure, as well as in its instructions to the Chief Executive.

Chairman of the Board

The Board's rules of procedure state that the Chairman shall ensure that the Board carries out its work efficiently and that it fulfils its duties. This involves organising and managing the Board's work and creating the best possible conditions for this work. The Chairman must also ensure that the Board members continually update and expand their knowledge of Stadshypotek, and that new members receive an appropriate introduction and training. The Chairman must be available to the Chief Executive as an advisor and discussion partner, but must also prepare the Board's evaluation of the Chief Executive's work. In addition, the Chairman is responsible for ensuring that the Board's work is evaluated annually. The Chairman is also responsible for contacts with the owner on ownership matters and for conveying points of view from the owner to the Board.

Board members

The members of the Board have broad and extensive experience of banking and finance, and several members have worked on Stadshypotek's Board for a long time and are very familiar with the company's operations.

During the year, the Board convened 12 times, of which 6 times by correspondence.

At the annual general meeting on 25 March 2014, Håkan Sandberg, Per Beckman, Yonnie Bergqvist, Olle Lindstrand and Michael Bertorp were re-elected as members until the annual general meeting has been held in 2015. At an

extraordinary shareholders' meeting on 25 April 2014, Ulrica Stolt Kirkegaard was elected as a new Board member and Per Beckman was discharged from his duties as Board member as of 1 May 2014. At an extraordinary shareholders' meeting on 20 August 2014, Anders Ohlner was elected as a Board member.

Following his appointment as Head of Handelsbanken's Central Credit Department, Per Beckman left his position as Chief Executive of Stadshypotek on 30 April 2014. Ulrica Stolt Kirkegaard, formerly Regional Area Manager for Regional Bank Stockholm at Handelsbanken, was appointed new Chief Executive.

For information on certain terms of employment for executive officers and on loans to Board members and executive officers, see note 6 on page 36.

AUDITORS

At the annual general meeting in 2014, KPMG AB were appointed auditors of Stadshypotek AB until the annual general meeting in 2015. The chief auditor with effect from October 2014 is Anders Bäckström, authorised public accountant, Stockholm. He replaced Stefan Holmström, authorised public accountant, who has been auditor of the company since the 2008 annual general meeting.

FRAMEWORK FOR CONTROL

Internal control for operations

Responsibility for internal control has been delegated from the Chief Executive to department managers and branch managers who are responsible for internal control within their respective units. This responsibility means that the appropriate instructions and procedures for the operation must be in place, and compliance with these procedures must be monitored regularly. The responsibility for internal control is thus an integral part of managerial responsibility at Stadshypotek.

Internal Audit

Internal audit operations at Stadshypotek are managed by the Central Audit Department at Handelsbanken in accordance with the collaboration agreement and outsourcing agreements between Stadshypotek and Handelsbanken. Internal Audit's assignments are based on an

internal auditing policy established by the Board. Each year, the Board determines a plan for the work of the Internal Audit function. Internal Audit must independently examine Stadshypotek's operations and reporting and also evaluate and examine the business operation's processes for risk management, internal governance and control to establish how satisfactory they are. The conclusions of internal audits, the actions to be taken and their status are reported to the Board.

Compliance

The Compliance function must ensure that laws, regulations and internal rules, as well as accepted business practices and standards, are complied with in the operations conducted by Stadshypotek. The function must also assist in drawing up internal rules and provide information about new and amended rules for operations. The Head of Compliance submits regular reports regarding material observations to the Chief Executive. In addition, the Chief Executive receives a quarterly compliance report and twice a year, a compliance report is submitted to the Board.

Risk Control

Risk Control is responsible for identifying, measuring, analysing and reporting all material risks in the business. Risk Control is also responsible for ensuring that the application of measuring methods used for calculating risk utilisation, in accordance with the applicable internal and external regulations, are fit-for-purpose and accurate. Moreover, Risk Control is responsible for ensuring that the models applied are regularly evaluated and that the results of the evaluation are documented.

The Head of Risk Control informs the Chief Executive and the Head of Central Risk Control at Handelsbanken of any material observations that could be deemed to involve risk or of any comments from public authorities.

The Head of Risk Control submits a monthly risk report to the Chief Executive and the Head of Central Risk Control at Handelsbanken. These reports are presented to the Board on a quarterly basis by the Head of Risk Control.

REMUNERATION PRINCIPLES

The principles for Stadshypotek's system of remuneration are established in a remuneration policy decided by the Board.

Stadshypotek has a long-term view of its staff's employment. Remuneration varies over an employee's period of employment with Stadshypotek and good efforts must always be rewarded. The total level of remuneration should help improve Stadshypotek's competitive position and profitability so that the company is able to attract, retain and develop skilled employees and establish a healthy management succession structure.

Stadshypotek has a low risk tolerance in general. This approach is reflected in the company's view of remuneration. Stadshypotek considers that fixed remuneration contributes to healthy operations and all employees of Stadshypotek therefore only receive a fixed remuneration. There are no exceptions to this principle of a fixed salary.

Remuneration for work performed is set individually for each employee. Remuneration is

paid in the form of a fixed salary, customary salary benefits and a pension provision. Salaries are established locally in accordance with Stadshypotek's decentralised method of working and are based on factors known in advance, namely the nature and level of difficulty of the work, skills, performance and results achieved, leadership (for managers who are responsible for the career development of employees), and supply and demand on the market, as well as performance as an ambassador for Stadshypotek's business culture.

Stadshypotek's view is that fixed remuneration does not lead to behaviour that gives rise to an increased risk level.

INTERNAL CONTROL REGARDING FINANCIAL REPORTING

The control environment described above in this corporate governance report is fundamental to Stadshypotek's internal control of financial reporting.

Risk assessment is another part of the internal control process and comprises identification

and management of the risks that may affect financial reporting, as well as the control activities aimed at preventing, detecting and correcting deviations.

Risk assessment

The annual self-evaluations carried out at all departments are an essential part of Stadshypotek's risk assessment. Risks related to financial reporting are part of this total analysis.

In a self-evaluation, the employee defines the events that constitute potential risks to the operation and then estimates the probability and consequences of each risk.

Control activities

Various control activities are incorporated into the entire financial reporting process. Reported amounts and analyses of income statements and balance sheets are reconciled and checked regularly within the finance and accounting department.

Heads of finance and accounting at branches are responsible for ensuring that the control activ-

Name	Håkan Sandberg, Chairman of the Board	Ulrica Stolt Kirkegaard, Board member	Yonnie Bergqvist, Board member	Michael Bertorp, Board member
Position	Executive Vice President Handelsbanken	Chief Executive Stadshypotek	Executive Vice President Handelsbanken	Board and consultancy activities
Education	Business administration graduate	B.A. Business administration M.A. Economics	Business college RMI-Berghs	Law graduate
Year of birth	1948	1968	1961	1949
Other assignments	Chairman <ul style="list-style-type: none"> Handelsbanken Regional Bank The Netherlands Board member <ul style="list-style-type: none"> Handelsbanken Regional Bank Northern Great Britain Handelsbanken Regional Bank Southern Great Britain Handelsbanken Regional Bank Central Great Britain Handelsbanken Regional Bank South West Great Britain Handelsbanken's Staff Foundation Pensionskassan SHB Försäkringsför. (pension fund) Handelsbanken's Pension Foundation Scandinavian Resort i Båstad AB S Resort Holding AB 		Chairman <ul style="list-style-type: none"> Handelsbanken Finans AB Board member <ul style="list-style-type: none"> UC AB 	Chairman <ul style="list-style-type: none"> Setra Group AB Board member <ul style="list-style-type: none"> Handelsbanken Fonder AB Xact Kapitalförvaltning AB Maderna Corporate Services AB
Background	<ul style="list-style-type: none"> 2006 - Handelsbanken Central Head Office 1993 - 2006 Handelsbanken Regional Bank Southern Norrland 1990 - 1993 Handelsbanken Regional Bank Western Sweden 1986 - 1989 Handelsbanken Luxembourg 1973 - 1986 Handelsbanken Regional Bank Eastern Sweden <p>Employed at Handelsbanken since 1969</p>	<ul style="list-style-type: none"> 2014 - Stadshypotek 2006 - 2014 Handelsbanken Regional Bank Stockholm 1998 - 2006 Handelsbanken Markets 1994 - 1998 Handelsbanken Regional Bank Central Sweden <p>Employed at Handelsbanken since 1994</p>	<ul style="list-style-type: none"> 2014 - Handelsbanken Central Head Office 2011 - 2014 Handelsbanken Direkt 2004 - 2011 Handelsbanken Finans 1997 - 2004 Stadshypotek Bank 1997 Stadshypotek 1991 - 1997 Handelsbanken Finans 1979 - 1991 Svenska Finans <p>Employed at Handelsbanken since 1979</p>	<ul style="list-style-type: none"> 2006 - Legal Board and consultancy activities 1986 - 2006 SCA 1985 - 1986 Sunds Defibrator AB 1984 - 1985 SCA 1982 - 1984 Ministry of Justice 1972 - 1982 The Swedish courts
Board meeting attendance	12/12	9/9	11/12	11/12

ities in the financial reporting for their respective units are fit-for-purpose, in other words, that they are designed to prevent, detect and correct errors and deviations, and are in compliance with internal guidelines and instructions. At each quarterly closing of accounts, the branches certify that the prescribed periodic checks and reconciliation of accounts have been carried out.

Monitoring

Internal Audit, Compliance, Risk Control and the finance and accounting department monitor compliance with internal policies, instructions and other policy documents. The policy established by the Board for internal audit states that it must examine internal governance and control.

SHAREHOLDERS AND SHAREHOLDERS' MEETING

Rights of shareholders

Stadshypotek AB is a wholly owned subsidiary of Svenska Handelsbanken AB (publ).

Stadshypotek's Articles of Association contain no limitations with regard to the number of

votes each shareholder may represent at a shareholders' meeting.

Every year a shareholders' meeting is held which is an annual general meeting where Stadshypotek's shareholders decide on matters that include the following:

- Which individuals should be appointed as members of the Board of the company and who should be appointed as the company's auditors
- Determining fees for Board members and auditors
- Adopting the income statement and balance sheet
- Appropriation of profits
- The Board and Chief Executive need to be discharged from liability for the past financial year.

The shareholders at a shareholders' meeting also make decisions regarding possible amendments to the company's Articles of Association.

Name	Olle Lindstrand, Board member	Anders Ohlner, Board member	Camilla Persson, Employee representative
Position	Senior Vice President Handelsbanken	Executive Vice President Handelsbanken	Bank employee
Education	Law graduate	University education	Upper secondary school education
Year of birth	1949	1955	1975
Other assignments	Chairman <ul style="list-style-type: none"> • Handelsbanken Fonder AB • Xact Kapitalförvaltning AB • Stockholm Fersen Fastighets AB • Solna One AB Board member <ul style="list-style-type: none"> • AB Handel och Industri • Handelsbanken Regional Bank Northern Great Britain • Handelsbanken Regional Bank Southern Great Britain • Handelsbanken Regional Bank Central Great Britain • Handelsbanken Regional Bank South West Great Britain • Handelsbanken Regional Bank Great Britain - Yorkshire and North East • Handelsbanken Regional Bank The Netherlands • Merchant Banking International 	Chairman <ul style="list-style-type: none"> • Business area Handelsbanken Forestry & Farming Board member <ul style="list-style-type: none"> • Handelsbanken Liv 	
Background	<ul style="list-style-type: none"> • 2011 - Handelsbanken Central Head Office • 2005 - 2011 Handelsbanken Central Credits • 2002 - 2005 Handelsbanken Capital Markets • 2000 - 2002 Handelsbanken Markets • 1996 - 2000 Handelsbanken Central Development • 1992 - 1996 Handelsbanken Central Credits • 1985 - 1992 Handelsbanken Regional Bank Stockholm City • 1977 - 1985 Swartlings law firm • 1974 - 1977 The Swedish courts <p>Employed at Handelsbanken since 1985</p>	<ul style="list-style-type: none"> • 2014 - Handelsbanken Central Head Office • 2008 - 2014 Handelsbanken Regional Bank Southern Sweden • 2003 - 2008 Handelsbanken Regional Bank Eastern Sweden • 1996 - 2003 Handelsbanken Regional Bank Southern Sweden • 1989 - 1996 Handelsbanken Regional Bank Central Sweden • 1985 - 1989 Handelsbanken Central Money Market • 1978 - 1985 Skandia <p>Employed at Handelsbanken since 1985</p>	<ul style="list-style-type: none"> • 2010 - Stadshypotek • 2003 - 2010 Handelsbanken • 2000 - 2003 SPP <p>Employed at Handelsbanken since 2000</p>
Board meeting attendance	12/12	6/6	12/12

Lending

STADSHYPOTEK'S ROLE IN HANDELSBANKEN

In the Swedish operations of the Handelsbanken Group, mortgage finance is conducted principally via Stadshypotek. At Stadshypotek's branches in Denmark, Finland and Norway, business operations focus primarily on financing residential property. Lending takes place through Handelsbanken's branch network in the country concerned. As a result of the decentralised method of working within the Handelsbanken Group, the branches have been delegated responsibility for marketing, contact with customers, pricing and processing of all mortgage loans. Handelsbanken thus acts as an agent for Stadshypotek, with responsibility for ensuring that credit assessment and collateral valuations are carried out in accordance with the guidelines approved by Stadshypotek's Board.

The position of the Handelsbanken Group in the Swedish mortgage market has been secured by a customer-oriented range of products, a branch network that operates close to its customers and a high level of service.

MORTGAGE MARKET IN SWEDEN

The Swedish mortgage market for the period January to November 2014 was characterised by a continued demand for mortgage loans. According to Statistics Sweden, loans to Swedish households involving single-family housing or housing co-operative apartments as collateral increased during the period by SEK 131 billion (107), with loans for single-family housing accounting for SEK 71 billion (61) and loans for housing co-operative apartments accounting for SEK 60 billion (46). At the end of November, loans to Swedish households using single-family housing or housing co-operative apartments as collateral were SEK 2,472 billion (2,330), with loans using single-family housing as collateral accounting for SEK 1,772 billion (1,694) and loans using housing co-operative apartments accounting for SEK 700 billion (636).

The market for lending secured by mortgages to Swedish non-financial companies increased by SEK 35 billion (29) during the period January to November 2014, of which lending secured by mortgages in multi-family dwellings accounted for SEK 16 billion (9). At the end of November, lending secured by mortgages in property to Swedish non-financial companies amounted to SEK 853 billion (817), of which lending secured by mortgages in multi-family dwellings accounted for SEK 591 billion (574). Lending to housing

co-operative associations, which is included in lending secured by mortgages in multi-family dwellings, increased by SEK 18 billion (9) during the period January to November 2014 and amounted to SEK 366 billion (347) at the end of November.

According to Mäklarstatistik (estate agent statistics), in 2014, single-family house prices rose by an average of 9 per cent (5) for Sweden as a whole. As in previous years, there were considerable regional variations in the changes in price. Continued migration to metropolitan areas, with their limited supply of housing, led to rising prices in these areas. Single-family house prices rose by 8 per cent (6) in the Gothenburg area, by 12 per cent (7) in the Stockholm area, while in the Malmö area, single-family house prices were up 2 per cent (6).

According to Mäklarstatistik, prices of housing co-operative apartments rose by an average of 9 per cent (11) for Sweden as a whole. Housing co-operative apartment prices rose by 12 per cent (11) in the Greater Stockholm area, by 13 per cent (10) in the Gothenburg area, and by 9 per cent (9) in the Malmö area.

Transaction volumes related to commercial properties in 2014 are considered to be relatively high compared to recent years. The vacancy rate and rent levels for offices were stable during the year and are expected to remain at current levels. Modern office premises hold greater appeal as rental properties than less modern premises, and this is also reflected in the level of rents and vacancies. Prices of multi-family dwellings were stable during the year.

MORTGAGE MARKET IN NORWAY

According to Statistics Norway, up to the end of October 2014, the Norwegian mortgage market continued to grow, with mortgage lending to private customers rising by 6.6 per cent compared to the end of October 2013. Mortgage lending to private customers was NOK 2,157 billion (2,024) at 31 October 2014. Residential property prices increased by 8.1 per cent (-0.2) in 2014 according to Eiendomsverdi.

MORTGAGE MARKET IN DENMARK

According to the Association of Danish Mortgage Banks (Realkreditrådet), the Danish mortgage market decreased by 0.3 per cent in 2014. At 31 December 2014, mortgage lending to private customers stood at DKK 1,447 billion (1,451). Single-family house prices rose by 1.4 per cent (2.4) according to Realkreditrådet, while prices for owner-occupied apart-

ments rose by 4.6 per cent (8.6) up to and including October 2014 compared to the end of October 2013.

MORTGAGE MARKET IN FINLAND

According to the Bank of Finland, the Finnish mortgage loan market grew by 1.6 per cent in the period up to and including November 2014 compared to the end of November 2013. At 30 November 2014, mortgage lending to households was EUR 89.8 billion (88.4). Up to the end of November 2014, housing prices fell by -1.6 per cent (1.0) compared with the end of November 2013, according to Statistics Finland.

STADSHYPOTEK'S LENDING

In 2014, Stadshypotek's lending volume in Sweden rose by SEK 45.2 billion (52.8). Loans to the private market increased by SEK 31.4 billion (27.6), while loans to the corporate market grew by SEK 13.8 billion (25.2). Stadshypotek's loans to the public in Sweden were SEK 878.9 billion (833.7) at the end of the year. Some 65.7 per cent – SEK 577.4 billion – of Stadshypotek's loans to the public are to the private market.

The Handelsbanken Group's market share for loans to Swedish households secured by mortgages in single-family housing or housing co-operative apartments stood at 23.1 per cent (23.2) at the end of November. According to Statistics Sweden's statistics, the market comprises total lending to Swedish households with single-family housing or co-operative apartments as collateral, which means that this also includes loans with loan-to-value ratios (LTVs) in excess of the permitted LTVs at Stadshypotek and which, where applicable, are thus in the books of the parent company Handelsbanken. The market share therefore includes the parent company's lending to Swedish households with collateral in single-family housing or co-operative apartments.

At year-end, loans to the public by Stadshypotek's branch in Norway totalled NOK 61.1 billion (57.5), with the private market accounting for NOK 48.2 billion (46.7) and the corporate market accounting for NOK 12.9 billion (10.8). Loans to the public by Stadshypotek's branch in Denmark totalled DKK 19.8 billion at the year-end (15.5), all of which related to loans to the private market. At year-end, loans to the public by Stadshypotek's branch in Finland was EUR 5.2 billion (4.6), with the private market accounting for EUR 2.4 billion (2.6) and the corporate market accounting for EUR 2.8 billion (2.0).



Funding

The Treasury function at Stadshypotek is integrated with Handelsbanken's Treasury department. This organisational structure offers the best conditions for using the funding source as well as the instrument offering the lowest funding cost each time funding is carried out. An integrated treasury department has also made it possible to make efficient use of the Handelsbanken Group's liquidity.

FUNDING INSTRUMENTS

Stadshypotek raises funds mainly on the Swedish money market and capital market and through the parent company. Foreign markets are also used for the purposes of diversification. The primary source of funding is bond loans in Sweden.

Bonds are issued in the company's own name and primarily within the framework of a benchmark loan system aimed at the Swedish institutional market. This means that only a small number of separate bond loans are issued, with respective final maturity dates set at intervals of about nine months. Concentrating large volumes into a small number of loans in this manner achieves good market liquidity. At the end of the year, Stadshypotek had nine outstanding benchmark loans which mature between 2015 and 2022. Stadshypotek's bond loans are arranged by six market makers. The same programme is also used for issues in Norwegian kroner to Norwegian investors. These bonds are guaranteed by a separate pool of assets that consists entirely of Norwegian properties.

In 2006, a Euro Medium Term Covered Note (EMTCN) programme was set up for international issues of covered bonds. The total facility amount of this programme is EUR 20 billion. Agreements have been signed with 21 banks which arrange issues under this programme.

In autumn 2010, a US Medium Term Covered Bond programme was launched for issues in the US. The total facility amount of this programme is USD 15 billion. Stadshypotek has reached sales agreements with 13 banks as part of the programme.

In the autumn of 2011, a programme was established for issues in Australia (AMTCN), directed at Australian and Asian investors.

Stadshypotek has active commercial paper programmes in Sweden and Europe. The ceiling for the Swedish commercial paper programme is SEK 90 billion. The ceiling for the European programme is EUR 4 billion.

INTEREST RATE TRENDS

On an annual basis, Swedish bond yields fell from 2013 to 2014. A consistently downward trend could be seen during the year. At the end of the year, both short and long government bond yields were close to the lowest level for the year. Based on average yields per calendar year, record-low yield levels were recorded for Swedish government bonds, with the exception of the ten-year government bond yield. To sum up, it can be said that, based on the average of all maturities, bond yields have never before been as low as they were in 2014.

