

2011

Highlights of Annual Report January–December



Highlights of Stadshypotek's Annual Report

January–December 2011

SUMMARY

- Income for the period January – December was SEK 6,251 million (5,612). Income for the fourth quarter was SEK 1,735 million (1,573). Income for the third quarter was SEK 1,600 million.
- Operating profit for the period January – December was SEK 5,994 million (5,408). Operating profit for the fourth quarter was SEK 1,641 million (1,507). Operating profit for the third quarter was SEK 1,540 million.
- Recoveries exceeded loan losses for the year.
- Lending increased during the year by SEK 85 billion (74) to SEK 844 billion.

Highlights of Stadshypotek's Annual Report January–December 2011

FINANCIAL PERFORMANCE

Full year 2011 compared with full year 2010

Operating profits in 2011 rose by SEK 586 million to SEK 5,994 million (5,408). Net interest income amounted to SEK 6,244 million (5,501), with the branch in Norway accounting for SEK 396 million (438), the branch in Denmark, established on 1 May 2010, accounting for SEK 89 million (24) and the branch in Finland, established on 1 May 2011, accounting for SEK 79 million (–). Excluding the branches, net interest income rose by 13 per cent or SEK 641 million, which was due to an increase in the lending volume and to improved margins as a result of the company's good position in the funding market. However, net interest income was affected negatively by SEK 119 million compared with the previous year, since from 1 January 2011, the fee to the Swedish Stabilisation Fund is no longer halved. Net gains/losses on financial items at fair value amounted to SEK 19 million (129).

Expenses rose by SEK 27 million to SEK 269 million (242), primarily due to increased costs for purchased services from the parent company and IT expenses related to the branch in Finland. Recoveries exceeded new loan losses and the net total was SEK 12 million (38). Gross impaired loans amounted to SEK 110 million (108). SEK 57 million (49) of the impaired loans were non-performing loans, while SEK 53 million (59) were loans on which the borrowers pay interest and amortisation, but which are considered impaired. There were also non-performing loans of SEK 906 million (509) that are not classed as being impaired loans. After deduction for a specific provision totalling SEK –44 million (–41) and a collective provision of SEK –6 million (–6) for probable loan losses, net impaired loans totalled SEK 60 million (61).

Q4 2011 compared with Q3 2011

Stadshypotek's operating profit for the fourth quarter of 2011 increased by SEK 101 million to SEK 1,641 million (1,540). Net interest income increased by SEK 105 million to SEK 1,714 million (1,609). SEK 91 million (107) of the net interest income was attributable to the branch in Norway, SEK 25 million (25) to the branch in Denmark and SEK 46 (32) million to the branch in Finland. Excluding these branches, net interest income thus rose by SEK 107 million, mainly due to higher margins due to the company's good funding position, but also as a result of an increase in lending volume. Net gains/losses on financial items at fair value amounted to SEK 23 million (–5). Expenses increased by SEK 25 million to SEK 85 million (60), which mainly consisted of an increase of SEK 22 million in administrative expenses. The increase was mainly due to expenses related to the updating of existing international loan programmes and the establishment of loan programmes in Australia and Norway for covered bonds and IT expenses related to the branch in Finland.

GROWTH IN LENDING

Loans to the public increased during the year by SEK 85 billion (74) to SEK 844 billion. On 1 August, Stadshypotek's branch in Finland acquired a loan portfolio of approximately EUR 3 billion from the parent company's branch in Finland, which corresponds to approximately SEK 28 billion of the increase in lending during the year. Stadshypotek's share of the private market in Sweden was approximately 25 per cent (25) and its share of the corporate market in Sweden was approximately 33 per cent (32).

CAPITAL ADEQUACY

The capital ratio according to Basel II was 58.1 per cent (48.9), while the Tier 1 ratio calculated according to Basel II was 40.5 per cent (36.8). Further information on capital adequacy is provided in the 'Capital base and capital requirement' section on page 15.