The ten-year government bond followed Swedish bond yields in a global trend towards even lower yields. However, the Swedish decline was greater than for corresponding bond yields in both Germany and the US. For bonds with shorter maturities, Swedish yields deviated even more than for US and German bonds, this being mainly due to diverging monetary policy. While US five-year government bond yields moved sideways during the year, there was a rising trend for two-year US bond yields. In addition to the improving economic climate in the US, one of the drivers behind this development was the shift from a monetary policy that had been providing considerable stimulus to the US economy, a process which began in 2014, at a time when the market's expectations of future hikes of the US key rate have gradually been moving closer in time.

The conditions and outlook for the economic climate and monetary policy in the US are in clear contrast to the situation in both Sweden and Germany. Declining two-year and five-year German bond yields have followed in the wake of disappointments regarding the depressed economic climate in Europe, interest rate cuts from the ECB and increased expectations of future stimulatory measures from the ECB. Compared to German bonds, the decline in Swedish two-year and five-year bond yields has been much greater. One of the main reasons for

this is the Riksbank's interest rate cuts during the year, which overall resulted in cuts four times greater than those decided by the ECB. The increasingly relaxed monetary policy in Sweden – which in October led to the repo rate being cut to zero per cent – stems from the fact that the inflation rate has been below the Riksbank's target level for a long time, even though the economic climate and outlook in Sweden would appear to be considerably brighter than in other European countries. The Riksbank's own forecasts, suggesting that a future hike of the repo rate is far from imminent, also seem to have had a major impact on market rates, and have contributed to the declining bond yields.

COVERED BONDS

Since spring 2006, Stadshypotek has had permission from the Swedish Financial Supervisory Authority to issue covered bonds pursuant to the law in Sweden on issuing covered bonds (2003:1223), which came into force in July 2004. In September 2006, all outstanding bonds issued by Stadshypotek were converted to covered bonds. These bonds have been given the highest possible rating, Aaa, by Moody's. Covered bonds are bonds with priority in those parts of the issuing institution's collateral approved by the legislation (known as the cover pool). Of a total of SEK 914,446 million, some SEK 623,244 million (including 10 per cent Over Collateral (OC), which is a safety buffer) was used in the cover pool as collateral for the debts. The remaining SEK 291,202 million provides an extra OC corresponding to around 53 per cent of nominal debts. At 31 December 2014, the average loan-to-value (LTV) ratio for the assets in the cover pool was 49.3 per cent (49.5).

FUNDING

The integration of Stadshypotek's Treasury function with Handelsbanken's Treasury department ensures efficient management of the

At 31 December 2014, the cover pool assets, categorised by type of collateral, were as follows:

Type of collateral	Sweden	Norway	Denmark	Finland	Total
Public	15,648	-	-	16,720	32,368
Single-family housing	324,755	40,966	16,880	12,642	395,243
Second home	27,583	1,900	1,742	1,031	32,256
Rental property	203,068	10,893	58	6,122	220,141
Housing co-operative apartments, units	146,017	3,540	-	12	149,569
Housing co-operative apartments, shares	-	493	-	7,003	7,496
Single-family housing, shares	-	-	-	4,814	4,814
Commercial/Offices	45,181	93	210	-	45,484
Agricultural	23,414	428	347	28	24,217
Other	637	-	2,143	78	2,858
Total	786,303	58,313	21,380	48,450	914,446

Handelsbanken Group's liquidity and market financing resources. Among other things, Handelsbanken's liquidity surplus is used to finance funding at Stadshypotek; liquidity is transferred on a daily basis in the form of overnight loans and funding transactions are undertaken from Handelsbanken to Stadshypotek involving maturities of up to a year. In addition, long-term financing in Handelsbanken's name on the international capital market can be passed on to Stadshypotek.

As in previous years, Stadshypotek has used commercial paper programmes in its own name in Sweden and Europe to fund the lending with short-term rate fixing. With the aim of reducing the liquidity risk, this financing is supplemented by long-term funding, which by means of swap agreements is adapted so that the interest fixing period matches the maturity of the lending. Thus, Stadshypotek has good diversification of its funding with respect to both geographical markets and maturity.

Lending with long-term rate fixing has mainly been financed in Stadshypotek's own name in Sweden through the issue of mortgage bonds. Stadshypotek also has international long-term funding in its own name through the international funding programmes.

Stadshypotek uses swap agreements to reduce interest rate and currency risks in connection with funding. The use of derivatives increases flexibility in connection with the funding. Thus, funding can be carried out when market conditions are favourable, without exposing the company to interest rate and currency risks. At the end of the year, interest rate swap agreements in which fixed interest is received totalled SEK 232.9 billion (234.6), while interest rate swap agreements paying fixed interest were SEK 49.3 billion (107.3). The issued volume of bonds from Stadshypotek's benchmark series during the year was SEK 111.1 billion (119.1). The carrying amount of the outstanding benchmark loans was SEK 386.1 billion (405.1) at the year-end.

Sales of bonds from the EMTCN programme totalled the equivalent of about EUR 2.8 billion (5.4), and the outstanding volume was some EUR 11.4 billion (12.1) at year-end.

No issues were made under the US programme during the year. The outstanding volume at year-end was USD 2.75 billion (2.75).

In Norway, a total of NOK 6.7 billion was issued. The outstanding volume at year-end was NOK 19.5 billion (12.8).

No issues were made under the Australian programme during the year. The outstanding volume at year-end was AUD 750 million (750.)

The outstanding volume in the European commercial paper programme was SEK 8.5 billion (13.3) at the end of the year.

Stadshypotek's total funding at year-end was SEK 1,005.3 billion (931.0), of which SEK 425.8 billion (358.2) came from Handelsbanken. The breakdown of funding by instrument is shown in the table below.

RATINGS

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+

Stadshypotek's funding 31 December	2014		2013		
	Carrying amount	Share %	Carrying amount	Share %	Change
SEK bn					
Funding from the parent company	425.8	42.4	358.2	38.5	67.6
<i>of which subordinated liabilities</i>	20.7	-	21.2	-	-0.5
Commercial paper	-	-	-	-	-
SEK bonds	430.6	42.8	445.7	47.9	-15.1
<i>of which repos</i>	0.0	-	0.0	-	0.0
Foreign currency bonds	140.4	14.0	113.7	12.2	26.7
Retail bonds	-	-	0.1	0.0	-0.1
Commercial paper – ECP	8.5	0.8	13.3	1.4	-4.8
Total	1,005.3	100.0	931.0	100.0	74.3

Performance and financial position

FINANCIAL PERFORMANCE

Stadshypotek's operating profit for the year was SEK 8,741 million (8,096), an increase of SEK 645 million, or 8.0 per cent, compared to the previous year.

OPERATING INCOME

Income totalled SEK 10,240 million (9,496), up 7.8 per cent on the figure for 2013. Of this income, SEK 1,013 million (1,003) was attributable to the branch in Norway, SEK 406 million (337) to the branch in Finland and SEK 221 million (166) to the branch in Denmark.

Net interest income grew by SEK 809 million, or 8.6 per cent, to SEK 10,240 million (9,431). Of the net interest income, SEK 1,014 million (1,003) was attributable to the branch in Norway, SEK 398 million (329) to the branch in Finland and SEK 221 million (166) to the branch in Denmark. Excluding the branches, net interest income thus increased by SEK 674 million, due to higher lending volumes and improved margins, mainly for the private market, but also for the corporate market. The increase at the Norwegian branch was attributable to higher lending volumes to both the private and corporate markets, although these advances were offset by lower margins and a negative currency effect. The increase in net interest income at the Finnish branch can mainly be explained by higher lending volumes to the corporate market, while at the Danish branch it was mainly due to an increase in lending volumes to the private

market. Net gains/losses on financial transactions decreased to SEK 7 million (70).

EXPENSES AND LOAN LOSSES

Expenses increased by SEK -143 million or 10.4 per cent to SEK -1,521 million (-1,378), of which SEK -59 million (-55) was attributable to the branch in Norway, SEK -33 million (-23) to the branch in Finland and SEK -18 million (-14) to the branch in Denmark. Staff costs rose by SEK -7 million or 8.9 per cent compared to 2013. This was due to an increase in the number of employees and annual salary increases. Other administrative expenses rose by SEK -136 million or 10.6 per cent, which was mainly due to sales compensation to the parent company.

Loan losses consisted of net recoveries amounting to SEK 22 million compared with net loan losses of SEK -22 million in 2013.

TAXES AND NET PROFIT FOR THE YEAR

The profit for the year after taxes of SEK -1,968 million (-1,805) was SEK 6,773 million (6,291).

PROFITABILITY

The profit corresponded to a return on equity of 20.9 per cent (20.3). For a five-year overview of income statements and balance sheets, see page 60, and for key financial figures and ratios, see page 4.

OTHER COMPREHENSIVE INCOME

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, which increased by SEK 5,787 million and totalled SEK 5,543 million (-244). This increase is explained primarily by the change in fair value relating to interest rate swaps in which fixed interest is received and three months' interest is paid, which has been favourably affected by the substantial decline in market rates during the year.

TOTAL ASSETS AND EQUITY

At 31 December 2014, Stadshypotek's total assets stood at SEK 1,058,857 million (984,659) and equity was SEK 32,368 million (26,723).

GROUP CONTRIBUTION

A Group contribution of SEK 7,180 million (6,670) has been provided to the parent company, Handelsbanken.

FINANCIAL RISKS

For information about financial risks, see note 2.

APPROPRIATION OF PROFITS

The Board proposes that the profits be carried forward to the next year. The recommended appropriation of profits is shown on page 56.

Half-yearly performance – Group	2014		2013		2012
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec
SEK m					
Interest income	13,060	13,886	14,426	14,597	15,642
Interest expense	-7,647	-9,059	-9,634	-9,958	-11,527
Net interest income	5,413	4,827	4,792	4,639	4,115
Net fee and commission income	-4	-3	-2	-3	-3
Net gains/losses on financial transactions	-75	82	-27	97	75
Total income	5,334	4,906	4,763	4,733	4,187
Staff costs	-44	-42	-41	-38	-25
Other administrative expenses	-713	-709	-686	-600	-125
Depreciation and amortisation	-7	-6	-7	-6	-6
Total expenses	-764	-757	-734	-644	-156
Profit before loan losses	4,570	4,149	4,029	4,089	4,031
Net loan losses	26	-4	-18	-4	-21
Operating profit	4,596	4,145	4,011	4,085	4,010

Sensitivity analysis

A calculation has been performed as to how a change in the lending margin, the lending volume, the investment yield on own funds, the loan loss ratio and changes in market interest rates would affect the operating profit, on the assumption that everything else is unchanged. This is based on the balance sheet at the end of 2014.

LENDING MARGIN

In the case of an increase/decrease of the nominal lending margin by 0.01 percentage points, net interest income is positively/negatively affected by SEK 102 million (95). It should be noted that changes in interest rates only have a gradual impact on a portfolio of fixed-interest loans. If the lending margin changes, it will be a long time before the full impact is seen on the average lending margin in the fixed-interest portfolio.

LENDING VOLUME

To calculate the impact of an increase/decrease in lending volume, an interval is specified, since loans which are added to or deducted from the loan portfolio may have a different margin than the portfolio on average. The calculations comprise interest rate margins ranging from 0.7 per cent to 1.2 per cent. Based on these assumptions, an increase/decrease of the lending volume by 1 percentage point affects net interest income positively/negatively by SEK 71–122 million (67–114).

INVESTMENT YIELD ON OWN FUNDS

Equity is invested in fixed-term lending with an average maturity of 1.5 years (1.5). In the case of an increase/decrease in the investment yield on own funds of 0.10 percentage points, net interest income is positively/negatively affected by SEK 32 million (27).

MARKET RATE

The impact of net gains/losses on financial transactions in the case of changes in market interest rates is attributable to cash flow hedge ineffectiveness and derivatives as well as to lending and funding subject to hedge accounting at fair value. In the case of a parallel shift upwards of the yield curve of 1.00 percentage points, net gains/losses on financial transactions will change by SEK -15 million (-12).

Further, an estimate has been made of the effect that changes in market rates would have on net interest income. The effect that changes in interest rates have on net interest income is expressed as the change in net interest income over a 12-month period in the case of a general increase in market rates of one percentage point. This effect reflects the differences in interest-fixing periods and the breakdown of volumes into assets, liabilities and derivatives, based on the assumption that the size of the balance sheet remains constant. The effect on net interest income at the year-end was SEK 90 million (179).

LOAN LOSS RATIO

In the case of an increase/decrease of the loan loss ratio by 0.01 percentage points, loan losses are negatively/positively affected by SEK 96 million (89).

Income statement – Group

Group SEK m		2014	2013
Interest income		26,946	29,023
Interest expense		-16,706	-19,592
Net interest income	<i>Note 3</i>	10,240	9,431
Fee and commission income		14	15
Fee and commission expense		-21	-20
Net fee and commission income	<i>Note 4</i>	-7	-5
Net gains/losses on financial transactions	<i>Note 5</i>	7	70
Other income		0	0
Total income		10,240	9,496
Staff costs	<i>Note 6</i>	-86	-79
Other administrative expenses	<i>Note 7</i>	-1,422	-1,286
Depreciation and amortisation of intangible assets and property and equipment	<i>Note 14, 15</i>	-13	-13
Total expenses before loan losses		-1,521	-1,378
Profit before loan losses		8,719	8,118
Net loan losses	<i>Note 8</i>	22	-22
Operating profit		8,741	8,096
Profit before tax		8,741	8,096
Taxes	<i>Note 9</i>	-1,968	-1,805
Profit for the year		6,773	6,291
Net earnings per share, before and after dilution, SEK		41,809	38,833

Statement of comprehensive income – Group

Group SEK m		2014	2013
Profit for the year		6,773	6,291
Items that may subsequently be reclassified to the income statement			
Cash flow hedges		5,543	-244
Translation differences for the year		149	-115
Taxes on items that may subsequently be reclassified to the income statement – cash flow hedges		-1,220	54
Total comprehensive income for the year		11,245	5,986

Balance sheet – Group

Group			2014	2013
SEK m, 31 December				
ASSETS				
Loans to credit institutions	Note 10		10,148	7,966
Loans to the public	Note 11		1,018,533	955,251
Value change of interest-hedged item in portfolio hedge			70	96
Derivative instruments	Note 13		24,960	15,235
Intangible assets	Note 14		27	40
Property and equipment	Note 15		0	0
Current tax assets			21	24
Deferred tax assets	Note 9		-	54
Other assets	Note 16		3,274	4,041
Prepaid expenses and accrued income	Note 17		1,824	1,952
Total assets			1,058,857	984,659
<i>of which Group claims</i>	Note 25		35,157	23,256
LIABILITIES AND EQUITY				
Due to credit institutions	Note 18		405,074	337,097
Issued securities	Note 19		579,485	572,746
Derivative instruments	Note 13		4,063	8,186
Deferred tax liabilities			1,166	-
Other liabilities	Note 20		7,212	6,700
Accrued expenses and deferred income	Note 21		8,789	12,007
Subordinated liabilities	Note 22		20,700	21,200
Total liabilities			1,026,489	957,936
Equity	Note 23			
Share capital			4,050	4,050
Translation reserve			4,113	-359
Retained earnings			17,432	16,741
Profit for the year			6,773	6,291
Total equity			32,368	26,723
Total liabilities and equity			1,058,857	984,659
<i>of which Group liabilities</i>	Note 25		437,572	373,824

Statement of changes in equity – Group

Group SEK m	Share capital*	Hedge reserve	Translation reserve	Retained earnings	Total
Equity at 31 December 2012	4,050		-54	21,944	25,940
Profit for the year				6,291	6,291
Other comprehensive income		-190	-115		-305
Total comprehensive income for the year		-190	-115	6,291	5,986
Group contributions provided				-6,670	-6,670
Tax effect on group contributions				1,467	1,467
Equity at 31 December 2013	4,050	-190	-169	23,032	26,723
Profit for the year				6,773	6,773
Other comprehensive income		4,323	149		4,472
Total comprehensive income for the year		4,323	149	6,773	11,245
Group contributions provided				-7,180	-7,180
Tax effect on group contributions				1,580	1,580
Equity at 31 December 2014	4,050	4,133	-20	24,205	32,368

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

Cash flow statement – Group

Group SEK m	2014	2013
OPERATING ACTIVITIES		
Operating profit	8,741	8,096
<i>of which paid-in interest</i>	27,063	29,279
<i>of which paid-out interest</i>	-19,150	-19,607
Adjustment for non-cash items in profit/loss:		
Loan losses	44	58
Unrealised changes in value	1,299	-173
Depreciation, amortisation and impairments	13	13
Paid income tax	-343	-412
Change in the assets and liabilities of operating activities:		
Loans to the public	-63,308	-64,109
Due to credit institutions	68,003	50,830
Issued securities	6,738	6,882
Derivative instruments, net	-10,521	-1,559
Other	-1,394	5,292
Cash flow from operating activities	9,272	4,918
INVESTING ACTIVITIES		
Investment in tangible non-current assets	0	0
Disposal of tangible non-current assets	0	0
Investment in intangible non-current assets	0	-11
Cash flow from investing activities	0	-11
FINANCING ACTIVITIES		
Subordinated loans	-500	4,500
Group contribution paid out	-6,670	-7,080
Cash flow from financing activities	-7,170	-2,580
CASH FLOW FOR THE YEAR	2,102	2,327
Liquid funds at beginning of year	2,921	686
Cash flow from operating activities	9,272	4,918
Cash flow from investing activities	0	-11
Cash flow from financing activities	-7,170	-2,580
Exchange rate difference on liquid funds	106	-92
Liquid funds at end of year	5,129	2,921
Liquid funds consist of funds available with banks and equivalent institutions, excluding funds in blocked account.		
Liquid funds with banks and equivalent institutions	5,129	2,921
Funds in blocked account with banks relating to issuance of covered bonds	5,019	5,045
Loans to credit institutions	10,148	7,966

Income statement – Parent company

Parent company SEK m		2014	2013
Interest income		26,946	29,023
Interest expense		-16,706	-19,592
Net interest income	<i>Note 3</i>	10,240	9,431
Fee and commission income		14	15
Fee and commission expense		-21	-20
Net fee and commission income	<i>Note 4</i>	-7	-5
Net gains/losses on financial transactions	<i>Note 5</i>	7	70
Other income		0	0
Total income		10,240	9,496
Staff costs	<i>Note 6</i>	-86	-79
Other administrative expenses	<i>Note 7</i>	-1,422	-1,286
Depreciation and amortisation of intangible assets and property and equipment	<i>Note 14, 15</i>	-13	-13
Total expenses before loan losses		-1,521	-1,378
Profit before loan losses		8,719	8,118
Net loan losses	<i>Note 8</i>	22	-22
Operating profit		8,741	8,096
Taxes	<i>Note 9</i>	-1,968	-1,805
Profit for the year		6,773	6,291

Statement of comprehensive income – Parent company

Parent company SEK m		2014	2013
Profit for the year		6,773	6,291
Items that may subsequently be reclassified to the income statement			
Cash flow hedges		5,543	-244
Translation differences for the year		149	-115
Taxes on items that may subsequently be reclassified to the income statement			
– cash flow hedges		-1,220	54
Total comprehensive income for the year		11,245	5,986

Balance sheet – Parent company

Parent company		2014	2013
SEK m, 31 December			
ASSETS			
Loans to credit institutions	Note 10	10,148	7,966
Loans to the public	Note 11	1,018,533	955,251
Value change of interest-hedged item in portfolio hedge		70	96
Shares and participating interests in Group companies	Note 12	0	0
Derivative instruments	Note 13	24,960	15,235
Intangible assets	Note 14	27	40
Property and equipment	Note 15	0	0
Current tax assets		21	24
Deferred tax assets	Note 9	-	54
Other assets	Note 16	3,274	4,041
Prepaid expenses and accrued income	Note 17	1,824	1,952
Total assets		1,058,857	984,659
<i>of which Group claims</i>	Note 25	35,157	23,256
LIABILITIES AND EQUITY			
Due to credit institutions	Note 18	405,074	337,097
Issued securities	Note 19	579,485	572,746
Derivative instruments	Note 13	4,063	8,186
Deferred tax liabilities		1,166	-
Other liabilities	Note 20	7,212	6,700
Accrued expenses and deferred income	Note 21	8,789	12,007
Subordinated liabilities	Note 22	20,700	21,200
Total liabilities		1,026,489	957,936
Equity	Note 23		
Share capital		4,050	4,050
Statutory reserve		12,218	7,746
Retained earnings		9,327	8,636
Profit for the year		6,773	6,291
Total equity		32,368	26,723
Total liabilities and equity		1,058,857	984,659
<i>of which Group liabilities</i>	Note 25	437,572	373,824
Memorandum items			
Collateral pledged for own debt*		628,244	624,110
Other pledged assets		None	None
Contingent liabilities		None	None
Undertakings	Note 24	2,164	2,027

* 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 per cent of the market value as well as office and commercial buildings with a loan-to-value ratio of up to 60 per cent 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.