RATING

Stadshypotek's rating remained unchanged during the year, with a stable outlook.

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

Stockholm 15 February 2012

Per Beckman
Chief Executive

Stadshypotek Group

Income statement – Group SEK m		Q4 2011	Q4 2010	Change %	Q3 2011	Change %	Jan-Dec 2011	Jan-Dec 2010	Change %
Interest income		8,216	5,791	42	7,858	5	29,869	20,353	47
Interest expense		-6,502	-4,305	51	-6,249	4	-23,625	-14,852	59
Net interest income	Note 3	1,714	1,486	15	1,609	7	6,244	5,501	14
Net gains/losses on financial items at fair value	Note 4	23	92	-75	-5	-	19	129	-85
Fee and commission income		3	2	50	3	0	12	10	20
Fee and commission expense		-5	-7	-29	-7	-29	-24	-28	-14
Net fee and commission income		-2	-5	-60	-4	-50	-12	-18	-33
Total income		1,735	1,573	10	1,600	8	6,251	5,612	11
Staff costs		-14	-13	8	-11	27	-49	-49	0
Other administrative expenses	Note 5	-68	-59	15	-46	48	-208	-188	11
Depreciation and amortisation		-3	-2	50	-3	0	-12	-5	-
Total expense		-85	-74	15	-60	42	-269	-242	11
Profit before loan losses		1,650	1,499	10	1,540	7	5,982	5,370	11
Net loan losses	Note 6	-9	8	-	0	-	12	38	-68
Operating profit		1,641	1,507	9	1,540	7	5,994	5,408	11
Tax		-434	-397	9	-405	7	-1,587	-1,423	12
Profit for the period		1,207	1,110	9	1,135	6	4,407	3,985	11
Net earnings per share, before and after dilution, SEK		7,456	6,856		7,004		27,204	24,600	

Statement of comprehensive income – Group SEK m		Q4 2011	Q4 2010	Change %	Q3 2011	Change %	Jan-Dec 2011	Jan-Dec 2010	Change %
Profit for the period		1,207	1,110	9	1,135	6	4,407	3,985	11
Translation differences for the period		-26	3	-	-1	-	-7	-47	-85
Total comprehensive income for the period		1,181	1,113	6	1,134	4	4,400	3,938	12

Quarterly performance – Group SEK m		Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Interest income		8,216	7,858	7,247	6,548	5,791
Interest expense		-6,502	-6,249	-5,764	-5,110	-4,305
Net interest income		1,714	1,609	1,483	1,438	1,486
Net gains/losses on financial items at fair value		23	-5	-30	31	92
Net fee and commission income		-2	-4	-2	-4	-5
Total income		1,735	1,600	1,451	1,465	1,573
Staff costs		-14	-11	-12	-12	-13
Other administrative expenses		-68	-46	-48	-46	-59
Depreciation and amortisation		-3	-3	-3	-3	-2
Total expense		-85	-60	-63	-61	-74
Profit before loan losses		1,650	1,540	1,388	1,404	1,499
Net loan losses		-9	0	11	10	8
Operating profit		1,641	1,540	1,399	1,414	1,507

Summary balance sheet – Group SEK m		31 Dec 2011	31 Dec 2010
Assets			
Loans to credit institutions		9,435	11,092
Loans to the public	Note 7	843,929	758,855
Value change of interest hedged item in portfolio hedge		4,490	4,744
Derivative instruments	Note 8	18,211	17,348
Other assets		3,962	4,642
Total assets		880,027	796,681
Liabilities and equity			
Due to credit institutions		267,353	294,417
Issued securities		546,149	448,200
Derivative instruments	Note 8	7,765	8,189
Other liabilities and provisions		16,693	12,644
Subordinated liabilities		16,700	8,800
Total liabilities		854,660	772,250
Equity		25,367	24,431
Total liabilities and equity		880,027	796,681

Statement of changes in equity – group SEK m	Share capital*	Translation reserve	Retained earnings	Total
Equity 31 December 2009	4,050	10	17,632	21,692
Profit for the year			3,985	3,985
Other comprehensive income		-47		-47
Total comprehensive income for the year		-47	3,985	3,938
Group contributions provided			-1,628	-1,628
Tax effect on group contributions			429	429
Equity 31 December 2010	4,050	-37	20,418	24,431
Profit for the year			4,407	4,407
Other comprehensive income		-7		-7
Total comprehensive income for the year		-7	4,407	4,400
Group contributions provided			-4,700	-4,700
Tax effect on group contributions			1,236	1,236
Equity at 31 December 2011	4,050	-44	21,361	25,367

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

Summary cash flow statement – Group SEK m	Jan-Dec 2011	Jan-Dec 2010
Cash flow from operating activities	24,894	8,175
Cash flow from investing activities	-27,881	-4,099
Cash flow from financing activities	6,272	-3,500
Cash flow for the year	3,285	576
Liquid funds at beginning of year	1,049	490
Cash flow for the year	3,285	576
Exchange rate difference on liquid funds	-15	-17
Liquid funds at end of year	4,319	1,049
Liquid funds consist of funds available with banks and equivalent institutions, excluding funds in blocked account.		
Liquid funds with banks and equivalent institutions	4,319	1,049
Funds in blocked account with banks relating to issuance of covered bonds	5,116	10,043
Loans to credit institutions	9,435	11,092

Acquisition of mortgage loans

As of 1 August 2011, Stadshypotek's branch in Finland (Handelsbanken Asuntoluottopankki) acquired mortgage loans from Svenska Handelsbanken's branch in Finland. The acquired assets had the following carrying amounts.

Loans to the public	27,843	
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Acquisition of mortgage loans

As of 1 October, Stadshypotek's branch in Denmark (Handelsbanken Kredit, branch of Stadshypotek AB, Sweden) acquired the mortgage loans of Svenska Handelsbanken's branch in Denmark. The acquired assets had the following carrying amounts.

Loans to the public	-	4,099
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Key figures	Q4 2011	Q4 2010	Q3 2011	Jan-Dec 2011	Jan-Dec 2010
Net interest margin, %	0.78	0.75	0.76	0.75	0.72
C/I ratio before loan losses, %	4.9	4.7	3.8	4.3	4.3
C/I ratio after loan losses, %	5.4	4.2	3.8	4.1	3.6
Return on equity, %	17.1	17.7	16.8	19.8	16.2
Capital ratio according to Basel II, %	58.1	48.9	55.2	58.1	48.9
Tier 1 ratio according to Basel II, %	40.5	36.8	37.7	40.5	36.8

TURNOVER OF OWN DEBT INSTRUMENTS

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

Turnover during the period was as follows:

Issued (sold)	SEK 220 billion (261)
Repurchased	SEK 30 billion (71)
Matured	SEK 78 billion (165)

Segment information January–December SEK m	2011			2010		
	Private	Corporate	Group	Private	Corporate	Group
Net interest income	4,607	1,637	6,244	3,836	1,665	5,501
Net gains/losses on financial items at fair value	14	5	19	88	41	129
Net fee and commission income	-9	-3	-12	-12	-6	-18
Total income	4,612	1,639	6,251	3,912	1,700	5,612
Expenses	-202	-67	-269	-173	-69	-242
Profit before loan losses	4,410	1,572	5,982	3,739	1,631	5,370
Loan losses	9	3	12	21	17	38
Operating profit	4,419	1,575	5,994	3,760	1,648	5,408
Loans to the public	581,665	262,270	843,935	524,515	234,340	758,855

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

Geographical breakdown of business segments SEK m	Jan-Dec 2011		Jan-Dec 2010	
	Income	Total assets	Income	Total assets
Sweden	5,685	786,604	5,151	741,436
Norway	397	54,466	439	48,676
Denmark	89	10,005	22	6,569
Finland	80	28,952		
Group	6,251	880,027	5,612	796,681