Statement of changes in equity – Parent company

Parent company	Restricted equity		Non-restricted equity			Total
	Share capital*	Statutory reserve	Hedge reserve	Translation reserve	Retained earnings	
SEK m						
Equity at 31 December 2012	4,050	8,106		-55	13,839	25,940
Profit for the year					6,291	6,291
Other comprehensive income			-190	-115		-305
Total comprehensive income for the year			-190	-115	6,291	5,986
Group contributions provided					-6,670	-6,670
Tax effect on group contributions					1,467	1,467
Equity at 31 December 2013	4,050	8,106	-190	-170	14,927	26,723
Profit for the year					6,773	6,773
Other comprehensive income			4,323	149		4,472
Total comprehensive income for the year			4,323	149	6,773	11,245
Group contributions provided					-7,180	-7,180
Tax effect on group contributions					1,580	1,580
Equity at 31 December 2014	4,050	8,106	4,133	-21	16,100	32,368

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

Cash flow statement – Parent company

Parent company SEK m	2014	2013
OPERATING ACTIVITIES		
Operating profit	8,741	8,096
<i>of which paid-in interest</i>	27,063	29,279
<i>of which paid-out interest</i>	-19,150	-19,607
Adjustment for non-cash items in profit/loss:		
Loan losses	44	58
Unrealised changes in value	1,299	-173
Depreciation, amortisation and impairments	13	13
Paid income tax	-343	-412
Change in the assets and liabilities of operating activities:		
Loans to the public	-63,308	-64,109
Due to credit institutions	68,003	50,830
Issued securities	6,738	6,882
Derivative instruments, net	-10,521	-1,559
Other	-1,394	5,292
Cash flow from operating activities	9,272	4,918
INVESTING ACTIVITIES		
Investment in tangible non-current assets	0	0
Disposal of tangible non-current assets	0	0
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Cash flow from investing activities	0	-11
FINANCING ACTIVITIES		
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Funds in blocked account with banks relating to issuance of covered bonds	5,019	5,045
Loans to credit institutions	10,148	7,966

Notes

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

NOTE 1 Accounting principles

The consolidated accounts have been prepared in accordance with international financial reporting standards (IFRSs) and interpretations of these standards as adopted by the EU. In addition, the accounting policies also follow the Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), and the regulations and general guidelines issued by the Swedish Financial Supervisory Authority, FFFS 2008:25, Annual reports in credit institutions and securities companies. RFR 1 Supplementary accounting rules for groups as well as statements from the Swedish Financial Reporting Board are also applied in the consolidated accounts.

The parent company's annual report is prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), the regulations and general guidelines issued by the Swedish Financial Supervisory Authority, FFFS 2008:25, Annual reports in credit institutions and securities companies, the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for legal entities, and statements from the Swedish Financial Reporting Board. In accordance with the Financial Supervisory Authority's general advice, the parent company applies statutory IFRS. This means that the international accounting standards and interpretations of these standards as adopted by the EU have been applied to the extent that is possible within the framework of national laws and directives and the link between accounting and taxation.

For Stadshypotek, the above application means that the parent company's accounting policies comply in all material respects with the Group's accounting policies.

The parent company, Svenska Handelsbanken AB, prepares consolidated accounts which include Stadshypotek.

The presentation currency is Swedish kronor.

ISSUING AND ADOPTION OF ANNUAL REPORT AND CONSOLIDATED ACCOUNTS

The annual report and consolidated accounts were approved for issue by the Board on 3 February 2015 and will be adopted by the AGM on 24 March 2015.

CHANGED ACCOUNTING POLICIES, ETC.

FFFS 2008:25 Annual reports in credit institutions and securities companies has been amended through FFFS 2014:18 Regulations amending the Swedish Financial Supervisory Authority's regulations and general guidelines (FFFS 2008:25) concerning annual reports in credit institutions and securities companies. The amendments have been implemented for the financial year starting on 1 January 2014. The changes have led to increased demands for disclosures regarding

income etc. divided by country. These disclosures are shown in note 26.

In other respects, the annual 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 2013.

FUTURE REGULATORY CHANGES

IFRS 9 Financial Instruments, which is to replace IAS 39 Financial Instruments: Recognition and Measurement, was adopted by the IASB in July 2014. Assuming that IFRS 9 is adopted by the EU, and IASB's proposed date of implementation is retained, this standard will be applied as of the 2018 financial year. The standard comprises three areas: classification and measurement, impairment of financial instruments and general hedge accounting. The new regulations for classification and measurement of financial assets reduces the number of valuation categories and focuses on the company's business model in terms of how the financial assets are used and if the contractual cash flows only represent the nominal amount and interest. As a result of the new regulations on impairment, a model is being introduced which is based on expected loan losses and not on incurred loan losses as in the existing model in IAS 39. The new general regulations of hedge accounting allow the company's own risk management to be better reflected in the financial reports. Stadshypotek is currently analysing the financial effects of the new standard in more detail.

Further, IFRS 15 Revenue from contracts with customers has been adopted by the IASB. Assuming that IFRS 15 is adopted by the EU, and IASB's proposed date of implementation is retained, this standard will be applied from and including the 2017 financial year. Stadshypotek is currently analysing the financial effects of the new standard.

The IFRIC 21 Levies interpretative communication has been adopted for application by the EU. IFRIC 21 is to be applied as of the 2015 financial year. The interpretation clarifies that if the obligating event of a levy is that banking operations are carried out at the end of the accounting period, this liability is not to be recognised before this date. This regulatory change is not expected to have a material impact on the Group's financial position and earnings, nor will it have an impact on the capital adequacy. None of the other changes in the accounting regulations issued for application are expected to have a material impact on Stadshypotek's financial reports, capital adequacy, large exposures or other circumstances according to the applicable operating rules.

CONSOLIDATED ACCOUNTS

Subsidiaries are consolidated according to the acquisition method. This means that the acquisition of a subsidiary is regarded as a transaction where the Group acquires the company's identifiable assets and assumes its liabilities and obligations. The subsidiary's financial reports are included in the consolidated accounts starting on the acquisition date until the date on which control ceases. Intra-group transactions and balances are eliminated when preparing the Group's financial reports.

SHARES AND PARTICIPATING INTERESTS IN SUBSIDIARIES

Shares and participating interests in subsidiaries are measured at cost.

RECOGNITION OF LIABILITIES AND ASSETS IN FOREIGN CURRENCY

The Group's presentation currency is Swedish kronor. The functional currency for the Group's operations outside Sweden usually differs from the Group's presentation currency. The currency used in the economic environment where the operations are primarily conducted is regarded as the functional currency.

Transactions in foreign currency are translated to the functional currency on the transaction date. Monetary items and assets and liabilities at fair value are valued at the functional currency's spot price at the end of the balance sheet date. Exchange rate differences are recognised in the income statement.

Translation of foreign operations to the Group's presentation currency

When translating the foreign units' balance sheets and income statements from the functional currency, the current method has been used. This means that assets and liabilities are translated at the closing day rate. Equity is translated at the rate applicable at the time of investment or earning. The income statement has been translated at the average annual rate. Translation differences are recognised as a component of Other comprehensive income and are included in the translation reserve in equity.

RECOGNITION OF ASSETS AND LIABILITIES

An asset is defined as a resource over which there is control as a result of past events and that is expected to provide future economic benefit. Assets are recognised in the balance sheet when it is probable that the future economic benefits related to the asset will accrue to the Group and when the value or acquisition cost of the asset can be reliably measured.

Liabilities are the Group's existing obligations which as a result of past events are expected to

NOTE 1 Cont.

lead to an outflow of resources from the Group. A liability is recognised in the balance sheet when, in order to fulfil an existing obligation, it is probable that the Group must surrender a resource with a value that can be reliably measured.

Purchases and sales of money market and capital market instruments on the spot market are recognised on the trade date. The same applies to derivatives. Other financial assets and liabilities are normally recognised on the settlement date.

Financial assets are removed from the balance sheet when the contractual rights to the cash flows originating from the asset expire or when all risks and rewards related to the asset are transferred to another party. A financial liability is removed from the balance sheet when the obligation ceases or is cancelled.

Financial assets and liabilities are set off in the balance sheet if Stadshypotek has a contractual right to set off the recognised amounts and intends to settle the payments simultaneously with a net amount.

Stadshypotek has no framework agreements regarding offsetting, which means that the disclosure requirements in IFRS 7 Financial Instruments: Disclosures do not apply.

CLASSIFICATION AND RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

For the purposes of measurement, in compliance with IAS 39, all financial assets are placed in the following valuation categories:

1. Loans and receivables
2. Assets held to maturity
3. Assets at fair value through profit or loss
 - held for trading
 - assets which upon initial recognition were designated at fair value through profit or loss
4. Assets available for sale.

Financial liabilities are classified as follows:

1. Liabilities at fair value through profit or loss
 - liabilities held for trading
 - liabilities which upon initial recognition were designated at fair value through profit or loss
2. Other financial liabilities.

The classification in the balance sheet is independent of the measurement category. Thus, different measurement principles may be applied for assets and liabilities carried on the same line in the balance sheet. A classification into measurement categories of the financial assets and liabilities which are recognised on the balance sheet is shown in note 28.

The Stadshypotek Group's financial assets and liabilities are categorised in loans and receivables and other financial liabilities respectively. Deriva-

tives that are not formal hedging instruments come under the held-for-trading category. Upon initial recognition, all financial assets and liabilities are designated at fair value. For assets and liabilities at fair value through profit or loss, the transaction costs are recognised directly in profit or loss at the time of acquisition. For other financial instruments, the transaction costs are included in the acquisition value.

Loans and receivables

Unlisted interest-bearing assets are classified as Loans and receivables. Assets in the category Loans and receivables are carried at amortised cost, i.e. the discounted present value of all future cash flows relating to the instrument where the discount rate is the asset's effective interest rate at the time of acquisition.

Loans and receivables are subject to impairment testing when indications of an impairment loss are present. The impairment loss is recognised in the income statement. Thus, loans and receivables are recognised at their net amount, after deduction for probable and actual loan losses. Early redemption fees for loans and receivables which are repaid before maturity are recognised immediately in the income statement under Net gains/losses on financial transactions.

Derivatives

Derivative instruments consist of financial derivative contracts. All derivative contracts are carried at fair value. If the fair value is positive, it is reported on the balance sheet as an asset. If the fair value is negative, it is reported as a liability. Changes in fair value are recognised directly in the income statement under Net gains/losses on financial operations. For derivatives recognised as hedging instruments in cash flow hedging, the effective portion of the change in fair value is reported as a component in other total comprehensive income and in the hedging reserve in equity.

Financial guarantees

Premiums for purchased financial guarantees are recognised in net interest income.

Other financial liabilities

Financial liabilities are carried at amortised cost, which is the discounted present value of all future cash flows relating to the instrument where the discount rate is the asset's effective interest rate at the time of issue.

For repurchased bonds, the realised price differences are recognised in the income statement in their entirety at the time of repurchase and are reported under Net gains/losses on financial transactions.

PRINCIPLES FOR MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly 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 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.

HEDGE ACCOUNTING

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. The expected maturity for this type of lending and funding is normally much longer than the fixing period, which is very short. Cash flow hedging is also used to hedge currency risk in future cash flows deriving from fixed-rate funding. Interest rate swaps and cross-currency interest swaps which are hedging instruments in cash flow hedges are measured at fair value. If the swap's value change is effective – that is, 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.

Fair value hedges are used to protect the Group against undesirable impact on profit/loss due to changes in the market prices of reported assets or liabilities. Hedged risks in hedging packages at fair value comprise interest rate risk on lending and funding at fixed interest rates. The hedging instruments in these hedging relation-

NOTE 1 Cont.

ships consist of interest rate swaps. In the case of fair value hedges, the hedge instrument and hedged risk are both recognised at fair value. Changes in value are recognised directly in the income statement under Net gains/losses on financial transactions. At 31 December 2014 and 2013, the only remaining fair value hedges were hedging packages covering the interest rate risk in fixed-rate lending.

Fair value hedges are also applied for portfolios of financial instruments. The hedged risk in these portfolio hedges is the interest rate risk for lending where the original interest rate was fixed for three months and interest rate caps for lending with a fixed-interest period of three months. The hedging instruments in these portfolio hedges consist of interest rate swaps and interest rate options (caps). In portfolio hedges at fair value, the part of the portfolio's value that is exposed to the hedged risk is measured at market value. The value which is attributable to the hedged part of the portfolio is reported on a separate line in the balance sheet in conjunction with Loans to the public. At 31 December 2014 and 2013, only portfolio hedges regarding an interest rate cap on lending with a fixed-interest period of three months remained.

Accumulated value changes on portfolio hedges at fair value which have been terminated prematurely 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.

LOAN LOSSES**Loans and receivables recognised at amortised cost**

All units with customer and credit responsibility in the Handelsbanken Group regularly perform individual assessments of the need for recognising impairment losses for loans and receivables that are recognised at amortised cost. Impairment testing is performed where there are objective circumstances indicating that the recoverable amount of the loan is less than its carrying amount. Objective evidence could, according to the circumstances, be late or non-payment, changed credit rating, or a decline in the market value of the collateral.

When performing impairment testing, the recoverable amount of the loan is calculated by discounting the estimated future cash flows related to the loan and collateral (including any guarantees) by the effective interest rate of the loan. Collateral in the form of property mortgages is measured at fair value. An impairment loss is recognised if the estimated recoverable value is less than the carrying amount and is recognised as a Loan loss in the income statement. A reported loan loss reduces the carrying amount of the loan in the balance sheet, either directly (actual loss) or by a provision account for loan losses (probable loss).

In addition to this individual assessment of

loans, a collective assessment is made of individually measured loans with the purpose of identifying the need to recognise an impairment loss that cannot yet be allocated to individual loans. The analysis is based on a distribution of individually valued loans in terms of the risk class. An impairment loss is recognised if this is justifiable taking into account changes in the risk classification and expected loss. Impairment losses which have been recognised for a group of loans are transferred to impairment losses for individual loans as soon as there is available information about the impairment in value at an individual level.

Loan losses for the period comprise actual losses and probable losses on credits granted, minus recoveries and reversals of previous impairment losses recognised for probable loan losses. Actual loan losses may refer to entire loans or parts of loans and are recognised when there is no realistic possibility of recovery. This is the case, for example, when a trustee in bankruptcy has estimated bankruptcy dividends, when a scheme of arrangement has been accepted, or a concession has been extended in some other way. An amount forgiven in connection with reconstruction of a loan or group of loans is always classified as an actual loss. If the customer is following a payment plan for a loan which was previously classified as an actual loan loss, the amount of the loss is subject to new testing. Recoveries comprise reversed amounts on loan losses previously reported as actual losses. Information about probable and actual losses is presented in note 8.

In certain cases, interest effects can arise because the recoverable amount increases when the time to payment becomes shorter. Reversals of previously provisioned amounts are recognised as interest income in accordance with the effective interest method.

Disclosures concerning impaired loans

Information concerning impaired loans is provided gross, before a provision for probable loan losses, and net, after a provision for probable loan losses. Loans are defined as impaired if it is not probable that all contracted cash flows will be fulfilled. The full amount of all loans which have been classified as impaired are carried as impaired loans even if parts of the loan are covered by collateral. Loans which have been written off as actual loan losses are not included in impaired loans.

INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary asset without physical form. Intangible assets are only recognised in the balance sheet if the probable future economic benefits attributable to the asset will flow to the Group and the cost can be reliably measured. This means that internally generated values in the form of goodwill, trademarks, customer databases and similar are not recognised as assets in the balance sheet.

Investments in software developed by the Bank are carried as an expense on a current basis to the extent that the expenditure refers to maintenance of existing business operations or previously capitalised software. In the case of development of new software, or new business operations for existing software, the expenditure incurred is capitalised from the time when it is probable that economic benefit that can be reliably measured will arise.

Stadshypotek's intangible assets consist of intangible assets for which it is possible to establish an estimated useful life, thus enabling them to be amortised. The amortisation is on a straight-line basis over the useful life of the asset. The amortisation period is tested on an individual basis at the time of new acquisition and also continually if there are indications that the useful life may have changed.

Intangible assets with a finite useful life are tested for impairment when there is an indication that the asset may be impaired. Impairment testing is performed by calculating the recoverable amount of the assets, i.e. the higher of the value in use and the fair value less costs to sell. As long as the recoverable amount exceeds the carrying amount, no impairment loss needs to be recognised. Impairment losses are recognised directly in the income statement.

EQUIPMENT

Stadshypotek's tangible non-current assets consist of equipment that is recorded at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is based on the estimated useful lives of the assets. A linear depreciation plan is usually applied. The estimated useful lives are tested annually. Personal computers and other IT equipment are usually depreciated over three years. Other equipment is normally depreciated over five years.

Impairment testing of property and equipment is carried out when there is an indication that the value of the asset has decreased. Impairment loss is recognised in cases where the recoverable amount is less than the carrying amount. Any impairment losses are recognised immediately in the income statement.

EQUITY

Equity comprises share capital, provisions and retained earnings.

Retained earnings

Retained earnings comprise the profits generated from the current and previous financial years.

Translation reserve

The translation reserve comprises unrealised foreign exchange effects arising due to translation of the balance sheets and income statements of foreign units to the currency of the consolidated accounts.

NOTE 1 Cont.

Hedge reserve

Unrealised changes in value on derivative instruments which comprise hedge instruments in cash flow hedges are reported in the hedge reserve.

GROUP CONTRIBUTION

Group contributions are recognised in accordance with the economic substance of the contribution. Group contributions provided by Stadshypotek to the parent company are treated as dividends and recognised as a reduction of retained earnings.

INCOME

Income is recognised in the income statement when it is probable that future economic benefits will be gained and these benefits can be reliably measured. The following general principles apply to recognition of income for various types of fees and charges:

Fees that constitute part of the effective interest of a financial instrument that is valued at amortised cost are accrued in accordance with the effective interest method.

Fees attributable to a specific service or action are recognised as income at the time the service is performed. This income includes reminder and demand fees.

Net interest income

Interest income and interest expense are recognised as Net interest income in the income statement. Net interest income also includes interest deriving from derivative instruments that hedge items whose interest flows are recognised in Net interest income. In addition to interest income and interest expense, net interest income includes the fee to the Swedish Stabilisation Fund.

Net fee and commission income

Income and expense for various kinds of services are recognised in the income statement under Fee and commission income and Fee and commission expense, respectively. Among other things, this means that reminder and demand fees are recognised as commission income and also that fees to market makers are recognised as commission expenses. Fees comparable to interest that constitute integrated components of financial instruments and are therefore included when calculating the effective interest are recognised as interest income and not commission.

Net gains/losses on financial transactions

Net gains/losses on financial transactions include all items with an impact on profit or loss which arise when measuring financial assets and liabilities at fair value in the income statement and when financial assets and liabilities are realised. Specifically, the items reported here are:

- Capital gains or losses from the disposal and settlement of financial assets and liabilities.
- Unrealised changes in fair value of the hedged risk in assets and liabilities which are hedged

items in hedges at fair value, and amortisation of unrealised value changes for hedges which have been prematurely terminated.

- Unrealised value changes on derivatives which comprise hedging instruments in fair value hedges.
- Ineffective component of the value change on derivatives which comprise hedging instruments in cash flow hedges.
- Realised and unrealised changes in value on financial assets and liabilities classified as held for trading.

REMUNERATION TO EMPLOYEES**Staff costs**

Staff costs consist of salaries, pension costs and other forms of direct staff costs including social security costs, special payroll tax on pension costs and other forms of payroll overheads.

Accounting for pensions*Defined benefit plans*

Stadshypotek has pension obligations which are guaranteed through insurance with Pensionskassan SHB, Försäkringsförening (pension fund). These obligations are reported according to the IAS 19 rules for defined benefit plans, whereby the company under common control shares the risks related to the pension obligations, since the pension fund's assets are not allocated among the employers who have insurance with the pension fund. According to these rules, Stadshypotek reports the insurance charges which are debited for the period as an expense.

Defined contribution pension plans¹⁾

Defined contribution pension plans refer to those plans where the company's obligations are limited to the contributions the company has undertaken to pay. In such cases, the size of the employee's pension is determined by the contributions the company pays towards the plan or to an insurance company and the return on the capital invested that these contributions generate. Consequently, the employee bears the actuarial risk (that the benefit is lower than expected) and the investment risk (that the assets invested prove to be insufficient to generate the expected benefits). The company's obligations regarding contributions to defined contribution plans are reported as an expense in the profit for the year to the degree such benefits are accumulated as a result of the employee working for the company over a period of time.

TAXES

The tax expense for the period consists of current tax and deferred tax. Current tax refers to taxes relating to the period's taxable result.

Deferred tax is tax referring to temporary differences between the carrying amount of an asset or liability and its taxable value. Deferred taxes are valued at the tax rate which is deemed to be applicable when the item is realised.