Parent company

Income statement – parent company SEK m	Q4 2011	Q4 2010	Change %	Q3 2011	Change %	Jan–Dec 2011	Jan–Dec 2010	Change %
Interest income	8,216	5,791	42	7,858	5	29,869	20,353	47
Interest expense	-6,502	-4,305	51	-6,249	4	-23,625	-14,852	59
Net interest income	1,714	1,486	15	1,609	7	6,244	5,501	14
Fee and commission income	3	2	50	3	0	12	10	20
Fee and commission expense	-5	-7	-29	-7	-29	-24	-28	-14
Net fee and commission income	-2	-5	-60	-4	-50	-12	-18	-33
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Total income	1,735	1,573	10	1,600	8	6,251	5,612	11
Staff costs	-14	-13	8	-11	27	-49	-49	0
Other administrative expenses	-68	-59	15	-46	48	-208	-188	11
Depreciation and amortisation	-3	-2	50	-3	0	-12	-5	-
Total expense	-85	-74	15	-60	42	-269	-242	11
Profit before loan losses	1,650	1,499	10	1,540	7	5,982	5,370	11
Net loan losses	-9	8	-	0	-	12	38	-68
Operating profit	1,641	1,507	9	1,540	7	5,994	5,408	11
Tax	-434	-397	9	-405	7	-1,587	-1,423	12
Profit for the period	1,207	1,110	9	1,135	6	4,407	3,985	11

Statement of comprehensive income – parent company SEK m	Q4 2011	Q4 2010	Change %	Q3 2011	Change %	Jan–Dec 2011	Jan–Dec 2010	Change %
Profit for the period	1,207	1,110	9	1,135	6	4,407	3,985	11
Translation differences for the period	-26	3	-	-1	-	-7	-47	-85
Total comprehensive income for the period	1,181	1,113	6	1,134	4	4,400	3,938	12

Summary balance sheet – parent company SEKm		31 Dec 2011	31 Dec 2010
Assets			
Loans to credit institutions		9,435	11,092
Loans to the public	Note 7	843,929	758,855
Value change of interest hedged item in portfolio hedge		4,490	4,744
Derivative instruments	Note 8	18,211	17,348
Other assets		3,962	4,642
Total assets		880,027	796,681
Liabilities and equity			
Due to credit institutions		267,353	294,417
Issued securities		546,149	448,200
Derivative instruments	Note 8	7,765	8,189
Other liabilities and provisions		16,693	12,644
Subordinated liabilities		16,700	8,800
Total liabilities		854,660	772,250
Equity		25,367	24,431
Total liabilities and equity		880,027	796,681
Memorandum items			
Pledged assets for own debt*		594,238	498,884
Other pledged assets		None	None
Contingent liabilities		None	None
Undertakings		4,077	4,419

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

Notes

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

NOTE 1 Accounting policies

Information relating to the Group has been stated in accordance with IAS 34. The contents of the interim report also comply with the applicable provisions of the Swedish Act on Annual Reports in Credit Institutions and Investment Firms, the Swedish Financial Supervisory Authority's regulations and general guidelines FFFS 2008:25 on Annual Reports in Credit Institutions and Investment Firms and recommendations from the Swedish Financial Reporting Board.

The report for the parent company has been prepared in accordance with the Swedish Act on Annual Reports in Credit Institutions and Investment Firms and the Swedish Financial Supervisory Authority's regulations and general guidelines FFFS 2008:25 on Annual Reports in Credit Institutions and Investment Firms.

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

The Group's and parent company's interim reports have been prepared in accordance with the same accounting policies and calculation methods that were applied in the Annual Report for 2010.

NOTE 2 Information

RISK

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 borrower 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 policy documents and instructions describing how various risks should be managed and reported. These policy documents and instructions have been based on the policy documents that the Handelsbanken Board has adopted for managing and reporting risks within the Handelsbanken Group as a whole. Stadshypotek's risk management aims to safeguard the strict approach to risk established by the board.

Stadshypotek's lending operations and treasury function are integrated with those of Handelsbanken, which means that Stadshypotek's lending is carried out via the Bank's branch network. A collaboration agreement regulates the overall relationship between the parties and specifies 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 culture is centred around the principle of delegating responsibility to the employees who make business

decisions. The person who is most familiar with the customer and the market conditions is also the best person to assess the risk. In Handelsbanken's decentralised organisation, the positive and negative outcomes of each branch are evaluated, which provides a natural risk limitation and caution in business operations.

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

There is also risk control independent of the treasury function at Stadshypotek, which is responsible for the regular follow-up and monitoring of market risks, liquidity risks and counterparty risks. The risk control function carries out daily measurements and checks to ensure that risk exposure remains within the set limits. Limit utilisation is reported internally within the company, and to the parent company's central risk control function. 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 the 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.

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

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

At 31 December 2011, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -129 million (-123), which was well within the limit set by the board.

CAPITAL-RELATED MATTERS

At the start of the transition to Basel II, Stadshypotek entered into a guarantee facility relating to mortgages for housing cooperative properties, to speed up the transition. In June 2008, Stadshypotek utilised the guarantee, which had a 0.15 percentage point effect on the Tier 1 ratio as at 31 December 2011. This transaction affects only capital adequacy in accordance with the transitional rules.

MATERIAL EVENTS AFTER BALANCE SHEET DATE

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

NOTE 3 Net interest income

SEK m	Q4 2011	Q4 2010	Change %	Q3 2011	Change %	Jan-Dec 2011	Jan-Dec 2010	Change %
Interest income								
Loans to the public	8,124	5,722	42	7,772	5	29,516	20,149	46
Loans to credit institutions	92	69	33	86	7	353	204	73
Total	8,216	5,791	42	7,858	5	29,869	20,353	47
Interest expense								
Due to credit institutions	-1,981	-1,215	63	-2,016	-2	-7,381	-3,419	-
Issued securities	-4,359	-3,705	18	-4,127	6	-16,260	-15,244	7
Subordinated liabilities	-119	-28	-	-117	2	-333	-66	-
Derivative instruments*	26	666	-96	63	-59	572	3,992	-86
Fee to the Swedish Stabilisation Fund	-63	-16	-	-48	-31	-202	-83	-
Other	-6	-7	-14	-4	-50	-21	-32	-34
Total	-6,502	-4,305	51	-6,249	4	-23,625	-14,852	59
Net interest income	1,714	1,486	15	1,609	7	6,244	5,501	14

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

NOTE 4 Net gains/losses on financial items at fair value

SEK m	Q4 2011	Q4 2010	Change %	Q3 2011	Change %	Jan-Dec 2011	Jan-Dec 2010	Change %
Hedge accounting, fair value hedges	4	86	-95	11	-64	-69	118	-
<i>of which hedged items</i>	-475	3,277	-	-4,129	-88	-3,604	1,967	-
<i>of which hedging instruments</i>	479	-3,191	-	4,140	-88	3,535	-1,849	-
Loans, valued at cost	51	64	-20	52	-2	174	327	-47
Financial liabilities, valued at cost	-23	-46	-50	0	-	-41	-260	-84
Derivatives not recognised as hedges	-9	-12	-25	-68	-87	-45	-56	-20
Total	23	92	-75	-5	-	19	129	-85

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. 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 5 Other administrative expenses

SEK m	Q4 2011	Q4 2010	Change %	Q3 2011	Change %	Jan-Dec 2011	Jan-Dec 2010	Change %
IT costs	-28	-24	17	-21	33	-94	-86	9
Cost of premises	-1	-1	0	-1	0	-4	-4	0
Purchased services	-23	-26	-12	-22	5	-86	-77	12
Other administrative expenses	-16	-8	-	-2	-	-24	-21	14
Total	-68	-59	15	-46	48	-208	-188	11