Tax is either recognised in the income statement, or in other comprehensive income, or directly in equity, depending on where the underlying transaction is reported.

MATERIAL ASSESSMENTS AND ASSUMPTIONS CONCERNING THE FUTURE

In certain cases, the application of the Group's accounting policies means that assessments must be made that have a material impact on amounts reported. The amounts reported are also affected in a number of cases by assumptions about the future. Such assumptions always imply a risk for adjustment of the reported value of assets and liabilities.

The assessments and assumptions applied always reflect the management's best and fairest assessments and are continually subject to examination and validation. Those assessments and assumptions that have had a material impact on the financial reports concern the need for recognising impairment losses for loans. The value of the Group's loans is tested regularly and individually for each receivable. If necessary, the loan is written down to the assessed recoverable amount. The estimated recoverable amount is based on an assessment of the counterparty's financial repayment capacity and assumptions regarding the realisable value of the collateral. The final outcome may deviate from the original provisions for loan losses. The assessments and assumptions used are subject to regular examinations by the internal credit organisation. See also note 2 for a more detailed description of internal risk control and how Stadshypotek manages credit risk.

SEGMENT REPORTING

The segment reporting presents income and expenses split into business segments. A business segment is a part of the Group that runs operations which generate external or internal income and expenses and of which the profit/loss is regularly assessed and followed up by the company management as part of corporate governance. As part of segment reporting, income and expenses are also stated per geographical area in which the Group operates.

¹⁾ This text refers to the BTPK plan, which is a defined contribution plan.

NOTE 2 Risks and risk control

RISKS AND UNCERTAINTY FACTORS

Diverging economic trends have continued to prevail in the global economy, with several indebted countries and weak performance in Europe, while the situation in the US and Sweden has been more favourable. Overall, the global recovery has been modest. The fixed income market has been subject to highly expansionary monetary policy in many currency areas. 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 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 that an individual counterparty cannot fulfil his or her commitments. Market risk is the risk of price changes in the 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. 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 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 the Board.

Stadshypotek's lending operations are integrated with those of Handelsbanken, which 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. 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 characterised by a clear division of responsibility where 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. Consequently, 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 are assessed at various decision levels, 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.

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, counterparty risk and operational risk. The risk control function carries out daily measurements and checks to ensure that risk exposure for market, liquidity and counterparty risks is 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.

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.

CREDIT RISKS

Credit risk is defined as the risk of Stadshypotek facing economic loss because its counterparties cannot fulfil their contractual obligations.

Rules for lending at Stadshypotek

Lending is to be made in accordance with 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 and a requirement that loans above a certain amount be subjected to an advance examination conducted by Stadshypotek's credit department before the loan can be disbursed. Stadshypotek's business consists of property financing – primarily residential properties. The normal limit for satisfactory mortgage collateral is a maximum of 75 per cent of the market value of the property. This applies to lending in Sweden and also to Stadshypotek's branches in Norway and Finland. At the Danish branch, the corre-

sponding limit is that mortgage loans must not exceed 80 per cent of the property's market value, which is the customary LTV for mortgage loans in Denmark. However, Handelsbanken Denmark issues an internal credit guarantee for amounts exceeding 75 per cent of the market value. For particularly attractive locations in Sweden, subject to a decision by Stadshypotek's credit committee, a loan-to-value ratio of a maximum of 85 per cent may be applied for single-family houses.

For office and commercial properties, which are only mortgaged in the Swedish market, a maximum of 60 per cent of the market value applies. Industrial and warehouse properties are not financed by Stadshypotek.

Principles for managing credit risk

All lending takes place through Handelsbanken's branch office network, on behalf of Stadshypotek, through an outsourcing agreement. Lending operations are based on the same fundamental principles that apply at the Bank, but also take into account other special instructions and regulations regarding the granting of credit, as specified by Stadshypotek. In the Bank's decentralised organisation, the branch responsible for the customer has total credit responsibility. The branches are responsible for credit decisions, but large credits are subject to limits and 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. The Bank is selective in choosing customers, and borrowers must be of high quality. The quality requirement is never neglected in favour of higher credit volumes or to achieve higher returns. Some 99 per cent (98) of the overall volume for Stadshypotek's credit exposures was to customers with a repayment capacity assessed as normal or better than normal, i.e. with a rating grade between one and five on the Bank's ten-point rating scale.

Handelsbanken aims to be a relationship bank and the branches maintain ongoing contact with the customer, which gives them an in-depth understanding of each individual customer and a continually updated picture of the private customer or company. This contact also enables the branch to quickly identify any problems and take action. In many cases, this means that the Bank can take action more rapidly – before problems have escalated – than would have been possible with a more centralised management of problem loans. This means that the branch handles any problems that arise when a customer's repayment capacity is impaired. If necessary, the branch obtains support from the regional head office and Stadshypotek's credit department. Handelsbanken's working methods mean that all employees whose work involves transactions linked to credit risk acquire a well-established approach to such risks and this constitutes an important part of the Handelsbanken Group's culture.

According to the Handelsbanken Group's and Stadshypotek's credit policy, weak repayment capacity can never be accepted on the grounds that good collateral has been offered to the Bank.

NOTE 2 Cont.

Collateral may, however, substantially reduce Stadshypotek's loss if the borrower cannot fulfil his/her commitments towards Stadshypotek. Credits in Stadshypotek must therefore always be satisfactorily secured by mortgages in property or a co-operative apartment. Unsecured credit occurs when the government, county councils or municipalities are the borrower or are the guarantor, and in the case of lending to joint ownership associations.

In addition to the advance examination conducted in accordance with Guidelines for granting credit, Stadshypotek's credit department also

carries out a supplementary examination of loans that have been disbursed. This examination covers loans selected according to pre-determined criteria, checking, for example, that the credit decision has been made in the formally correct manner, that the LTV complies with the regulations, and that the valuation has been correctly performed. In addition, Stadshypotek's credit department conducts regular checks of Stadshypotek's loan portfolio, to ensure that property values and LTVs are at a satisfactory level and comply well with Stadshypotek's Guidelines for granting credit.

Loan-to-value

Loan-to-value (LTV) is lending as a proportion of the market value of the collateral. The latest valuation in the Bank's internal valuation system is mainly used as the market value when compiling the LTV. Handelsbanken continuously checks the market values for properties: residential properties at least every three years and commercial properties every year.

Lending in Sweden, which accounts for 86 per cent (87) of Stadshypotek's total lending, extends to all parts of Sweden, with a concentration in urban areas. Categories of borrowers vary from

Loan-to-value analysis, Stadshypotek Sweden 31 December	2014			2013		
	Private market %	Corporate market %	Total	Private market %	Corporate market %	Total
Loan-to-value ratio						
0-60%	86.2	97.0	89.9	86.0	96.7	89.7
61-75%	10.1	2.6	7.6	10.2	2.9	7.7
>75%	3.7	0.4	2.5	3.8	0.4	2.6

Loans to the public, by borrower category and by type of collateral

Loans to the public, by borrower category 31 December SEK m	2014			2013		
	Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses	Loans after provisions
Households	709,974	-29	709,945	668,204	-36	668,168
Public sector, municipal companies	35,492	-	35,492	30,904	-	30,904
Housing co-operative associations	139,948	-9	139,939	129,273	-9	129,264
Other legal entities	133,166	-5	133,161	126,923	-3	126,920
Total loans to the public, before collective provision	1,018,580	-43	1,018,537	955,304	-48	955,256
Collective provision		-4	-4		-5	-5
Total loans to the public	1,018,580	-47	1,018,533	955,304	-53	955,251

Of which in operations outside Sweden

Households	98,933	-	98,933	90,876	-	90,876
Public sector, municipal companies	11,424	-	11,424	9,431	-	9,431
Housing co-operative associations	22,091	-	22,091	15,337	-	15,337
Other legal entities	6,677	-	6,677	4,760	-	4,760
Total loans to the public in operations outside Sweden	139,125	-	139,125	120,404	-	120,404

Loans to the public, by type of collateral

Loans to the public, by type of collateral 31 December SEK m	2014			2013		
	Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses	Loans after provisions
Single-family housing	499,306	-29	499,277	481,331	-29	481,302
Housing co-operative apartments	160,422	-1	160,421	145,354	-1	145,353
Owner-occupied apartments	16,324	-	16,324	12,674	-	12,674
Private market	676,052	-30	676,022	639,359	-30	639,329
Multi-family dwellings	269,843	-11	269,832	247,875	-17	247,858
Offices and commercial buildings	72,685	-2	72,683	68,070	-1	68,069
Corporate market	342,528	-13	342,515	315,945	-18	315,927
Total loans to the public, before collective provision	1,018,580	-43	1,018,537	955,304	-48	955,256
Collective provision		-4	-4		-5	-5
Total loans to the public	1,018,580	-47	1,018,533	955,304	-53	955,251

Of which in operations outside Sweden

Single-family housing	77,743	-	77,743	75,640	-	75,640
Housing co-operative apartments	4,218	-	4,218	4,215	-	4,215
Owner-occupied apartments	16,324	-	16,324	12,674	-	12,674
Private market	98,285	-	98,285	92,529	-	92,529
Multi-family dwellings	40,315	-	40,315	27,417	-	27,417
Offices and commercial buildings	525	-	525	458	-	458
Corporate market	40,840	-	40,840	27,875	-	27,875
Total loans to the public in operations outside Sweden	139,125	-	139,125	120,404	-	120,404

NOTE 2 Cont.

individual households to large property companies. At the year-end, lending was divided as follows: single-family housing, housing co-operative apartments and owner-occupied apartments 66.4 per cent (67.0); multi-family dwellings 26.5 per cent (25.9) and offices and commercial property 7.1 per cent (7.1). Lending to the largest cus-

tomers category corresponded to 0.53 per cent (0.65) of the entire portfolio. There were 20 (19) customers or customer categories with loans of SEK 1 billion or more.

Risk classification

The Handelsbanken Group's internal risk classifi-

cation system, which is also used for credits in Stadshypotek, is applied to measure the credit risk of all operations in a reliable and consistent manner. The risk rating builds on the Bank's internal rating, which is based on an assessment of each counterparty's repayment capacity. The rating is determined by the risk of financial strain

Geographical breakdown of lending in Sweden

31 December

	Stockholm		Västra Götaland		Skåne		Other counties	
	2014	2013	2014	2013	2014	2013	2014	2013
Proportion of lending, %								
Single-family housing	30.6	30.3	14.2	14.2	13.5	13.5	41.7	42.0
Housing co-operative apartments	68.0	68.1	9.9	9.9	8.3	8.6	13.8	13.4
Private market	40.7	40.0	13.0	13.1	12.0	12.2	34.3	34.7
Multi-family dwellings	32.7	33.3	16.9	16.6	11.1	11.3	39.3	38.8
Offices and commercial buildings	33.9	32.6	16.1	16.5	10.2	10.2	39.8	40.7
Corporate market	33.0	33.2	16.7	16.6	10.9	11.0	39.4	39.2
Total	38.1	37.7	14.3	14.3	11.7	11.8	35.9	36.2

The maturity structure for loans that have become due for repayment on the balance sheet date, but which are not classified as impaired loans, is given below. In this case, becoming due for payment is defined as loans that have not been paid five days after the due date.

Maturity structure for loans which are not impaired loans	2014			2013		
	Households	Companies	Public sector, municipal companies	Households	Companies	Public sector, municipal companies
31 December, SEK m						
Number of days overdue						
≤30	1,818	444	50	2,364	314	-
31-60	162	38	-	245	50	-
61-90	117	5	-	166	56	-
91-360	278	15	-	347	66	-
>360	149	42	-	194	4	-
Total	2,524	544	50	3,316	490	-

and by the assessed resistance to this strain. The method and classification are based on the rating model that the Handelsbanken Group has applied for several decades.

The internal rating is the most important component of the Handelsbanken Group's model for calculating capital adequacy according to the IRB Approach. The rating is dynamic; it is reassessed if there are signs that the counterparty's repayment capacity has changed. The rating is also reviewed periodically as stipulated in the regulations. The rating is made by the person responsible for granting the credit and it is subsequently checked by independent bodies.

Risk classification methods

To quantify its credit risks, the Handelsbanken Group, which thus also includes Stadshypotek, calculates the probability of its customers defaulting (probability of default, PD), the Handelsbanken Group's expected exposure at default (EAD), and the proportion of the loan that the Handelsbanken Group would lose in the case of default (loss given default, LGD). Default is defined as when the counterparty is either 90 days late in making payment, or when an assessment has been made that the counterparty will not be able to pay as contractually agreed, for example, if declared bankrupt.

The PD value is expressed as a percentage where, for example, a PD value of 0.5 per cent means that one borrower of 200 with the same PD value is expected to default within one year. In

reality, however, not as many of the defaults cause losses for Stadshypotek, since there is always satisfactory collateral for the exposure. Nor does a default mean that it is out of the question that the counterparty will pay at some time in the future, since the payment problems may be temporary. At Stadshypotek, unsecured loans are only granted to governments, county councils or municipalities or in cases where such bodies act as guarantors and when lending to joint ownership associations.

For corporate exposures, the internal rating set for each counterparty is directly converted into a rating grade on a scale between 1 and 10 (where risk class 10 refers to counterparties that have defaulted). A certain average probability of default (PD) is calculated for each risk class.

For retail exposures, the risk class is also based on the internal rating assigned to all credit customers. The rating is not translated directly into a risk class as for corporate exposures; instead, the different exposures are sorted into a number of different smaller groups on the basis of certain factors, such as the type of credit, the counterparty's debt-servicing record and whether there are one or more borrowers. An average probability of default is calculated for each of the smaller groups, and on the basis of this, the groups are sorted into one of the ten risk classes. Different models are used for exposures to private individuals and to small companies respectively (that are classed as retail exposures), but the principle is the same.

For retail exposures and exposures to medium-sized companies, property companies and housing co-operative associations, the loss given default (LGD) is determined by the Handelsbanken Group's own loss history. For exposures to large corporates that are subject to a capital requirement using the IRB Approach with own estimates of LGD and conversion factors (CF), the LGD is calculated on the basis of internal losses and external observations. For retail exposures secured by property in Sweden and for property exposures to medium-sized companies, property companies and housing co-operative associations, different LGD values are applied depending on the loan-to-value ratio of the exposure.

For each class of exposure, the average probability of default (PD) is calculated for each of the nine risk classes that refer to non-defaulted counterparties or agreements. Probability of default is based on calculations of the historical percentage of defaults for different types of exposure. The average default rate is then adjusted by a safety margin and a business cycle adjustment factor. The safety margin is intended to ensure that the probability of default is not underestimated.

The business cycle adjustment factor takes into account the fact that the measured default rate per risk class can be expected to vary due to the business cycle. The measured default rate therefore needs to be adjusted in relation to where in the business cycle the Handelsbanken Group's borrowers were during the period on which the calcu-

NOTE 2 Cont.

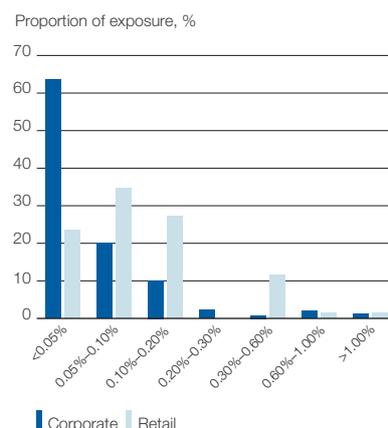
lations are based. This is in order to reflect a long-term probability of default which must be used for the risk weighting. The business cycle adjustments are based on the Handelsbanken Group's internal history from 1985 to 2013.

The Handelsbanken Group's method for business cycle adjustment is intended to even out business cycle fluctuations in probability of default for each risk grade. This means that the PD by risk class becomes less volatile over time and that the PD at counterparty and portfolio level varies when some counterparties are assigned a changed rating in the event of strong business cycle fluctuations. However, the Handelsbanken Group's internal rating of a counterparty is so long-term that the PD at counterparty and portfolio level is expected to be stable during a normal business cycle.

When calculating LGD, the risk measure must reflect the loss rates during economically unfavourable circumstances, known as Loan-to-value LGD. For collateral in property, the downturn LGD is based on observed losses from the property crisis in the early 1990s.

In addition to the capital adequacy calculation, measures of risk (PD, EAD, LGD) are used to calculate the cost of capital in each individual transaction and to calculate economic capital (EC). This means that margins in the form of business cycle adjustments and safety adjustments in the risk measurements are also included in the cost of capital in individual transactions and in calculations of economic

PD intervals and proportion of exposure by exposure type, corporate and retail, excluding defaulted credits



capital, which means that the loss levels implied by the risk measurements are conservative. The method used means that the Handelsbanken Group's historical losses have a direct impact on risk calculations and capital requirement.

The above diagram shows a breakdown of Stadshypotek's exposures (EAD), excluding credits in default, with the different PD intervals for each of the counterparty categories, i.e. retail and corporate. The PD values used are those applied when calculating the capital requirement.

Loan losses

Recoveries exceeded new loan losses and the net amount recovered was SEK 22 million. In the previous year, net loan losses were SEK -22 million. The loan loss ratio was -0.00 per cent (0.00) of total lending. The largest loan loss attributable to a single customer or customer category was SEK 2.5 million (2.6). The ten largest loan losses totalled SEK 14 million (13).

Loan losses are reported in note 8 on page 37.

Impaired loans

As at 31 December 2014, Stadshypotek's impaired loans, before deduction of the provision for probable loan losses, amounted to SEK 175 million (283). These impaired loans included non-performing loans of SEK 128 million (227) and SEK 47 million (56) in loans on which the borrowers pay interest and amortisation, but which are nevertheless considered impaired due to uncertainty regarding the borrowers' repayment capacity and the value of the collateral. There were also non-performing loans of SEK 607 million (833) that are not classed as being impaired loans. After deductions for specific provisions totalling SEK -43 million (-48) and collective provisions for individually assessed loans of SEK -4 million (-5) for probable loan losses, impaired loans totalled SEK 128 million (230).

Impaired loans are also reported in note 11 on page 38. For a definition of impaired loans, etc., see the definitions on page 4.

Non-performing loans by borrower category and by type of collateral

Non-performing loans by borrower category 31 December	2014		2013	
	Non-performing loans which are not impaired	Non-performing loans which are included in impaired	Non-performing loans which are not impaired	Non-performing loans which are included in impaired
SEK m				
Households	545	71	707	95
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	1	5	1	-
Other legal entities	61	52	125	132
Total	607	128	833	227

Of which in operations outside Sweden

Households	115	12	73	11
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	-	-	-	-
Other legal entities	30	1	6	-
Total non-performing loans in operations outside Sweden	145	13	79	11

Non-performing loans by type of collateral 31 December	2014		2013	
	Non-performing loans which are not impaired	Non-performing loans which are included in impaired	Non-performing loans which are not impaired	Non-performing loans which are included in impaired
SEK m				
Single-family housing	440	76	592	87
Housing co-operative apartments	71	2	84	5
Owner-occupied apartments	50	0	27	1
Private market	561	78	703	93
Multi-family dwellings	24	8	87	79
Offices and commercial buildings	22	42	43	55
Corporate market	46	50	130	134
Total	607	128	833	227

Of which in operations outside Sweden

Single-family housing	92	13	52	10
Housing co-operative apartments	3	-	-	-
Owner-occupied apartments	50	0	27	1
Private market	145	13	79	11
Multi-family dwellings	-	-	-	-
Offices and commercial buildings	-	-	-	-
Corporate market	-	-	-	-
Total non-performing loans in operations outside Sweden	145	13	79	11

NOTE 2 Cont.

Impaired loans by borrower category and by type of collateral

Impaired loans by borrower category 31 December	2014			2013		
	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans
SEK m						
Households	96	-30	66	124	-36	88
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	26	-8	18	26	-9	17
Other legal entities	53	-5	48	133	-3	130
Total	175	-43	132	283	-48	235

Of which in operations outside Sweden

Households	12	0	12	11	0	11
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-
Other legal entities	1	0	1	0	0	0
Total impaired loans in operations outside Sweden	13	0	13	11	0	11

Impaired loans by type of collateral 31 December	2014			2013		
	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	101	-30	71	115	-30	85
Housing co-operative apartments	3	0	3	6	-1	5
Owner-occupied apartments	0	0	0	1	0	1
Private market	104	-30	74	122	-31	91
Multi-family dwellings	30	-11	19	106	-17	89
Offices and commercial buildings	41	-2	39	55	0	55
Corporate market	71	-13	58	161	-17	144
Total	175	-43	132	283	-48	235

Of which in operations outside Sweden

Single-family housing	13	0	13	10	0	10
Housing co-operative apartments	-	-	-	-	-	-
Owner-occupied apartments	0	0	0	1	0	1
Private market	13	0	13	11	0	11
Multi-family dwellings	-	-	-	-	-	-
Offices and commercial buildings	-	-	-	-	-	-
Corporate market	0	0	0	0	0	0
Total impaired loans in operations outside Sweden	13	0	13	11	0	11

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

Reposessed property

As at 31 December 2014, there was no reposessed property.