NOTE 6 Loan losses

SEK m	Q4 2011	Q4 2010	Change %	Q3 2011	Change %	Jan-Dec 2011	Jan-Dec 2010	Change %
Specific provision for individually assessed loans								
Provision for the period	-8	-8	0	-7	14	-16	-12	33
Wrote-back of previous provisions	2	9	-78	0	-	7	13	-46
Total	-6	1	-	-7	-14	-9	1	-
Collective provision								
Collective provision for individually assessed loans	-1	0	-	0	-	0	5	-100
Write-offs								
Actual loan losses for the period	-10	-9	11	-6	67	-31	-30	3
Utilised share of previous provisions	1	1	0	1	0	7	10	-30
Write-back of actual loan losses in previous years	7	15	-53	12	-42	45	52	-13
Total	-2	7	-	7	-	21	32	-34
Net loan losses	-9	8	-	0	-	12	38	-68

Impaired loans SEK m	31 Dec 2011	31 Dec 2010
Impaired loans	110	108
Specific provision for individually assessed loans	-44	-41
Collective provision for individually assessed loans	-6	-6
Net impaired loans	60	61
Proportion of impaired loans, %	0.01	0.01
Reserve ratio for impaired loans, %	39.8	38.4
Loan loss ratio, %	-0.00	-0.01
Non-performing loans which are not impaired loans	906	509

NOTE 7 Loans to the public

Loans to the public, by borrower category 31 December						
SEK m	2011			2010		
	Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses	Loans after provisions
Households	604,994	-22	604,972	547,969	-17	547,952
Public sector, municipal companies	25,706	-	25,706	21,208	-	21,208
Housing co-operative associations	110,529	-14	110,515	97,808	-15	97,793
Other legal entities	102,750	-8	102,742	91,917	-9	91,908
Total loans to the public, before collective provisions	843,979	-44	843,935	758,902	-41	758,861
Collective provision		-6	-6		-6	-6
Total loans to the public	843,979	-50	843,929	758,902	-47	758,855
of which in operations outside Sweden						
Households	76,266	-	76,266	47,641	-	47,641
Public sector, municipal companies	1,482	-	1,482	-	-	-
Housing co-operative associations	10,065	-	10,065	5,756	-	5,756
Other legal entities	3,858	-	3,858	1,724	-	1,724
Total loans to the public in operations outside Sweden	91,671	-	91,671	55,121	-	55,121

Loans to the public, by type of collateral 31 December						
SEK m	2011			2010		
	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	439,372	-14	439,358	402,388	-11	402,377
Housing co-operative apartments	130,983	-1	130,982	121,710	-1	121,709
Owner-occupied apartments*	11,325	-	11,325	429	-	429
Private market	581,680	-15	581,665	524,527	-12	524,515
Multi-family housing	203,814	-26	203,788	185,449	-26	185,423
Offices and commercial buildings	58,485	-3	58,482	48,926	-3	48,923
Corporate market	262,299	-29	262,270	234,375	-29	234,346
Total loans to the public, before collective provision	843,979	-44	843,935	758,902	-41	758,861
Collective provision		-6	-6		-6	-6
Total loans to the public	843,979	-50	843,929	758,902	-47	758,855
of which in operations outside Sweden						
Single-family housing	61,915	-	61,915	43,325	-	43,325
Housing co-operative apartments	4,335	-	4,335	3,896	-	3,896
Owner-occupied apartments*	11,325	-	11,325	429	-	429
Private market	77,575	-	77,575	47,650	-	47,650
Multi-family housing	13,665	-	13,665	6,998	-	6,998
Offices and commercial buildings	431	-	431	473	-	473
Corporate market	14,096	-	14,096	7,471	-	7,471
Total loans to the public in operations outside Sweden	91,671	-	91,671	55,121	-	55,121

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

At the Norwegian branch, a lending volume has been reclassified from owner-occupied apartments to housing co-operative apartments. The comparative figures have been changed and the impact on these is SEK 3,889 million as at 31 December 2010.