Counterparty risk

Counterparty risks arise when Stadshypotek has entered into derivative agreements, such as forward rate contracts, swaps or options, with a counterparty and there is a risk that this counterparty will not be able to meet its obligations. Counterparty risk is regarded as a credit risk where the market value of the contract determines the size of the exposure. Since November 2013, all Stadshypotek's derivative agreements are entered into with Handelsbanken as the counterparty, which means that it is the parent company which assumes this type of credit risk. Some of the credit limits available in the parent company are thus intended to cover any counterparty risks which are based on Stadshypotek's transactions in derivatives. If Stadshypotek were again to enter into derivative agreements with an external counterparty, these would be restricted by means of credit limits established in the standard credit process at Handelsbanken and assigned to Stadshypotek.

MARKET RISK

Market risks originate from changes in price and volatility on the financial markets and are divided into interest rate risks, equity price risks, exchange rate risks and commodity price risks.

The market risks affecting Stadshypotek are interest rate risk and exchange rate risk. Stadshypotek's Board decides on limits for interest rate risk and exchange rate risk.

Interest rate risk

Interest rate risks arise when the rate adjustment periods for financial assets and liabilities or derivatives do not coincide. At Stadshypotek, interest rate risk is measured as the sum of the least favourable changes in the present value of future cash flows per currency in the case of substantial momentaneous upwards or downwards parallel shifts of one percentage point for all interest rates. This risk measure includes both items at market value and not at market value and it is therefore not appropriate to assess the effects on the balance sheet and income statement. Nor does it take into account Stadshypotek's opportunities to adapt to changed interest rate levels.

Due to the concentration of the benchmark loans to a small number of final maturity dates, it is not possible to match maturities in a traditional manner. Instead, the general method for achieving risk-neutral matching is based on the use of two different bonds to finance one lending transaction. Since one of the bonds has a shorter maturity than the lending and the other a longer maturity, the resultant interest rate risks for the two borrowing items balance each other out, so that the borrowing is risk-neutral with respect to the lending.

Stadshypotek uses interest rate swaps to hedge against risks on its own balance sheet. Long-term funding may be shortened using interest rate swaps, so that the interest rate adjustment period matches the short-term lending at fixed and variable rates.

Stadshypotek's capped rate loan offers borrowers insurance against future interest rate increases. This is a five-year loan where the interest rate on the loan goes down when short-term interest rates fall. If the short-term rate of interest increases, the borrower never has to pay more than a pre-determined maximum rate of interest. This commitment is hedged with interest rate caps on terms corresponding to this lending.

The equity capital is placed in lending with an average rate adjustment period of 1.5 (1.5) years. The daily interest rate risk on equity capital must not deviate from a risk limit specified by the Board. At 31 December 2014, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -351 million (-250).

Exchange rate risk

Stadshypotek has a commercial paper programme in Europe. In 2014, issues were made in GBP as part of this programme. Stadshypotek has also had access to a certain amount of internal short-term funding in EUR and GBP from Handelsbanken. The exchange rate risk in connection with all short-term funding in foreign cur-

NOTE 2 Cont.

The table below shows the interest rate fixing periods for assets and liabilities.

Interest rate adjustment periods for Stadshypotek's assets and liabilities						
31 December 2014						
SEK m	Up to 3 mths	3-6 mths	6-12 mths	1-5 yrs	Over 5 yrs -	Total
ASSETS						
Loans to credit institutions	10,148	-	-	-	-	10,148
Loans to the public	615,737	60,937	89,134	240,633	12,092	1,018,533
Total assets	625,885	60,937	89,134	240,633	12,092	1,028,681
LIABILITIES						
Due to credit institutions	291,684	55,631	33,731	21,666	2,362	405,074
Issued securities	116,298	12,162	72,282	339,485	39,258	579,485
Subordinated liabilities	20,700	-	-	-	-	20,700
Total liabilities	428,682	67,793	106,013	361,151	41,620	1,005,259
Off-balance-sheet items	-176,542	8,651	-1,074	151,557	25,719	8,311
Difference between assets and liabilities including off-balance-sheet items	20,661	1,795	-17,953	31,039	-3,809	31,733

Interest rate adjustment periods for Stadshypotek's assets and liabilities						
31 December 2013						
SEK m	Up to 3 mths	3-6 mths	6-12 mths	1-5 yrs	Over 5 yrs -	Total
ASSETS						
Loans to credit institutions	7,966	-	-	-	-	7,966
Loans to the public	526,972	61,700	76,705	277,342	12,532	955,251
Total assets	534,938	61,700	76,705	277,342	12,532	963,217
LIABILITIES						
Due to credit institutions	281,584	37,193	4,508	11,668	2,144	337,097
Issued securities	68,518	62,726	13,934	395,566	32,002	572,746
Subordinated liabilities	21,200	-	-	-	-	21,200
Total liabilities	371,302	99,919	18,442	407,234	34,146	931,043
Off-balance-sheet items	-136,616	3,510	-11,074	118,210	21,762	-4,208
Difference between assets and liabilities including off-balance-sheet items	27,020	-34,709	47,189	-11,682	148	27,966

rencies is eliminated by matching currency swaps. Stadshypotek has also issued bonds in EUR, GBP and CHF under the EMTCN programme, in USD under the US Medium Term Covered Bond Programme, and in AUD under the AMTCN programme, all of which were converted into Swedish kronor using cross-currency interest rate swaps. The aim is that the business should not at any point be exposed to exchange rate risk as the result of funding in markets outside Sweden. All other refinancing in the foreign markets is raised through Handelsbanken and is subsequently transferred to Stadshypotek in Swedish kronor.

LIQUIDITY 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. Stadshypotek's Board decides on the limits for liquidity risk. Liquidity risk is measured and limited by carrying out a gap analysis of cash flows for various maturities and all currencies, and a gap analysis of groups of currencies. The liquidity deficit consists of the amount by which estimated out-payments exceed estimated in-payments, and is restricted by limits.

To an increasing extent, loans with a short interest fixing period and variable rate loans have long-term funding in order to minimise the liquidity risk. However, some of this lending is still funded

by issues in short-term instruments. The maturity structure of the funding is well-diversified and adapted so that Handelsbanken's liquidity at Group level is in balance.

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 complies with the liquidity reserve requirements stipulated in the Swedish Financial Supervisory Authority's regulation FFFS 2010:7 regarding the management and disclosure of liquidity risks in credit institutions and securities companies. Under the terms of this agreement, Handelsbanken undertakes to provide Stadshypotek with liquidity support in the form of liquid assets that can be made available for use without delay in order to secure Stadshypotek's short-term capacity to meet payment obligations in the event that Stadshypotek's access to regularly available funding sources is lost or impaired. Handelsbanken's undertaking corresponds to the liquidity requirements that Stadshypotek could be subjected to in order to ensure that the company could cope with a serious liquidity strain without changing its business model. The size of the guaranteed amount is fixed and reported to Stadshypotek at the end of each month.

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. The central risk control conducts stress tests focusing on long-term disruptions for the entire Group, taking Stadshypotek's liquidity requirements into consideration.

The maturity analysis overleaf shows cash flows for the contracted payment commitments that are due for payment at the latest within the stated time intervals, including interest flows. Also shown are assets, liabilities and interest flows that mature in the time intervals corresponding to the contractual maturity dates. Interest flows for lending are matched in time with the liabilities that funded the lending. The total outstanding amount of these commitments does not necessarily represent future funding requirements. For derivative instruments, cash flows are reported net for interest rate swaps and gross for instruments where gross cash flows are paid or received, such as cross-currency interest rate swaps. Loans to the public are reported as maturing in the time interval over five years remaining to maturity. Repayments according to plan during the current interest rate adjustment period and fixed interest flows are reported on their respective maturity dates.

OPERATIONAL RISKS

Operational risks are defined as the risk of loss due to inadequate or failed internal processes,

NOTE 2 Cont.

Maturities for assets and liabilities, 31 December 2014					
SEK m	Up to 3 mths	3–12 mths	1–5 yrs	Over 5 yrs	Total
Loans to credit institutions	10,148	-	-	-	10,148
Loans to the public	9,190	25,854	73,592	968,406	1,077,042
Total assets	19,338	25,854	73,592	968,406	1,087,190
Due to credit institutions	150,354	165,190	89,095	3,506	408,145
Issued securities*	52,140	109,593	409,205	44,370	615,308
Subordinated liabilities	128	308	1,293	22,180	23,909
Total liabilities	202,622	275,091	499,593	70,056	1,047,362

Derivatives, 31 December 2014					
SEK m	Up to 3 mths	3–12 mths	1–5 yrs	Over 5 yrs	Total
Total derivatives inflow	16,673	22,918	107,145	22,673	169,409
Total derivatives outflow	14,705	19,475	92,443	21,889	148,512
Net	1,968	3,443	14,702	784	20,897

Maturities for assets and liabilities, 31 December 2013					
SEK m	Up to 3 mths	3–12 mths	1–5 yrs	Over 5 yrs	Total
Loans to credit institutions	7,966	-	-	-	7,966
Loans to the public	8,842	15,666	42,818	921,490	988,816
Total assets	16,808	15,666	42,818	921,490	996,782
Due to credit institutions	188,001	97,563	46,515	10,264	342,343
Issued securities	21,631	102,468	448,525	36,930	609,554
Subordinated liabilities	163	-	-	21,200	21,363
Total liabilities	209,795	200,031	495,040	68,394	973,260

Derivatives, 31 December 2013					
SEK m	Up to 3 mths	3–12 mths	1–5 yrs	Over 5 yrs	Total
Total derivatives inflow	23,212	22,833	86,711	19,939	152,695
Total derivatives outflow	21,136	19,729	73,858	18,769	133,492
Net	2,076	3,104	12,853	1,170	19,203

* Of this amount (excluding interest) some SEK 139,520 million has a remaining time to maturity of less than one year.

As of 2014, this includes contracted cash flows derived from interest rates relating to assets and liabilities for which the interest rate was not fixed at the balance sheet date but which have an interest-fixing period of three months in the maturity analysis. This was made possible by the implementation of a new IT system during the year. The comparative figures cannot be recalculated.

people and systems, or external events. The definition includes legal risk. Stadshypotek follows the same policy and guidelines as the Handelsbanken Group in its management of operational risks.

Most of Stadshypotek's business is conducted within the framework of a collaboration agreement and a number of individual outsourcing agreements that the company has with Handelsbanken. Responsibility for the identification, management and control of operational risk in Stadshypotek and the Handelsbanken Group is an integrated part of managerial responsibility at all levels of the operations. Operational risks are an important component in internal instructions, where account is taken of whether the division of work and responsibilities, the control structure of procedures, and information and reporting systems are fit for purpose. It is the duty of managers responsible for specific functions to ensure that appropriate instructions and procedures are drawn up for their business area. In accordance with guidelines issued by the chief executive, an annual evaluation of operational risk is carried out for the purposes of identifying operational risks and quantifying the losses that may arise. The Risk Control function at Stadshypotek reports

operational risk to the Board on a quarterly basis. In addition, the chief executive of Stadshypotek carries out an overall review of the company's operational risks annually. The results of these reviews are reported to the Board and the manager responsible for operational risk at the parent company.

ECONOMIC CAPITAL

Stadshypotek applies a model for economic capital (EC), which is a vital component in planning to ensure that Stadshypotek has sufficient capital at all times in relation to all risks in the company.

Economic capital is calculated with a time horizon of one year and a confidence level that reflects an acceptable level of risk and desired rating. The Board has determined that the calculation of economic capital must be made with a 99.97 per cent confidence level, which captures an event which is extremely unfavourable for Stadshypotek. EC is the difference between the outcome in an average year with positive results and the outcome at a 99.97 per cent confidence level.

Diversification effects between the different risk classes are taken into account when calculating EC. The capital requirement for all risks is therefore lower than the sum of the economic capital

for each individual risk, because the risks are partly independent of each other.

The capital and other financial resources which form a buffer that can absorb negative outcomes are called available financial resources (AFR). AFR comprises Stadshypotek's equity, adjusted for intangible assets, but including tier 1 loans with a supplement for perpetual subordinated loans, and also the profit/loss before tax for the next twelve months.

Credit risk is calculated using simulated outcomes of default for all Stadshypotek's counterparties and exposures. Market risks comprise interest rate risk in the business operations. The non-financial risks comprise business risk and operational risk. Business risk is related to unexpected variations in earnings which may arise. For example, this may arise if demand or competition changes unexpectedly, thus resulting in lower volumes and squeezed margins.

The Board stipulates that the AFR/EC ratio should be at least 120 per cent. All calculations show that Stadshypotek is well capitalised in relation to its total risks.

NOTE 2 Cont.**CAPITAL PLANNING**

Stadshypotek's capital policy – most recently adopted by the Board in 2014 – states the guidelines for the capital planning.

The capital requirement is a function of Stadshypotek's risks, expected development, the regulations and target ratios. Stadshypotek's model for economic capital and also of stress tests. The capital planning is divided into short-term and mid- to long-term forecasting. The part of capital planning that comprises short-term forecasts up to two years ahead principally focuses on assessing existing performance and the development of the capital requirement. This forecasting is necessary to enable continual adaptation of the size and composition of the capital base. Capital planning is performed through an ongoing analysis of changes in volume, risk and performance, and by

monitoring events that may affect capital requirements and capital level. Short-term forecasting includes all sub-components that make up Stadshypotek's capital base. The analysis is based on a cautious basic scenario for how the existing earnings capacity can cope with various changes in volume.

The part of capital planning that comprises mid- to long-term forecasts aims to ensure compliance with statutory capital requirements and that Stadshypotek's AFR at all times covers by a good margin all risks calculated according to the economic capital model. The objective is to forecast the expected performance and judge whether Stadshypotek's resistance is satisfactory in various scenarios. The planning period is at least five years. Various scenarios and stress tests are performed as part of the forecast work. A

basic scenario forms the foundation of the capital forecast. This scenario is obtained from expected performance in the next five years regarding profit, volume growth and financial assumptions such as loan losses and performance on the fixed income market. The basic scenario is then compared to the outcomes in a number of business cycle and crisis scenarios. The stress scenarios have been established following analysis of the historical links between the impacts of various macroeconomic variables on the financial markets and have been selected by using the scenarios expected to have the greatest adverse impact on Stadshypotek. The result of the internal capital adequacy assessment is reported annually to the Board.

NOTE 3 Net interest income

SEK m	2014	2013
Interest income		
Loans to the public	26,709	28,729
Loans to credit institutions	237	294
Total	26,946	29,023
Interest expense		
Due to credit institutions	-4,056	-4,542
Issued securities		
Commercial paper and other short-term borrowings	-63	-48
Bonds and other long-term borrowings	-13,573	-15,609
Subordinated liabilities	-611	-566
Other		
Derivatives*	1,802	1,386
Fee to the Swedish Stabilisation Fund	-203	-211
Other interest expense	-2	-2
Total	-16,706	-19,592
Net interest income	10,240	9,431

* Net interest income from derivative instruments which are recognised at fair value and derive from Stadshypotek's funding and can have both a positive and a negative impact on interest expense.

During the year, the average interest rate on loans to the public was 2.7 per cent (3.1). During the year, the average funding rate (due to credit institutions, issued securities and subordinated loans) was 1.9 per cent (2.3).

SEK 2 million (3) of the interest income related to impaired loans.

The interest income is entirely attributable to assets recognised at amortised cost. Total interest expense on liabilities recognised at amortised cost during 2013 was SEK 18,303 million (20,765).

NOTE 4 Net fee and commission income

SEK m	2014	2013
Fee and commission income		
Lending commissions	11	13
Other commissions	3	2
Total	14	15
Fee and commission expense		
Commission on payments	0	0
Commission on securities	-21	-20
Other commissions	0	0
Total	-21	-20
Net fee and commission income	-7	-5

NOTE 5 Net gains/losses on financial transactions

SEK m	2014	2013
Hedge accounting, fair value hedges	-99	-46
of which hedged items	-302	1,369
of which hedging	203	-1,415
Ineffective portion of cash flow hedges	-2	-5
Loans, valued at cost	304	267
Financial liabilities, valued at cost	-408	-247
Derivatives not recognised as hedges	188	84
Other	24	17
Total	7	70

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 the value of 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. Loans, valued at cost, refers to the early redemption charge for loans and other receivables which are repaid ahead of time. Financial liabilities, valued at cost, refers to realised price differences when repurchasing bonds.

NOTE 6 Staff costs

SEK m	2014	2013
Salaries and other compensation	-48	-46
Social security costs	-16	-14
<i>of which special payroll tax</i>	-2	-2
Pension premiums paid	-11	-11
Provision to profit-sharing foundation	-7	-8
Other staff costs	-4	0
Total	-86	-79

The average number of employees in the company during the year was 72 (69). Of these employees, 50 per cent (51) were women and 50 per cent (49) were men.

Stadshypotek has pension obligations according to the BTP2 agreement which are guaranteed through insurance with Pensionskassan SHB, Försäkringsförening (pension fund). These obligations are reported according to the revised IAS 19 rules for defined benefit plans, whereby the company under common control shares the risks related to the pension obligations, since the pension fund's assets are not allocated among the employees who have insurance with the pension fund. According to these rules, Stadshypotek reports the insurance charges which are debited for the period as an expense.

The pension fund does not debit the charges calculated on the basis of the revised IAS 19 definition of defined benefit net expense for pensions. The charges are debited in accordance with the rules in the statutes for the pension fund with the purpose of debiting charges corresponding to an expense for pension benefits accrued during the period. The rules do not take into account actuarial gains and losses which have occurred. Nor do they take into account fluctuations in real return.

The pension fund's obligations totalled SEK 6,140 million at 31 December 2014 (3,557), based on prudent assumptions, where the discount rate has been set in accordance with the principles in FFFS 2008:23 (Regulations governing insurance companies' choice of interest rate for calculation of technical provisions). The fair value of the pension fund's assets was SEK 10,089 million at 31 December 2014 (10,141). The pension fund's assets are broken down as follows:

Pension fund's plan assets	31 Dec 2014	31 Dec 2013
Listed shares and participations	9,529	9,388
Unlisted shares and participations	224	395
Listed interest-bearing securities	319	230
Unlisted interest-bearing securities	0	67
Other plan assets	17	61
Total	10,089	10,141

Further information about the defined benefit pension plan can be found in note G8 of the 2014 Annual Report for the Handelsbanken Group.

REMUNERATION TO EMPLOYEES

Stadshypotek has a long-term view of its staff's employment. Remuneration varies over an employee's period of employment with Stadshypotek and good efforts must always be rewarded. The total level of remuneration should help improve Stadshypotek's competitive position and profitability so that the company is able to attract, retain and develop skilled employees and establish a healthy management succession structure. Stadshypotek generally has a low risk tolerance, which is reflected in its attitude towards remuneration. Stadshypotek considers that fixed remuneration contributes to healthy operations and all employees of Stadshypotek therefore only receive a fixed remuneration. Variable remuneration is not permitted at Stadshypotek. Remuneration for work performed is set individually for each employee. Remuneration is paid in the form of a fixed salary, customary salary benefits and a pension provision. Salaries are set locally in accordance with Stadshypotek's decentralised work method and are based on salary-setting factors which are determined in advance.

Total remuneration is defined as that which Stadshypotek pays directly or indirectly to an employee as part of their employment, such as cash salary, other cash remuneration, customary salary benefits, company car and pension provisions. At Stadshypotek, the rules for pensions to employees are agreed through collective agreements and in local agreements, while for the Chief Executive, they follow Handelsbanken's guidelines. The Board decides on the level of remuneration paid to individuals in Stadshypotek's executive management who are employees of Stadshypotek and on the remuneration paid to employees who have overall responsibility for Stadshypotek's control functions in the areas of compliance and risk control.

Remuneration policy

The principles for Stadshypotek's system of remuneration are established in a remuneration policy decided by the Board. The Board of Stadshypotek has a designated member who prepares decisions concerning the levels of remuneration which are to be set by Stadshypotek's Board. Stadshypotek's remuneration policy is reviewed annually or whenever necessary and is based on a risk analysis produced by the risk control function at Stadshypotek, which is independent of the business operations. The Chief Executive and all other managers concerned at Stadshypotek are responsible for identifying, managing and limiting the risks in the system of remuneration. The Chief Executive is responsible for proposing the structure of the remuneration system in line with Stadshypotek's view of risks and long-term approach. Local risk control and compliance must identify, monitor, analyse and report on material risks associated with the remuneration system.

Terms of employment and remuneration for executive officers

For the Chief Executive, remuneration is paid in the form of a fixed salary, customary salary benefits and pension provisions. Decisions regarding the remuneration paid to the Chief Executive are taken by an EGM at Stadshypotek.

There are no agreements involving termination benefits. The Chief Executive, Ulrica Stolt Kirkegaard, has a retirement age of 65. The pension is a defined benefit pension scheme that provides 60 per cent of her salary and accrues at a rate of 1/180th per month during the period 1 May 2014–30 April 2029 when the pension is fully paid up and available for disbursement upon reaching the retirement age. If the employment is terminated before reaching the retirement age, she receives a paid-up policy covering the retirement pension amount already accrued.

Salary and remuneration to the Chief Executive, Ulrica Stolt Kirkegaard, who took up her position on 1 May, totalled SEK 1.6 million (0.0), including benefits of SEK 183 thousand (0). Salary and remuneration to the Chief Executive, Per Beckman, who left his position on 30 April 2014, totalled SEK 1.8 million (5.3), including benefits of SEK 49 thousand (260). Board member Michael Bertorp has received a fee of SEK 250 thousand (200). No fees have been paid to any other members of the Board. The year's pension cost for Chief Executive Ulrica Stolt Kirkegaard totalled SEK 0.5 million (0.0) and the pension cost for Chief Executive Per Beckman was SEK 1.7 million (2.5). For other members of the company's executive management, remuneration is paid in the form of a fixed salary, customary salary benefits and a pension provision in accordance with the terms of the applicable collective agreement, the occupational pension plan for the Swedish banks (BTP2). The year's pension cost for other members of the company's executive management, a total of 5 people (4), was SEK 1.8 million (1.1).

NOTE 6 Cont.

At the end of 2014, the following loans to executive officers of the company were outstanding at Stadshypotek:

SEK m	2014	2013
Chief executives in the parent company and subsidiaries, and other members of the company's executive management	17	11
Other board members in the parent company and subsidiaries	8	9
Board members, chief executives and executive vice presidents at Handelsbanken AB	53	42

The loans concerned have been granted to 32 (25) individuals and all have been secured by pledged collateral. Stadshypotek's interest income for loans to the above-mentioned categories totals SEK 1.2 million (1.9). Members of the company's executive management who are employed by Stadshypotek are subject to the same credit terms as other employees. The discount on the interest rate for credits is determined on the basis of the government borrowing rate set annually by the Swedish Tax Authority, plus one percentage point. The discount on the interest rate is taxed in connection with monthly salary payments and constitutes a basis for employer's contributions for Stadshypotek. Interest payable on credits exceeding SEK 1.5 million is determined by applying normal commercial terms. All credits are subject to the customary credit assessment.

Gender distribution, number	2014		2013	
	Men	Women	Men	Women
Board of Directors	5	2	6	1
Company's executive management*	2	4	2	3

* Employees of Stadshypotek. The company's executive management also includes two individuals employed by Handelsbanken.

Remuneration to other members of the company's executive management and to risk-takers

Remuneration to other members of the company's executive management totalled SEK 5.2 million (4.4), all of which was fixed compensation. Remuneration to individuals who are not members of the company's

executive management, but who are deemed to be capable of influencing the company's level of risk (as described in the definition in the Swedish Financial Supervisory Authority's regulations governing remuneration systems in credit institutions, securities companies and fund management companies) totalled SEK 8.7 million (6.4).

NOTE 7 Other administrative expenses

SEK m	2014	2013
Cost of premises	-7	-6
IT costs	-117	-101
Communication	-1	-1
Travel and marketing	-3	-3
Purchased services	-1,277	-1,156
Supplies	0	0
Other expenses	-17	-19
Total	-1,422	-1,286
Audit costs	2014	2013
External auditing:		
KPMG AB, audit assignments	-0.3	-0.3
KPMG AB, auditing activities in addition to audit assignments*	-1.2	-1.5
Internal audit	-1.8	-1.4
Operating lease contracts	2014	2013
Lease payments for the period**	-8	-7

* For review of issue prospectuses.

** Lease payments mainly refer to rents.

NOTE 8 Loan losses

SEK m	2014	2013
Specific provision for individually assessed loans		
The year's provision	-22	-24
Reversal of previous provisions	7	7
Total	-15	-17
Collective provision		
Collective provision for individually assessed loans	1	-1
Write-offs		
Actual loan losses for the year	-50	-59
Utilised share of previous provisions	20	19
Reversal of actual loan losses in previous years	66	36
Total	36	-4
Net loan losses	22	-22

Both actual and probable loan losses reduce the corresponding receivable amount on the assets side of the balance sheet.

All written-down and recovered losses refer to loans to the public.

Loans which after individual assessment are deemed to have been recognised at the correct value must also be assessed to establish whether a collective provision for probable loan losses might nevertheless be necessary. In connection with this, SEK 4 million (5) million was reserved as at 31 December 2014.

NOTE 9 Taxes

SEK m	2014	2013
Current tax		
Tax cost for the year	-1,968	-1,798
Adjustment of tax relating to previous years	0	-7
Total	-1,968	-1,805
Nominal tax rate in Sweden	22.0	22.0
Deviations		
Adjustment of tax relating to previous years and other	0.5	0.3
Effective tax rate	22.5	22.3
Deferred tax assets		
Derivative instruments	-	54
Deferred tax liabilities		
Derivative instruments	1,166	-

Change in deferred tax 2014	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Closing balance
Hedging instruments	54	-	-1,220	-1,166

Change in deferred tax 2013	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Closing balance
Hedging instruments	0	-	54	54

NOTE 11 Loans to the public

SEK m	2014	2013
Loans in Swedish kronor		
Loans at cost	879,455	834,900
Specific provision for individually assessed loans	-43	-48
Collective provision for individually assessed loans	-4	-5
Total	879,408	834,847
Loans in foreign currency		
Loans at cost	139,125	120,404
Total	139,125	120,404
Carrying amount	1,018,533	955,251
Average balance, loans to the public	996,210	915,981

NOTE 10 Loans to credit institutions

SEK m	2014	2013
Loans in Swedish kronor		
Banks	7,244	4,285
Loans in foreign currency		
Banks	2,904	3,681
Total	10,148	7,966
Average balance, loans to credit institutions	8,212	8,074

Non-performing loans, etc.	2014	2013
Impaired loans	175	283
Specific provision for individually assessed loans	-43	-48
Collective provision for individually assessed loans	-4	-5
Net impaired loans	128	230
Reserve ratio for impaired loans, %	24.4	17.0
Proportion of impaired loans, %	0.01	0.02
Non-performing loans for which interest is recognised as income	607	833
Carrying amount of loan receivables restructured during the year		
– before restructuring	0	0
– after restructuring	0	0
Impaired loans reclassified as normal loans during the year	5	2

Change in provision for probable loan losses	2014			2013		
	Provision for individually assessed loans	Collective provision for individually assessed loans	Total provision for probable loan losses	Provision for individually assessed loans	Collective provision for individually assessed loans	Total provision for probable loan losses
Provision at beginning of year	-48	-5	-53	-50	-4	-54
The year's provision	-22	-	-22	-24	-	-24
Reversal from previous provisions	7	1	8	7	-1	6
Utilised for actual losses	20	-	20	19	-	19
Other	-	-	-	-	-	-
Provision at end of year	-43	-4	-47	-48	-5	-53

NOTE 12 Shares and participating interests in Group companies

Amounts refer to the parent company SEK m	2014	2013
Shares in Group companies	0	0

Name	Domicile	Corporate identity no.	Number of shares	Nominal value, SEK '000	Proportion of share capital, %	Carrying amount, SEK '000
Svenska Intecknings Garanti AB Sigab	Stockholm	556432-7285	1,000	100	100	100

The holdings consist of unlisted shares.

NOTE 13 Derivative instruments

SEK m	Nominal amount/maturity			Total 2014	Total 2013	Positive market values 2014	Positive market values 2013	Negative market values 2014	Negative market values 2013
	Up to 1 year	over 1 year up to 5 years	Over 5 years						
DERIVATIVES FOR CASH-FLOW HEDGE ACCOUNTING									
Interest rate-related contracts									
Interest rate swaps	72,351	163,048	27,643	263,042	264,703	14,461	13,651	1,937	2,310
Currency-related contracts									
Cross-currency interest rate swaps	13,085	87,233	20,830	121,148	105,055	9,742	1,202	1,688	4,659
DERIVATIVES FOR FAIR VALUE HEDGES									
Interest rate-related contracts									
Options	5,750	4,745	-	10,495	12,545	6	21	-	-
Interest rate swaps	11,011	-	-	11,011	50,218	-	-	196	762
OTHER DERIVATIVES									
Interest rate-related contracts									
Options	-	972	-	972	1,072	4	6	-	-
Interest rate swaps	8,193	9	-	8,202	26,930	4	6	242	398
Currency-related contracts									
Currency swaps	20,331	-	-	20,331	21,245	743	349	-	57
Total	130,721	256,007	48,473	435,201	481,768	24,960	15,235	4,063	8,186
Currency breakdown of market values									
SEK						-106,028	-27,022	14,578	88,662
USD						28,343	3,885	6,798	-21,657
EUR						82,515	22,109	-12,382	-52,743
GBP						17,579	13,324	-	-1,599
CHF						2,507	2,933	-	-
DKK						4	6	-	-
AUD						40	-	-4,931	-4,477

NOTE 14 Intangible assets

Internally developed software SEK m	2014	2013
Cost of acquisition at beginning of year	87	76
Cost of acquisition of additional intangible assets	0	11
Disposals and retirements	-22	-
Cost of acquisition at end of year	65	87
Opening accumulated amortisation	-47	-35
Disposals and retirements	22	-
Amortisation for the year	-13	-12
Accumulated amortisation at end of year	-38	-47
Closing residual value	27	40

NOTE 15 Property and equipment

SEK m	2014	2013
Cost of acquisition at beginning of year	3	3
Cost of acquisition of new assets	0	0
Cost of acquisition of assets sold during the year	-	-
Closing acquisition value	3	3
Accumulated depreciation according to plan, opening balance	-3	-3
Depreciation for the year	0	0
Accumulated depreciation of assets sold during the year	-	-
Closing accumulated depreciation	-3	-3
Residual value according to plan	0	0

NOTE 16 Other assets

SEK m	2014	2013
Settlement claims in respect of own securities	1,256	665
Other	2,018	3,376
Total	3,274	4,041

The line item 'Other' includes accumulated value changes on fair value portfolio hedges that have been terminated prematurely.

NOTE 17 Prepaid expenses and accrued income

SEK m	2014	2013
Accrued interest	1,765	1,882
Other accrued income	56	17
Prepaid expenses	3	53
Total	1,824	1,952

NOTE 18 Due to credit institutions

SEK m	2014	2013
Due in Swedish kronor		
Banks	279,513	222,720
Due in foreign currency		
Banks	125,561	114,377
Total	405,074	337,097
Average balance due to credit institutions	390,573	322,033

NOTE 19 Issued securities

SEK m	2014	2013
Certificates ¹	8,476	13,287
Bonds ²	571,009	559,459
Total issued securities	579,485	572,746
1) Certificates		
Certificates in Swedish kronor	-	-
Certificates in foreign currency	8,476	13,287
Carrying amount	8,476	13,287
<i>of which at amortised cost</i>	8,476	13,287
2) Bonds		
Bonds in Swedish kronor	411,441	423,105
Bonds in foreign currency	139,165	111,195
Retail bonds in Swedish kronor	-	50
Total nominal value	550,606	534,350
Bonds in Swedish kronor	430,643	445,744
Bonds in foreign currency	140,366	113,665
Retail bonds in Swedish kronor	-	50
Total carrying amount	571,009	559,459
<i>of which at amortised cost</i>	571,009	559,459
Average balance issued securities in SEK	438,459	438,905
Average balance issued securities in foreign currency	138,608	132,941

SEK m	2014	2013
Issued securities at beginning of period	572,746	565,865
Issued	189,284	211,397
Repurchased	-91,839	-88,989
Matured	-89,714	-99,789
Price differences, exchange rate effects, etc.	-992	-15,738
Issued securities at end of period	579,485	572,746

For a list of bonds, see page 59.

NOTE 20 Other liabilities

SEK m	2014	2013
Settlement liabilities in respect of own securities issued	-	0
Group contributions provided	7,180	6,670
Other liabilities	32	30
Total	7,212	6,700

NOTE 21 Accrued expenses and deferred income

SEK m	2014	2013
Accrued interest	8,428	11,617
Other accrued expenses	224	253
Deferred income	137	137
Total	8,789	12,007

NOTE 22 Subordinated liabilities

Stadshypotek has three dated subordinated loans of SEK 3,000 million, SEK 4,900 million and SEK 4,500 million respectively and two perpetual loans of SEK 4,800 million and SEK 500 million respectively. The loans have a three-month variable coupon linked to Stibor. The dated loans fall due for payment on 3 January 2025, 30 June 2026 and

3 January 2029. For the perpetual loans, subject to the approval of the Swedish Financial Supervisory Authority, Stadshypotek has the right of repayment on each future interest due date.

Stadshypotek has also raised perpetual additional tier 1 capital from the parent company for SEK 3,000 million. The tier 1 capital loan has a

three-month variable coupon linked to Stibor.

Given the approval of the Swedish Financial Supervisory Authority, Stadshypotek has the right to repay the loan to Handelsbanken. The loan can be repaid at the earliest from 29 December 2016, and subsequently on each interest due date.

For further information, see note 30.

NOTE 23 Equity

At the balance sheet date, the share capital comprised 162,000 class A shares with a nominal value of SEK 25,000 each. There have been no changes during the year.

Restricted and unrestricted equity in the Group are the same as restricted and unrestricted equity in the parent company and are stated under Changes in equity.

The translation reserve consists entirely of translation differences arising from conversion of the income statements and balance sheets of foreign branches.

Change in hedge reserve		
SEK m	2014	2013
Hedge reserve at beginning of year	-190	-
Unrealised value changes during the year	12,052	1,785
Reclassified to the income statement	-7,729	-1,975
Hedge reserve at end of year	4,133	-190

NOTE 24 Other commitments

SEK m	2014	2013
Loans with contracted future interest rate	1,406	1,447
Committed loan offers	758	580
Total	2,164	2,027

Contracted future operating lease charges broken down by the years they fall due for payment

	2014	2013
2014	-	6.8
2015	7.4	6.3
2016	6.7	5.9
2017	6.1	5.6
2018	5.7	5.6
2019	5.7	5.6
2020	3.9	3.8
Total	35.5	39.6

NOTE 25 Disclosure of related-party transactions

SEK m	2014	2013
BALANCE SHEET		
Group claims		
Loans to credit institutions	10,148	7,966
Derivative instruments	24,956	15,235
Other assets	5	4
Prepaid expenses and accrued income	48	51
Total	35,157	23,256
Group liabilities		
Due to credit institutions	405,074	337,096
Derivative instruments	4,063	8,186
Other liabilities	7,199	6,684
Accrued expenses and deferred income	536	658
Subordinated liabilities	20,700	21,200
Total	437,572	373,824
INCOME STATEMENT		
Interest income	232	289
Interest expense	-4,664	-4,892
Fee and commission expense	0	-2
Other administrative expenses	-1,392	-1,251
Total	-5,824	-5,856

Pension premiums paid to Pensionskassan SHB, Försäkringsförening are reported in note 6. Note 6 also contains information about loans granted to executive officers and other disclosures relating to the terms and conditions of executive officers and the remuneration paid to them.

NOTE 25 Cont.

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 each of 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. 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 consist primarily of sales compensation, IT services and the treasury function. As previously, Stadshypotek's branches outside Sweden 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.

The item Other assets referred to above includes a claim of SEK 4 million (3) on fellow subsidiaries. Included in accrued expenses and deferred income is an item of SEK 0 million (0) relating to dealings with fellow subsidiaries. Fee and commission expense include SEK 0 million (0) attributable to fellow subsidiaries. Other administrative expenses includes SEK 10 million (11) which is attributable to fellow subsidiaries. Other inter-company transactions refer to transactions with the parent company.

NOTE 26 Segment reporting

Income statement	2014			2013		
	Private	Corporate	Group	Private	Corporate	Group
SEK m						
Net interest income	7,274	2,966	10,240	6,709	2,722	9,431
Net fee and commission income	-5	-2	-7	-4	-1	-5
Net gains/losses on financial transactions	5	2	7	49	21	70
Total income	7,274	2,966	10,240	6,754	2,742	9,496
Expenses	-1,072	-449	-1,521	-963	-415	-1,378
Profit before loan losses	6,202	2,517	8,719	5,791	2,327	8,118
Net loan losses	14	8	22	-26	4	-22
Operating profit	6,216	2,525	8,741	5,765	2,331	8,096
Balance sheet						
31 December						
SEK m						
Assets						
Loans to credit institutions	6,811	3,337	10,148	5,635	2,331	7,966
Loans to the public	676,022	342,511	1,018,533	639,329	315,922	955,251
Other assets	19,832	10,344	30,176	14,067	7,375	21,442
Total assets	702,665	356,192	1,058,857	659,031	325,628	984,659
Liabilities and equity						
Due to credit institutions	271,858	133,216	405,074	232,855	104,242	337,097
Issued securities	380,699	198,786	579,485	375,132	197,614	572,746
Other liabilities	13,960	7,270	21,230	17,646	9,247	26,893
Subordinated liabilities	13,599	7,101	20,700	13,885	7,315	21,200
Total liabilities	680,116	346,373	1,026,489	639,518	318,418	957,936
Equity			32,368			26,723
Total liabilities and equity			1,058,857			984,659

Private market is defined as lending secured by mortgages in single-family or two-family houses, second homes, housing co-operative 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	2014					2013				
	Sweden	Norway	Denmark	Finland	Group	Sweden	Norway	Denmark	Finland	Group
SEK m										
Income	8,599	1,014	221	406	10,240	7,990	1,003	166	337	9,496
Operating profit	7,210	955	203	373	8,741	6,682	949	152	313	8,096
Tax	-1,585	-258	-50	-75	-1,968	-1,477	-266	-38	-24	-1,805
Public subsidies	-	-	-	-	-	-	-	-	-	-
Intangible assets	27	-	-	-	27	40	-	-	-	40
Property and equipment	0	-	-	-	0	0	-	-	-	0
Total assets	916,701	65,748	26,484	49,924	1,058,857	860,405	63,570	19,423	41,261	984,659
Other information										
Average number of employees	71	-	1	-	72	69	-	0	-	69

For further information about the branches, see page 5.

NOTE 27 Assets and liabilities in foreign currencies

The total value in Swedish kronor of Group assets and liabilities in foreign currencies is specified in the following table.

31 December 2014 SEK m	AUD	CHF	DKK	EUR	GBP	NOK	USD	Total
Assets								
Loans to credit institutions	-	-	1,314	123	-	1,467	-	2,904
Loans to the public	-	-	25,165	49,721	-	64,240	-	139,126
Accrued income and prepaid expenses	-	-	1	80	-	111	-	192
Liabilities								
Due to credit institutions	-	-	25,750	52,092	4,845	42,874	-	125,561
Issued securities	4,923	2,461	-	86,482	12,711	20,559	21,706	148,842
Other liabilities	-	-	68	5	-	249	-	322
Accrued expenses and deferred income	43	13	5	984	9	205	67	1,326
Derivative positions	4,971	2,507	4	94,897	17,579	-	21,545	141,503
Retained earnings and branch profits for the year	-	-	661	2,501	-	1,938	-	5,100
Net foreign currency position	5	33	0	2,757	14	-7	-228	2,574
31 December 2013								
SEK m	AUD	CHF	DKK	EUR	GBP	NOK	USD	Total
Assets								
Loans to credit institutions	-	-	896	210	-	2,574	-	3,680
Loans to the public	-	-	18,520	40,982	-	60,902	-	120,404
Accrued income and prepaid expenses	-	-	0	69	-	126	-	195
Liabilities								
Due to credit institutions	-	-	18,898	39,446	-	48,268	7,764	114,376
Issued securities	4,489	2,897	-	72,981	14,887	13,579	18,117	126,950
Other liabilities	-	-	51	11	-	253	-	315
Accrued expenses and deferred income	41	14	3	983	3	230	64	1,338
Derivative positions	4,477	2,933	6	74,852	14,922	-	25,542	122,732
Retained earnings and branch profits for the year	-	-	470	2,057	-	1,276	-	3,803
Net foreign currency position	-53	22	0	635	32	-4	-403	229

The net foreign currency positions reported in the table are due to differences in valuation principles between lending and funding at amortised cost and derivatives at fair value. Stadshypotek's risk management strategy means that inflows and outflows in foreign currency are completely matched.