NOTE 7 Loans to the public, cont.

Non-performing loans by borrower category 31 December	2011		2010	
	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans
SEK m				
Households	770	48	486	40
Public sector, municipal companies	–	–	–	–
Housing co-operative associations	5	–	1	2
Other legal entities	131	9	22	7
Total	906	57	509	49
of which in operations outside Sweden				
Households	99	–	78	–
Public sector, municipal companies	–	–	–	–
Housing co-operative associations	–	–	–	–
Other legal entities	–	–	–	–
Total non-performing loans in operations outside Sweden	99	–	78	–

Non-performing loans by type of collateral 31 December	2011		2010	
	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans
SEK m				
Single-family housing	629	34	418	25
Housing co-operative apartments	118	2	63	3
Owner-occupied apartments*	20	–	–	–
Private market	767	36	481	28
Multi-family housing	120	14	26	19
Offices and commercial buildings	19	7	2	2
Corporate market	139	21	28	21
Total	906	57	509	49
of which in operations outside Sweden				
Single-family housing	72	–	75	–
Housing co-operative apartments	7	–	3	–
Owner-occupied apartments*	20	–	–	–
Private market	99	–	78	–
Multi-family housing	–	–	–	–
Offices and commercial buildings	–	–	–	–
Corporate market	–	–	–	–
Total non-performing loans in operations outside Sweden	99	–	78	–

* For a definition, see page 11.

NOTE 7 Loans to the public, cont.

Impaired loans by borrower category 31 December	2011			2010		
	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans
SEK m						
Households	63	-22	41	54	-17	37
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	35	-14	21	40	-15	25
Other legal entities	12	-8	4	14	-9	5
Total	110	-44	66	108	-41	67

Impaired loans by type of collateral 31 December	2011			2010		
	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans
SEK						
Single-family housing	44	-14	30	39	-11	28
Housing co-operative apartments	6	-1	5	5	-1	4
Owner-occupied apartments*	-	-	-	-	-	-
Private market	50	-15	35	44	-12	32
Multi-family housing	53	-27	26	60	-26	34
Offices and commercial buildings	7	-2	5	4	-3	1
Corporate market	60	-29	31	64	-29	35
Total	110	-44	66	108	-41	67

* For a definition, see page 11.

Impaired loans relate in their entirety to the Swedish operations. The reserved amount for probable losses in the tables showing impaired loans consists of a specific provision for individually assessed receivables.

NOTE 8 Derivative instruments

SEK m	Market value 31 Dec 2011	Market value 31 Dec 2010
Positive values		
Interest rate instruments	17,399	16,363
Currency instruments	812	985
Total	18,211	17,348
Negative values		
Interest rate instruments	2,614	1,374
Currency instruments	5,151	6,815
Total	7,765	8,189
Net	10,446	9,159

Stadshypotek uses fair value hedges 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 and currency risk on funding in foreign currency. The hedging instruments in these hedging packages consist of interest rate swaps and cross-currency interest rate swaps. 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). Interest rate swaps and currency swaps are also used as hedges for changes in market value without hedge accounting being applied.

Related-party transactions

Group claims/group liabilities	Group	
	31 Dec 2011	31 Dec 2010
SEK m		
BALANCE SHEET		
Group claims		
Loans to credit institutions	9,435	11,092
Derivative instruments	18,030	16,895
Other assets	55	49
Total	27,520	28,036
Group liabilities		
Due to credit institutions	263,341	292,559
Derivative instruments	7,403	8,008
Other liabilities	5,536	2,034
Subordinated loans	16,700	8,800
Total	292,980	311,401
INCOME STATEMENT		
Interest income	294	204
Interest expense	-6,990	-3,429
Fee and commission expense	-9	-12
Other administrative expenses	-180	-154
Total	-6,885	-3,391

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 Norway, Denmark and Finland respectively. 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 loans in excess of a certain amount, an advance examination of the case is to be conducted by Stadshypotek's credit department before the loan can be disbursed. Stadshypotek's treasury function is also integrated with Handelsbanken's treasury department. Functions necessary for management and control of the company remain within Stadshypotek. Those services which Handelsbanken performs on behalf of Stadshypotek are regulated in a collaboration agreement between the parties.