NOTE 28 Classification of financial assets and liabilities

31 December 2014 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives desig- nated as hedging instruments	Other financial liabilities	Non-financial assets/liabilities	Total	Fair value
Assets							
Loans to credit institutions	10,148					10,148	10,148
Loans to the public	1,018,533					1,018,533	1,030,415
Value change of interest-hedged item in portfolio hedge	70					70	
Derivative instruments		751	24,209			24,960	24,960
Intangible assets					27	27	27
Property and equipment					0	0	0
Current tax assets					21	21	21
Other assets	3,274					3,274	3,274
Prepaid expenses and accrued income	1,824					1,824	1,824
Total assets	1,033,849	751	24,209		48	1,058,857	1,070,669
Liabilities							
Due to credit institutions				405,074		405,074	406,208
Issued securities				579,485		579,485	594,239
Derivative instruments		242	3,821			4,063	4,063
Deferred tax liabilities					1,166	1,166	1,166
Other liabilities				7,212		7,212	7,212
Accrued expenses and deferred income				8,789		8,789	8,789
Subordinated liabilities				20,700		20,700	22,553
Total liabilities		242	3,821	1,021,260	1,166	1,026,489	1,044,230

NOTE 28 Cont.

31 December 2013 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives designated as hedging instruments	Other financial liabilities	Non-financial assets/ liabilities	Total	Fair value
Assets							
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
Intangible assets					40	40	40
Property and equipment					0	0	0
Current tax assets					24	24	24
Deferred tax assets					54	54	54
Other assets	4,041					4,041	4,041
Prepaid expenses and accrued income	1,952					1,952	1,952
Total assets	969,306	361	14,874		118	984,659	987,937
Liabilities							
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
Current tax liabilities						-	-
Other liabilities				6,700		6,700	6,700
Accrued expenses and deferred income				12,007		12,007	12,007
Subordinated liabilities				21,200		21,200	22,996
Total liabilities		455	7,731	949,750		957,936	964,299

NOTE 29 Fair value measurement of financial instruments

31 December 2014 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Derivative instruments	-	24,960	-	24,960
Total financial assets measured at fair value	-	24,960	-	24,960
Liabilities				
Derivative instruments	-	4,063	-	4,063
Total financial liabilities measured at fair value	-	4,063	-	4,063
31 December 2013				
SEK m	Level 1	Level 2	Level 3	Total
Assets				
Derivative instruments	-	15,235	-	15,235
Total financial assets measured at fair value	-	15,235	-	15,235
Liabilities				
Derivative instruments	-	8,186	-	8,186
Total financial liabilities measured at fair value	-	8,186	-	8,186

VALUATION PROCESS

Stadshypotek's independent risk control is responsible for the existence of fit-for-purpose instructions and processes for valuation of financial instruments at fair value. 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 to

ensure that they are consistent with market practice and established financial theory. New and changed valuation models are always validated before they come into use.

Stadshypotek is also included in 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.

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 cat-

NOTE 29 Cont.

egorisation 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 substantially 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.

PRINCIPLES FOR INFORMATION ABOUT THE FAIR VALUES OF FINANCIAL INSTRUMENTS WHICH ARE CARRIED AT COST OR AMORTISED COST

Information about the fair values of financial instruments which are carried at cost or amor-

tised 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. Thus these items have not been subject to fair value measurement. 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 market price where this has been available. Funding where market price information has not been found 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 reported at cost or amortised cost is categorised in the valuation hierarchy described above. Level 1 contains 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 premium which have been used. Other instruments are categorised as level 2.

Financial instruments at cost or amortised cost				
31 December 2014				
SEK m	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public	-	-	1,030,415	1,030,415
Total	-	-	1,030,415	1,030,415
Liabilities				
Due to credit institutions	-	406,208	-	406,208
Issued securities	513,814	80,425	-	594,239
Subordinated liabilities	-	22,553	-	22,553
Total	513,814	509,186	-	1,023,000
Financial instruments at cost or amortised cost				
31 December 2013				
SEK m	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public	-	-	958,625	958,625
Total	-	-	958,625	958,625
Liabilities				
Due to credit institutions	-	336,856	-	336,856
Issued securities	508,202	69,342	-	577,544
Subordinated liabilities	-	22,996	-	22,996
Total	508,202	429,194	-	937,396

NOTE 30 Capital adequacy

CAPITAL POLICY

Stadshypotek aims to maintain a satisfactory capital level which reflects the risk inherent in the company's operations and which exceeds the minimum statutory requirements. A healthy capital level is needed to manage situations of financial strain and also for other events such as acquisitions and major growth in volumes.

LEGAL CAPITAL REQUIREMENT

According to the new capital adequacy regulations, regulation no 575/2013 EU (CRR), which came into force in the EU on 1 January 2014 and directive 2013/36/EU which was implemented in Sweden on 2 August 2014, Stadshypotek must have common equity tier 1 capital, tier 1 capital and total own funds which at least correspond to the individual requirements relative to the total risk-weighted exposure amount for credit risks, market risks and operational risks. In addition to maintaining capital according to the minimum requirement, Stadshypotek must also hold common equity tier 1 capital to fulfil the requirement for a capital conservation buffer. The company must also perform an internal capital assessment. Stadshypotek's capital policy – most recently adopted by the Board in 2014 – states the guidelines for the internal capital adequacy assessment. During 2014, Stadshypotek met the statutory minimum level for its own funds.

DESCRIPTION OF OWN FUNDS

Own funds consist of tier 1 capital and tier 2 capital. The tier 1 capital is divided into common equity tier 1 capital and other tier 1 capital. Common equity tier 1 capital mainly comprises equity and has been affected by the Board's proposal for appropriation of profits. Deductions for intangible assets are made from the common equity tier 1 capital. A neutrality adjustment is made for the effect of cash flow hedges on equity. Institutions with permission to use internal ratings-based models (IRB institutions) must make a deduction for the difference between expected loan losses under the IRB method and the provisions recognised in the accounts for probable loan losses where the expected loan losses exceed the provisions made. The deduction is made from the common equity tier 1 capital.

Other tier 1 capital consists of additional tier 1 capital from the parent company. Additional tier 1 capital comprises a perpetual tier 1 capital loan from the parent company for SEK 3,000 million. The tier 1 capital loan has been issued with permission in accordance with the previous regulations and is therefore included in the transitional rules in CRR.

The tier 2 capital consists of subordinated loans with a maturity of at least five years.

DESCRIPTION OF THE CAPITAL REQUIREMENT

Credit risks – Since Stadshypotek's lending takes place via Handelsbanken's branch network, Handelsbanken's IRB Approach is also applied for Stadshypotek's risk classification and for calculating the credit risk for Stadshypotek's credits. The Swedish Financial Supervisory Authority has approved the Handelsbanken Group's IRB Approach. There are two different IRB Approaches, a foundation approach and an advanced approach. In the foundation approach, the Bank uses its own method to determine the probability of the customer defaulting within one year (PD), while the other parameters are set by the Financial Supervisory Authority. In the advanced approach, the Bank uses its own methods to calculate the loss in the case of default (LGD) and the exposure at default (EAD). The advanced IRB Approach has been applied 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, and in 2013, Stadshypotek received the Financial Supervisory Authority's approval to extend its use of the advanced IRB Approach to large companies as well.

Operational risks – Stadshypotek, like its parent company, uses the standardised approach, which means that the capital requirement for operational risks is based on the income.

Market risks – Stadshypotek has no market risks that are reported according to the capital adequacy rules for market risks. For a description of risk management, see Note 2, Risks and risk control, on page 28.

NOTE 30 Cont.

Transitional own funds	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013		2013 according to CRR
SEK m	2014		
Common equity tier 1 capital: instruments and reserves			
Capital instruments and the related share premium accounts	4,050		4,050
<i>of which shares</i>	4,050		4,050
Retained earnings	17,434		16,743
Accumulated other comprehensive income (and any other reserves, to include unrealised gains and losses according to the applicable accounting standards)	4,111		-361
Funds for general banking risk			
Amount of qualifying items referred to in Article 484.3 and the related share premium accounts subject to phase-out from CET1			
Public sector capital injections grandfathered until 1 January 2018			
Minority interests (amount allowed in consolidated CET1)			
Independently reviewed interim profits net of any foreseeable charge or dividend	6,773		6,291
Common equity tier 1 (CET1) capital before regulatory adjustments	32,368	0	26,723
Common equity tier 1 capital: regulatory adjustment			
Additional value adjustments (negative amount)			
Intangible assets (net of related tax liability) (negative amount)	-28		-40
[Empty set in the EU]			
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38.3 are met) (negative amount)			
Fair value reserves related to gains or losses on cash flow hedges	-4,134		190
Negative amounts resulting from the calculation of expected loss amounts	-243		-190
Any increase in equity that results from securitised assets (negative amount)			
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing			
Defined-benefit pension fund assets (negative amount)			
Direct and indirect holdings by an institution of own CET1 instruments (negative amount)			
Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)			
Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			
Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			
[Empty set in the EU]			
Exposure amount of the following items which qualify for a RW of 1,250%, where the institution opts for the deduction alternative			
Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38.3 are met) (negative amount)			
Amount exceeding the 15% threshold (negative amount)			
[Empty set in the EU]			
Losses for the current financial year (negative amount)			
Foreseeable tax charges relating to CET1 items (negative amount)			
Regulatory adjustments applied to common equity tier 1 in respect of amounts subject to pre-CRR treatment			
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468			
Amount to be deducted from or added to common equity tier 1 capital with regard to additional filters and deductions required pre-CRR			
Qualifying additional tier 1 capital deductions that exceeds the AT1 capital of the institution (negative amount)			
Total regulatory adjustments to common equity tier 1 (CET1)	-4,405	0	-40
Common equity tier 1 capital	27,963	0	26,683
Additional tier 1 capital: instruments			
Capital instruments and the related share premium accounts			
Amount of qualifying items referred to in Article 484.4 and the related share premium accounts subject to phase-out from AT1	2,400	2,400	3,000
Public sector capital injections grandfathered until 1 January 2018			
Qualifying tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties			
Additional tier 1 (AT1) capital before regulatory adjustments	2,400	2,400	3,000

Presentation in accordance with the requirements of Commission Implementing Regulation (EU) No 1423/2013.

NOTE 30 Cont.

Transitional own funds	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013		2013 according to CRR
SEK m	2014		
Additional tier 1 capital: regulatory adjustments			
Direct and indirect holdings by an institution of own AT1 instruments (negative amount)			
Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)			
Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			
Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			
Regulatory adjustments applied to additional tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (i.e. CRR residual amounts)			
Residual amounts deducted from additional tier 1 capital with regard to deduction from common equity tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013			
Residual amounts deducted from additional tier 1 capital with regard to deduction from tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013			
<i>of which items to be detailed line by line, e.g. reciprocal cross holdings in tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)</i>			
Amounts to be deducted from or added to tier 2 capital with regard to additional filters and deductions required pre-CRR			
Qualifying tier 2 capital deductions that exceed the T2 capital of the institution (negative amount)			
Total regulatory adjustments to additional tier 1 (AT1) capital	0	0	0
Additional tier 1 capital	2,400	2,400	3,000
Tier 1 capital (tier 1 capital = common equity tier 1 capital + additional tier 1 capital)	30,363	2,400	29,683
Tier 2 capital: instruments and provisions			
Capital instruments and the related share premium accounts	17,700		15,400
Amount of qualifying items referred to in Article 484.5 and the related share premium accounts subject to phase-out from T2			
Public sector capital injections grandfathered until 1 January 2018			
Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party			
Credit risk adjustments			
Tier 2 capital before regulatory adjustment	17,700	0	15,400
Tier 2 capital: regulatory adjustments			
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)			
Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)			
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)			
Regulatory adjustments applied to tier 2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			
Residual amounts deducted from tier 2 capital with regard to deduction from common equity tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013			
<i>of which items to be detailed line by line, e.g. significant net interim losses, intangible assets, deficits in provisions relative to expected losses etc.</i>			
Residual amounts deducted from tier 2 capital with regard to deduction from additional tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013			
Amounts to be deducted from or added to tier 2 capital with regard to additional filters and deductions required pre-CRR			
Total regulatory adjustments to tier 2 capital	0	0	0
Tier 2 capital	17,700	0	15,400
Total capital (total capital = tier 1 capital + tier 2 capital)	48,063	2,400	45,083
Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	71,648		72,313
Items not deducted from T2 instruments (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)			
Total risk-weighted assets	71,648		72,313

Presentation in accordance with the requirements of Commission Implementing Regulation (EU) No 1423/2013.

NOTE 30 Cont.

Transitional own funds	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013		2013 according to CRR
SEK m	2014		
Capital ratios and buffers			
Common equity tier 1 capital (as a percentage of total risk exposure amount)	39.0		36.9
Tier 1 capital (as a percentage of total risk exposure amount)	42.4		41.0
Total capital (as a percentage of total risk exposure amount)	67.1		62.3
Institution specific buffer requirement (CET1 requirement in accordance with Article 92.1 (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	2.5		0.0
<i>of which capital conservation buffer requirement</i>	2.5		0.0
<i>of which countercyclical capital buffer requirement</i>	0.0		0.0
<i>of which systemic risk buffer requirement</i>	0.0		0.0
<i>of which Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer</i>	0.0		0.0
Common equity tier 1 capital available to meet buffers (as a percentage of risk exposure amount)	34.5		32.4
[non-relevant in EU regulation]			
[non-relevant in EU regulation]			
[non-relevant in EU regulation]			
Capital ratios and buffers			
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)			
Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)			
Empty set in the EU			
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38.3 are met) (negative amount)			
Applicable caps on the inclusion of provisions in tier 2			
Credit risk adjustments included in T2 in respect of exposures subject to the standardised approach (prior to the application of the cap)			
Cap for inclusion of credit risk adjustments in T2 under standardised approach			
Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)			
Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach			
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)			
Current cap on CET1 instruments subject to phase-out arrangements			
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)			
Current cap on AT1 instruments subject to phase-out arrangements	2,400		2,400
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	600		600
Current cap on T2 instruments subject to phase-out arrangements			
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)			

Presentation in accordance with the requirements of Commission Implementing Regulation (EU) No 1423/2013.

NOTE 30 Cont.

Capital instruments, main features ⁽¹⁾	Common equity tier 1 capital		Tier 1 capital
	Stadshypotek AB		Stadshypotek AB
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)			
Governing law(s) of the instrument		Swedish law	Swedish law
Regulatory treatment			
Transitional CRR rules		Common equity tier 1 capital	Other tier 1 capital
Post-transitional CRR rules		Common equity tier 1 capital	Not eligible
Eligible at solo/(sub-)consolidated/solo & (sub)consolidated		Individual and group	Individual and group
Instrument type (types to be specified by each jurisdiction)		Share	Additional tier 1 capital
Amount recognised in regulatory capital (currency in million, as at most recent reporting date)		SEK 4,050m	SEK 3,000m
Nominal amount of instrument		SEK 4,050m	SEK 3,000m
Issue price		SEK 4,050m	SEK 3,000m
Redemption price		N/A	SEK 3,000m
Accounting classification		Equity	Liability amortised cost
Original date of issuance			29 Dec 2011
Perpetual or dated		Perpetual	Perpetual
Original maturity date		N/A	N/A
Issuer call subject to prior supervisory approval		N/A	Yes
Optional call date, contingent call dates and redemption amount		N/A	29 Dec 2016
			However, if there are changes to current tax regulations or provisions regarding the regulatory classification of additional capital that could not be predicted when the loan was raised or issued, Stadshypotek is entitled to repay the loan before five years have passed, or the terms and conditions of the loan will be renegotiated, if the Swedish Financial Supervisory Authority has given its consent.
Subsequent call dates, if applicable		N/A	At each future interest due date this being the end of each quarter
<i>Coupons/dividends</i>			
Fixed or floating dividend/coupons		N/A	Floating
Coupon rate and any related index		N/A	3-month Stibor plus 775bp
Existence of dividend stopper		N/A	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)		N/A	Partially discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)		N/A	Mandatory
Existence of step-up or other incentive to redeem		No	No
Non-cumulative or cumulative		Non-cumulative	Non-cumulative
Convertible or non-convertible		Non-convertible	Non-convertible
If convertible, conversion trigger(s)		N/A	N/A
If convertible, fully or partially		N/A	N/A
If convertible, conversion rate		N/A	N/A
If convertible, mandatory or optional conversion		N/A	N/A
If convertible, specify instrument type convertible into		N/A	N/A
If convertible, specify issuer of instrument it converts into		N/A	N/A
Write-down features		No	Yes
If write-down, write-down trigger(s)		N/A	Tier 1 capital loans can be utilised to cover losses when the tier 1 capital ratio falls below 6 per cent calculated according to the provisions of Section 5 of the Swedish Act (2006:1372) on implementation of the Act on Capital Adequacy. The loan is to be utilised if the statutory capital requirements are not fulfilled.
If write-down, full or partial		N/A	Fully or partially
If write-down, permanent or temporary		N/A	Permanent and temporary
If temporary write-down, description of write-up mechanism		N/A	If the reason for the write-down is that the tier 1 ratio has fallen below the threshold value, a write-up can be made following a decision from a shareholders' meeting of Stadshypotek if Stadshypotek's financial situation is again satisfactory.
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)		Lowest	Subordinate to all instruments except shares
Non-compliant transitioned features		No	Yes
If yes, specify non-compliant features		N/A	No linkage to common equity tier 1 ratio

NOTE 30 Cont.

Capital instruments, main features ¹⁾	Tier 2 capital	
	Stadshypotek AB	Stadshypotek AB
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)		
Governing law(s) of the instrument	Swedish law	Swedish law
Regulatory treatment		
Transitional CRR rules	Tier 2 capital	Tier 2 capital
Post-transitional CRR rules	Tier 2 capital	Tier 2 capital
Eligible at solo/(sub-)consolidated/solo & (sub)consolidated	Individual and group	Individual and group
Instrument type (types to be specified by each jurisdiction)	Subordinated loan	Subordinated loan
Amount recognised in regulatory capital (currency in million, as at most recent reporting date)	SEK 4,800m	SEK 500m
Nominal amount of instrument	SEK 4,800m	SEK 500m
Issue price	SEK 4,800m	SEK 500m
Redemption price	SEK 4,800m	SEK 500m
Accounting classification	Liability amortised cost	Liability amortised cost
Original date of issuance	26 Mar 2007	29 Dec 2008
Perpetual or dated	Perpetual	Perpetual
Original maturity date	N/A	N/A
Issuer call subject to prior supervisory approval	Yes	Yes
Optional call date, contingent call dates and redemption amount	28 Mar 2012	29 Dec 2013
Subsequent call dates, if applicable	At each future interest due date this being the end of each quarter	At each future interest due date this being the end of each quarter
<i>Coupons/dividends</i>		
Fixed or floating dividend/coupons	Floating	Floating
Coupon rate and any related index	3-month Stibor	3-month Stibor
Existence of dividend stopper	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
Existence of step-up or other incentive to redeem	No	No
Non-cumulative or cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	N/A	N/A
If convertible, fully or partially	N/A	N/A
If convertible, conversion rate	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A
Write-down features	Yes	Yes
If write-down, write-down trigger(s)	Utilised to cover losses to avoid Stadshypotek being obliged to go into liquidation.	Utilised to cover losses to avoid Stadshypotek being obliged to go into liquidation.
If write-down, full or partial	Fully or partially	Fully or partially
If write-down, permanent or temporary	Temporary	Temporary
If temporary write-down, description of write-up mechanism	Is only permitted from unappropriated earnings according to the balance sheet adopted.	Is only permitted from unappropriated earnings according to the balance sheet adopted.
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to all senior funding	Subordinate to all senior funding
Non-compliant transitioned features	No	No
If yes, specify non-compliant features	N/A	N/A

(1) State N/A if the question is not applicable

NOTE 30 Cont.