Most of the inter-company transactions are thus with the parent company, Handelsbanken. The services that Stadshypotek purchases from the parent company, which are included in other administrative expenses, consist primarily of IT services and the treasury function. As in previous years, no payments have been made to the parent company in respect of the services performed by the latter in relation to the sale and administration of mortgage loans. However, at Stadshypotek's branches outside Sweden, payments in line with market levels have been made to Handelsbanken's branches in the country in question for services performed on behalf of Stadshypotek in relation to the sale and administration of mortgage loans. In addition, inter-company transactions consist of funding from the parent company, derivative transactions and lending to the parent company.

Capital base and capital requirement

Capital base SEK m	31 Dec 2011	31 Dec 2010
Equity	25,367	24,431
Tier 1 capital contribution	3,000	-
Deduction for intangible assets	-37	-11
Special deduction for IRB institutions	-11	-119
Tier 1 capital	28,319	24,301
Perpetual subordinated loans	5,300	5,300
Dated subordinated loans	7,000	2,800
Special deduction for IRB institutions	-11	-119
Tier 2 capital	12,289	7,981
Capital base	40,608	32,282

Capital requirement SEK m	31 Dec 2011	31 Dec 2010
Credit risk according to standardised approach	20	22
Credit risk according to IRB approach	4,918	4,669
Operational risk	655	595
Total capital requirement according to Basel II	5,593	5,286
Adjustment according to transitional rules	26,894	23,227
Capital requirement according to Basel II, transitional rules	32,487	28,513
Risk-weighted assets in accordance with transitional rules	406,091	356,413
Risk-weighted assets according to Basel II (capital requirement/8%)	69,913	66,075

Capital adequacy analysis	31 Dec 2011	31 Dec 2010
Capital requirement in Basel II compared with transitional rules	17%	19%
Capital ratio according to Basel II*	58.1%	48.9%
Capital ratio according to transitional rules*	10.0%	9.1%
Tier 1 ratio according to Basel II*	40.5%	36.8%
Tier 1 ratio according to transitional rules*	7.0%	6.8%
Capital base in relation to capital requirement Basel II*	726%	611%
Capital base in relation to capital requirement according to transitional rules*	125%	113%

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

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

Credit risk 31 December 2011 SEK m	Standardised approach	IRB approach		
	Capital requirement	Exposure after credit risk protection (EAD)	Average risk weight	Capital requirement
Institutions	7	-	-	-
Companies	-	226,311	13.1%	2,373
<i>advanced approach</i>		225,251	13.0%	2,344
<i>foundation approach</i>		1,060	17.9%	29
Households	10	586,238	5.4%	2,545
Other	3	-	-	-
Total	20	812,549	7.6%	4,918

Credit risk 31 December 2010 SEK m	Standardised approach	IRB approach		
	Capital requirement	Exposure after credit risk protection (EAD)	Average risk weight	Capital requirement
Institutions	12	-	-	-
Companies	-	207,785	16.1%	2,671
<i>advanced approach</i>		205,227	16.0%	2,635
<i>foundation approach</i>		2,558	17.9%	36
Households	9	529,466	4.7%	1,998
Other	1	-	-	-
Total	22	737,251	7.9%	4,669

Facts about the company

Registered name: Stadshypotek AB (publ).

Corporate identity number: 556459-6715.

Ownership: A subsidiary of Svenska Handelsbanken AB (publ), corporate identity number 502007-7862. The Bank publishes consolidated accounts in which Stadshypotek is included.

The next interim report: will be published on 26 April 2012.

The Annual Report: will be available on Stadshypotek's website (www.stadshypotek.se) in the middle of March.

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