Capital instruments, main features ¹⁾	Tier 2 capital	Tier 2 capital	Tier 2 capital
	Stadshypotek AB	Stadshypotek AB	Stadshypotek AB
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)			
Governing law(s) of the instrument	Swedish law	Swedish law	Swedish law
Regulatory treatment			
Transitional CRR rules	Tier 2 capital	Tier 2 capital	Tier 2 capital
Post-transitional CRR rules	Tier 2 capital	Tier 2 capital	Tier 2 capital
Eligible at solo/(sub-)consolidated/solo & (sub)consolidated	Individual and group	Individual and group	Individual and group
Instrument type (types to be specified by each jurisdiction)	Subordinated loan	Subordinated loan	Subordinated loan
Amount recognised in regulatory capital (currency in million, as at most recent reporting date)	SEK 4,900m	SEK 4,500m	SEK 3,000m
Nominal amount of instrument	SEK 4,900m	SEK 4,500m	SEK 3,000m
Issue price	SEK 4,900m	SEK 4,500m	SEK 3,000m
Redemption price	SEK 4,900m	SEK 4,500m	SEK 3,000m
Accounting classification	Liability amortised cost	Liability amortised cost	Liability amortised cost
Original date of issuance	15 Jun 2011	27 Dec 2013	22 Dec 2014
Perpetual or dated	Dated	Dated	Dated
Original maturity date	30 Jun 2026	3 Jan 2029	3 Jan 2025
Issuer call subject to prior supervisory approval	Yes	Yes	Yes
Optional call date, contingent call dates and redemption amount	30 Jun 2026 Stadshypotek is entitled to renegotiate the terms and conditions or, if 5 years have passed since the disbursement, redeem the loan if, due to changes to the applicable regulations at the time of issue, fully or partially, the loan is not allowed to be included in the regulatory own funds.	3 Jan 2029 Stadshypotek is entitled to renegotiate the terms and conditions or, if 5 years have passed since the disbursement, redeem the loan if, due to changes to the applicable regulations at the time of issue, fully or partially, the loan is not allowed to be included in the regulatory own funds.	3 Jan 2025 Stadshypotek is entitled to renegotiate the terms and conditions or, if 5 years have passed since the disbursement, redeem the loan if, due to changes to the applicable regulations at the time of issue, fully or partially, the loan is not allowed to be included in the regulatory own funds.
Subsequent call dates, if applicable	At each future interest due date this being the end of each quarter	At each future interest due date this being the third of the month after the end of each quarter	At each future interest due date this being the third of the month after the end of each quarter
<i>Coupons/dividends</i>			
Fixed or floating dividend/coupons	Floating	Floating	Floating
Coupon rate and any related index	3-month Stibor plus 239bp	3-month Stibor plus 200bp	3-month Stibor plus 140bp
Existence of dividend stopper	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
Existence of step-up or other incentive to redeem	No	No	No
Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	N/A	N/A	N/A
If convertible, fully or partially	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
Write-down features	No	No	No
If write-down, write-down trigger(s)	N/A	N/A	N/A
If write-down, full or partial	N/A	N/A	N/A
If write-down, permanent or temporary	N/A	N/A	N/A
If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to all senior funding	Subordinate to all senior funding	Subordinate to all senior funding
Non-compliant transitioned features	No	No	No
If yes, specify non-compliant features	N/A	N/A	N/A

(1) State N/A if the question is not applicable

NOTE 30 Cont.

CAPITAL ADEQUACY ANALYSIS

Figures reported in this section refer to the minimum capital requirements under Pillar 1, according to the capital adequacy regulations applying at any time.

Capital requirement SEK m	31 Dec 2014	31 Dec 2013
Credit risk according to standardised approach	49	21
Credit risk according to IRB Approach	4,651	4,907
Operational risk	1,032	857
Total capital requirements	5,732	5,785
Adjustment according to Basel I floor	33,703	31,095
Capital requirements Basel I floor	39,435	36,880
Total own funds, Basel I floor	48,307	45,273
Capital adequacy analysis*	31 Dec 2014	31 Dec 2013
Common equity tier 1 ratio, CRD IV	39.0%	36.9%
Tier 1 ratio, CRD IV	42.4%	41.0%
Total capital ratio, CRD IV	67.1%	62.3%
Risk exposure amount CRD IV, SEK m	71,648	72,313
Own funds in relation to capital requirement according to Basel I floor	122%	122%
Institution-specific buffer requirement	2.5%	
of which capital conservation buffer requirement	2.5%	
Common equity tier 1 capital available for use as a buffer	34.5%	

* The historical comparison figures regarding the key ratios according to CRR/CRD IV for 2013 are estimates based on the company's interpretation of the regulations at the reporting date and assuming full implementation.

Credit risks IRB SEK m	Exposure amount		Average risk weight, %		Capital requirement	
	2014	2013	2014	2013	2014	2013
Corporate	288,301	273,836	7.7	10.0	1,777	2,184
of which repos and securities loans	-	-	-	-	-	-
of which other lending, foundation approach	486	525	7.6	9.8	3	4
of which other lending, advanced approach	287,815	273,311	7.7	10.0	1,774	2,180
– Large corporates	302	270	46.7	40.4	11	9
– Medium-sized companies	7,616	7,310	22.6	29.1	138	172
– Property companies	145,250	139,725	11.4	14.4	1,322	1,601
– Housing co-operative associations	134,647	126,006	2.8	4.0	303	398
Retail exposures	682,189	641,334	5.1	5.1	2,787	2,609
Small companies	6,636	6,475	16.4	22.0	87	114
Total IRB	977,126	921,645	6.0	6.7	4,651	4,907

Capital requirements, standardised SEK m	2014			2013		
	Exposure value	Average risk weight, %	Capital requirement	Exposure value	Average risk weight, %	Capital requirement
Sovereign and central banks	5,160	0.0	0	3,092	0.0	0
Municipalities	32,262	0.0	0	25,969	0.0	0
Institutions	49,202	0.0	0	35,984	0.0	0
Corporate	45	100.0	4	29	100.0	2
Retail	15	75.0	1	123	75.0	8
Property mortgages	-	-	-	290	35.0	8
Past due items	3	0.0	0	-	-	-
Other items	550	100.0	44	38	100.0	3
Total	87,237	0.7	49	65,525	0.4	21

Exposure amount by country broken down into volumes according to the IRB Approach and Standardised approach 2014

SEK m	IRB Approach	Standardised approach
Sweden	857,175	67,054
Denmark	23,044	2,142
Finland	32,674	17,922
Norway	64,233	119
Total	977,126	87,237

NOTE 30 Cont.

IRB-approved exposures by sector and counterparty type, broken down into exposure classes

Exposures SEK m	2014	
	of which SME Corp	
Retail exposures		
Private individuals	686,429	
Small companies	6,682	
Corporate exposures		
Housing co-operative associations	137,282	137,201
Property management	162,950	104,925
Manufacturing	123	103
Trading	356	306
Hotel and restaurant	547	540
Passenger and goods transport by sea	7	4
Other transport and communication	385	135
Construction	440	294
Electricity, gas and water	2,711	1,624
Agriculture, hunting and forestry	2,938	2,938
Other services	1,102	1,070
Holding, investment, insurance companies, mutual funds etc.	2,194	1,034
Other corporate lending	204	204
Institutional exposures	0	
Securitisation positions	0	
Total	1,004,350	

Exposures by country, broken down into corporate and retail exposures, 2014 SEK m	Corporate exposures	Retail exposures	
		Private individuals	Small companies
Sweden	281,670	588,267	5,847
Denmark	172	24,651	337
Finland	15,658	22,980	415
Norway	13,739	50,531	83
Total	311,239	686,429	6,682

Exposures broken down by maturity in accordance with the capital adequacy regulations (M). 2014 SEK m	Within 3 mths	3 mths to 1 yr	1 yr to 5 yrs	= 5 yrs
	Corporate exposures	21,660	0	94,192
Total	21,660	0	94,192	195,387

Exposures calculated using the standardised approach

Exposures by country, broken down into exposure classes 2014 SEK m	Sovereign and central banks	Municipalities	Institutions	Corporates	Households	Other items
	Sweden	-	4,613	43,681	1	-
Denmark	-	-	9	2	15	-
Finland	4,727	6,620	-	42	-	779
Norway	-	-	-	-	-	-
Total	4,727	11,233	43,690	45	15	929

NOTE 30 Cont.

Impaired and/or non-performing loans

Impaired and/or non-performing loans, by country 2014	Impaired loans				Non-performing loans which are not impaired loans
	Gross	Provisions	Net*	Of which non-performing	
SEK m					
Sweden	163	43	120	116	462
Denmark	-	-	-	-	-
Finland	12	-	12	12	103
Norway	-	-	-	-	42
Total	175	43	132	128	607

Impaired and/or non-performing loans, by country 2013	Impaired loans				Non-performing loans which are not impaired loans
	Gross	Provisions	Net*	Of which non-performing	
SEK m					
Sweden	271	48	223	216	754
Denmark	-	-	-	-	-
Finland	12	-	12	11	55
Norway	-	-	-	-	24
Total	283	48	235	227	833

Impaired and/or non-performing loans, by sector 2014	Impaired loans				Non-performing loans which are not impaired loans
	Gross	Provisions	Net*	Of which non-performing	
SEK m					
Private individuals	96	30	66	71	545
Housing co-operative associations	27	8	19	5	1
Property management	52	5	47	52	60
Manufacturing	-	-	-	-	1
Total	175	43	132	128	607

Impaired and/or non-performing loans, by sector 2013	Impaired loans				Non-performing loans which are not impaired loans
	Gross	Provisions	Net*	Of which non-performing	
SEK m					
Private individuals	124	36	88	95	707
Housing co-operative associations	26	9	17	0	1
Property management	133	3	130	132	125
Manufacturing	-	-	-	-	-
Total	283	48	235	227	833

* Carrying amount after specific provisions for individually assessed loans.

Stadshypotek is part of the banking group led by Handelsbanken and the requirement for information according to Pillar 3 in CRR/CRD IV is fulfilled by Handelsbanken's information according to Pillar 3, which is available on the website www.handelsbanken.com.

Recommended appropriation of profit and statement from the Board

In accordance with the balance sheet for Stadshypotek AB, the following profits after deduction for a paid Group contribution of SEK 5,600 million are at the disposal of the annual general meeting:

Retained earnings	SEK 9,327 million
Fair value fund	SEK 4,112 million
Profit for the year	SEK 6,773 million
Total	SEK 20,212 million

The Board proposes that the profits be carried forward to the next year.

When assessing the amount of the company's paid Group contribution, account has been taken of the nature of operations, their scope, consolidation requirements and risk-taking.

The Board's assessment is that the above distribution of profits is prudent and well-adapted to the operations as a going concern. Unrealised changes in value of assets and liabilities at fair value have had a net impact on equity of SEK 6,246 million.

The total capital exceeded the statutory minimum capital requirement by SEK 8,872 million, while common equity tier 1 capital exceeded the minimum requirement and the buffer requirement by SEK 22,948 million and the tier 1 capital by SEK 24,273 million.

We hereby declare that the consolidated accounts were prepared in accordance with international financial reporting standards as referred to in the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, that the parent company's annual accounts were prepared in accordance with sound accounting practices for credit market companies in Sweden, that the annual accounts and consolidated accounts give a fair presentation of the Group's and the parent company's financial position and performance, and that the statutory administration report provides a fair view of the parent company's and Group's operations, financial position and performance and describes material risks and uncertainties to which the parent company and other companies in the Group are exposed.

Stockholm, 3 February 2015

Håkan Sandberg
Chairman of the Board

Yonnie Bergqvist

Michael Bertorp

Olle Lindstrand

Anders Ohlner

Camilla Persson
Employee representative

Ulrica Stolt Kirkegaard
Chief Executive

Auditor's report

To the annual general meeting of the shareholders of Stadshypotek AB (publ)
Corporate identity no. 556459-6715

REPORT ON THE ANNUAL ACCOUNTS AND THE CONSOLIDATED ACCOUNTS

We have performed an audit of the annual accounts and the consolidated accounts of Stadshypotek AB (publ) for the year 2014.

Responsibilities of the Board of Directors and the Chief Executive for the annual accounts and the consolidated accounts

The Board of Directors and the Chief Executive are responsible for the preparation and fair presentation of the annual accounts in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and for the fair presentation of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies, and for such internal control as the Board of Directors and the Chief Executive deem necessary to be able to prepare annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

The responsibility of the auditors

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the annual accounts and the consolidated accounts are free from material misstatements. During the year, the internal auditing department of Handelsbanken has continuously examined the internal controls and accounts. We have received the reports that have been prepared. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Chief Executive, as well as evaluating the overall presentation of the annual accounts and the consolidated accounts.

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the parent company as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. A Corporate Governance Report has been prepared. The Administration Report and the Corporate Governance Report are consistent with the other parts of the annual accounts and the consolidated accounts.

We therefore recommend that the annual general meeting of shareholders adopt the income statement and balance sheet of the parent company and the Group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and the consolidated accounts, we have performed an audit of the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Chief Executive of Stadshypotek AB (publ) for the year 2014.

Responsibilities of the Board of Directors and the Chief Executive

The Board of Directors is responsible for the proposal for appropriations of the company's

profit or loss, and the Board of Directors and the Chief Executive are responsible for administration under the Companies Act and the Banking and Financing Business Act.

The responsibility of the auditors

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and the consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Chief Executive has any financial liabilities towards the company. We also examined whether any member of the Board of Directors or the Chief Executive has, in any other way, acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

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

Opinions

We recommend to the annual general meeting of shareholders that the profit be appropriated in accordance with the proposal in the Administration Report and that the members of the Board of Directors and the Chief Executive be discharged from liability for the financial year.

Stockholm, 12 February 2015

KPMG AB

Anders Bäckström
Authorised Public Accountant

Board, auditors and company management

BOARD OF STADSHYPOTEK AB

Board members

Håkan Sandberg

Executive Vice President of Handelsbanken
Chairman of the Board since 2006
Board member since 2002

Ulrica Stolt Kirkegaard

Chief Executive since 2014
Board member since 2014

Michael Bertorp

Senior Vice President
Board member since 2013

Yonnie Bergqvist

Executive Vice President of Handelsbanken
Board member since 2006

Olle Lindstrand

Senior Vice President of Handelsbanken
Board member since 2006

Anders Ohlner

Executive Vice President of Handelsbanken
Board member since 2014

Camilla Persson

Employee representative
Board member since 2011

AUDITORS OF STADSHYPOTEK AB

KPMG AB

Chief auditor: Anders Bäckström
Authorised Public Accountant, Stockholm

COMPANY MANAGEMENT

Ulrica Stolt Kirkegaard

Chief Executive
Employed since 2014

Heléne Boström

Accounting and Control
Employed since 2006

Christer Ericsson

Systems and Processes
Employed since 2006

Heléne Grönberg

Regional Bank Operations
Employed since 2012

Yvonne Orre

Credits
Employed since 2007

Lene Putten

Treasury
Employed at Handelsbanken
As of 1 January 2015:
Mattias Lidgren
Employed at Handelsbanken

Lolou Sörenson

Personnel
Employed at Handelsbanken

Pär Tysk

International co-ordinator
Employed since 2014

Stadshypotek's bond tables

Covered bonds, SEK						Outstanding
Loan no		Interest rate, %	Loan date	Interest due dates	Maturity date	amount, SEK '000
1576		6.00%	050318	03-18	150318	36,301,000
1577		6.00%	041216	12-16	151216	69,814,000
1578		6.00%	040921	09-22	160921	66,157,000
1579		6.00%	040621	06-23	170621	63,491,000
1580		3.00%	120321	03-21	180321	53,050,000
1581		3.00%	121219	12-19	181219	40,150,000
1582		2.50%	130918	09-18	190918	24,800,000
1583		4.25%	090617	06-17	200617	11,182,000
1586		4.50%	090921	09-22	220921	3,096,000
EMTN CB		3M Stibor+0.23%	120320	02-03, 05-06, 08-04, 11-03	150203	500,000
EMTN CB		3M Stibor+0.33%	120511	03-03, 06-03, 09-03, 12-03	150603	2,000,000
EMTN CB		3M Stibor+0.34%	120607	03-03, 06-03, 09-03, 12-03	150903	2,500,000
EMTN CB		3M Stibor+0.23%	120830	02-03, 05-06, 08-04, 11-03	151103	3,500,000
EMTN CB		3M Stibor+0.21%	130208	02-03, 05-06, 08-04, 11-03	160203	5,000,000
EMTN CB		3.25%	111003	11-03	261103	2,000,000
2001		3M Stibor+0.06%	130521	02-04, 05-05, 08-04, 11-04	150504	1,000,000
2002		3M Stibor+0.11%	130903	03-03, 06-03, 09-03, 12-03	160303	7,000,000
2003		3M Stibor+0.12%	131016	03-03, 06-03, 09-03, 12-03	160603	4,500,000
2004		3M Stibor+0.11%	140128	05-05, 08-04, 11-03	170203	5,000,000
2005		3M Stibor+0.07%	140526	08-04, 11-03	170503	5,000,000
2006		1.81%	141125		251125	400,000
2007		3M Stibor+0.05%	141218		171201	5,000,000
Total						411,441,000

Covered bonds, foreign currency							Outstanding
Currency	Amount	Interest rate, %	Loan date	Interest due dates	Maturity date		amount, SEK '000
AUD	450,000,000	3M BBSW +1.05%	121010	01-10, 04-10, 07-10, 10-10	171010		2,874,060
AUD	300,000,000	4.25%	121010	04-10, 10-10	171010		1,916,040
CHF	80,000,000	1.83%	090902	03-03	150302		630,372
CHF	225,000,000	2.01%	100324	12-01	161201		1,772,921
EUR	1,250,000,000	2.75%	100414	04-30	150430		11,850,375
EUR	1,500,000,000	3.38%	110511	05-12	160511		14,220,450
EUR	1,500,000,000	1.88%	120321	03-21	170321		14,220,450
EUR	1,000,000,000	1.00%	130319	06-19	180619		9,480,300
EUR	1,000,000,000	1.63%	131030	10-30	201030		9,480,300
EUR	1,250,000,000	1.00%	140401		190401		11,850,375
EUR	300,000,000	3M Euribor+0.12%	140523	08-26, 11-24	190523		2,844,090
EUR	1,250,000,000	0.63%	141110		211110		11,850,375
GBP	350,000,000	3M Libor+0.23%	130215	02-17, 05-15, 08-15, 11-17	160215		4,239,480
NOK	3,000,000,000	3M Nibor+0.51%	120123	01-23, 04-23, 07-23, 10-23	150123		3,151,650
NOK	4,000,000,000	3M Nibor+0.69%	120313	03-13, 06-13, 09-15, 12-15	170313		4,202,200
NOK	4,500,000,000	3M Nibor+0.72%	120516	02-17, 05-16, 08-18, 11-17	190516		4,727,475
NOK	1,000,000,000	3M Nibor+0.24%	120919	03-17, 06-16, 09-16, 12-16	150916		1,050,550
NOK	4,000,000,000	3M Nibor+0.42%	130312	03-12, 06-12, 09-12, 12-12	180312		4,202,200
NOK	3,000,000,000	3M Nibor+0.28%	140605	09-05, 12-05	200605		3,151,650
USD	1,250,000,000	1.25%	130523	05-23, 11-24	180523		9,749,688
USD	1,500,000,000	1.88%	121002	04-02, 10-02	191002		11,699,625
Total							139,164,626

Total covered bonds		Change during	Outstanding
		2014, SEK '000	amount SEK '000
Covered bonds, SEK		-11,664,000	411,441,000
Covered bonds, foreign currency		27,969,302	139,164,626
Retail bonds		-50,383	-
Total		16,254,919	550,605,626

Five-year overview

Income statement SEK m	2014	2013	2012	2011	2010
Interest income	26,946	29,023	32,163	29,869	20,353
Interest expense	-16,706	-19,592	-24,111	-23,625	-14,852
Net interest income	10,240	9,431	8,052	6,244	5,501
Net fee and commission income	-7	-5	-7	-12	-18
Net gains/losses on financial transactions	7	70	150	19	129
Total income	10,240	9,496	8,195	6,251	5,612
Expenses	-1,521	-1,378	-288	-269	-242
Profit before loan losses	8,719	8,118	7,907	5,982	5,370
Loan losses	22	-22	-21	12	38
Operating profit	8,741	8,096	7,886	5,994	5,408
Tax	-1,968	-1,805	-2,085	-1,587	-1,423
Profit for the year	6,773	6,291	5,801	4,407	3,985
Balance sheet SEK m	2014	2013	2012	2011	2010
Assets					
Loans to credit institutions	10,148	7,966	5,758	9,435	11,092
Loans to the public	1,018,533	955,251	891,200	843,929	758,855
Value change of interest-hedged item in portfolio hedge	70	96	5,271	4,490	4,744
Derivative instruments	24,960	15,235	20,708	18,211	17,348
Other assets	5,146	6,111	3,024	3,962	4,642
Total assets	1,058,857	984,659	925,961	880,027	796,681
Liabilities and equity					
Due to credit institutions	405,074	337,097	286,294	267,353	294,417
Issued securities	579,485	572,746	565,865	546,149	448,200
Derivative instruments	4,063	8,186	11,988	7,765	8,189
Other liabilities	17,167	18,707	19,174	16,693	12,644
Subordinated liabilities	20,700	21,200	16,700	16,700	8,800
Equity	32,368	26,723	25,940	25,367	24,431
Total liabilities and equity	1,058,857	984,659	925,961	880,027	796,681

Facts about the company

Registered name: Stadshypotek AB (publ)

Corporate identity no: 556459-6715

Date of registration: 23 December 1992

Registered office: Stockholm

Share capital: 4,050,000,000 registered on 22 December 1997. The lowest and highest permissible share capital according to the Articles of Association is SEK 2,000,000,000 and SEK 8,000,000,000 respectively.

Number of shares: 162,000 shares with a quotient value of SEK 25,000 per share.

Number of votes per share: Each share carries one vote.

Convertible debt, etc.: The company has not issued any debt instruments which can be converted into or exchanged for shares or which entail the right to subscribe to new shares.

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

Stadshypotek AB

Office address: Torsgatan 12

Postal address: SE-103 70 Stockholm, Sweden

Tel: +46 (0)8 701 54 00, Fax +46 (0)8 701 55 40

Website: www.stadshypotek.se

