

Highlights of Stadshypotek's Annual Report

January-December

2015

Highlights of Stadshypotek's Annual Report

January-December 2015

Income totalled SEK 11,756m (10,240).

Operating profit increased by SEK 1,975m and totalled SEK 10,716m (8,741).

Net loan losses totalled SEK 2m (22) as recovered loan losses exceeded new loan losses.

Profit after tax amounted to SEK 8,322m (6,773).

Loans to the public increased by 6%, or SEK 64bn, to SEK 1,083bn (1,019).

Administrative expenses decreased by SEK 459m and amounted to SEK -963m (-1,422).

Highlights of Stadshypotek's Annual Report January–December 2015

JANUARY–DECEMBER 2015 COMPARED WITH JANUARY–DECEMBER 2014

Stadshypotek's operating profit increased by 23%, or SEK 1,975m, to SEK 10,716m (8,741). Net interest income grew by SEK 1,516m to SEK 11,756m (10,240). Of the net interest income, SEK 875m (1,014) was attributable to the branch in Norway, SEK 417m (398) to the branch in Finland and SEK 277m (221) to the branch in Denmark. Excluding the branches, net interest income increased by SEK 1,580m. This increase was primarily due to lower funding costs and higher lending volumes. The decrease in net interest income at the Norwegian branch was attributable to lower margins for both the private and corporate markets, although this was offset slightly by an increase in lending volumes. The 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. Currency effects also caused branches' net interest income to decrease by SEK 16m. Net gains/losses on financial transactions increased to SEK 29m (7).

Expenses decreased by SEK 456m to SEK -1,065m (-1,521), mainly due to a lower level of sales compensation paid to the parent company for the services performed by the branch operations on behalf of Stadshypotek in relation to the sale and administration of mortgage loans. This reduction was due to further improvements to IT systems and processes within Swedish regional bank operations.

Net loan losses totalled SEK 2m (22) as recovered loan losses exceeded new loan losses.

LENDING

Loans to the public increased by 6%, or SEK 64bn, and stood at SEK 1,083bn (1,019). In Sweden, loans to the public increased by 7%, or SEK 58bn, to SEK 937bn (879). Loans to the private market in Sweden increased by 8%, or SEK 47bn, to SEK 624bn (577).

The credit quality of lending operations remains very good. Impaired loans, before deduction of the provision for probable loan losses, decreased by SEK 66m and totalled SEK 109m (175). Of this amount, non-performing loans accounted for SEK 66m (128), while SEK 43m (47) related to loans on which the borrowers pay interest and amortisation, but which are nevertheless considered impaired. There were also non-performing loans of SEK 338m (607) that are not classed as being impaired loans. After deductions for specific provisions totalling SEK -32m (-43) and collective provisions of SEK -5m (-4) for probable loan losses, impaired loans totalled SEK 72m (128).

FUNDING

Issues made under Stadshypotek's Swedish covered bond programme totalled SEK 112.8bn (111.1). During the year, a nominal volume totalling SEK 115.3bn (110.5) matured or was repurchased. In Norway, bonds to the value of NOK 1.5bn (6.7) were issued during the year. Issues of covered bonds under the EMTCN programme totalled EUR 1.25bn (2.8) and GBP 345m (0). Issues made under the US 144A programme totalled USD 1bn (0). During the year, bonds to the value of EUR 1.25bn, CHF 80m, GBP 700m, NOK 4bn and SEK 8.8bn matured.

CAPITAL ADEQUACY

The total capital ratio according to CRD IV was 67.8% (67.1) while the common equity tier 1 ratio calculated according to CRD IV was 40.2% (39.0). Further information on capital adequacy is provided in the 'Own funds and capital requirement' section on page 20.

RATING

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

Income statement

SEK m	Jul-Dec 2015	Jul-Dec 2014	Change %	Full year 2015	Full year 2014	Change %
Interest income	10,415	13,060	-20	21,884	26,946	-19
Interest expense	-4,527	-7,647	-41	-10,128	-16,706	-39
Net interest income	5,888	5,413	9	11,756	10,240	15
Fee and commission income	6	7	-14	14	14	0
Fee and commission expense	-10	-11	-9	-20	-21	-5
Net fee and commission income	-4	-4	0	-6	-7	-14
Net gains/losses on financial transactions	-30	-75	-60	29	7	314
Total income	5,854	5,334	10	11,779	10,240	15
Staff costs	-47	-44	7	-89	-86	3
Other administrative expenses	-468	-713	-34	-963	-1,422	-32
Depreciation and amortisation	-6	-7	-14	-13	-13	0
Total expenses	-521	-764	-32	-1,065	-1,521	-30
Profit before loan losses	5,333	4,570	17	10,714	8,719	23
Net loan losses	-1	26	-	2	22	-91
Operating profit	5,332	4,596	16	10,716	8,741	23
Tax	-1,191	-1,054	13	-2,394	-1,968	22
Profit for the period	4,141	3,542	17	8,322	6,773	23
Net earnings per share, before and after dilution, SEK	25,562	21,865		51,370	41,809	

Statement of comprehensive income

SEK m	Jul-Dec 2015	Jul-Dec 2014	Change %	Full year 2015	Full year 2014	Change %
Profit for the period	4,141	3,542	17	8,322	6,773	23
Other comprehensive income						
Items that may subsequently be reclassified to the income statement						
Cash flow hedges	-123	2,360	-	-695	5,543	-
Translation differences for the period	-239	31	-	-329	149	-
Taxes on items that may subsequently be reclassified to the income statement						
- cash flow hedges	27	-520	-	153	-1,220	-
Total comprehensive income for the period	3,806	5,413	-30	7,451	11,245	-34

Half-yearly performance

SEK m	Jul-Dec 2015	Jan-Jun 2015	Jul-Dec 2014	Jan-Jun 2014	Jul-Dec 2013
Interest income	10,415	11,469	13,060	13,886	14,426
Interest expense	-4,527	-5,601	-7,647	-9,059	-9,634
Net interest income	5,888	5,868	5,413	4,827	4,792
Net fee and commission income	-4	-2	-4	-3	-2
Net gains/losses on financial transactions	-30	59	-75	82	-27
Total income	5,854	5,925	5,334	4,906	4,763
Staff costs	-47	-42	-44	-42	-41
Other administrative expenses	-468	-495	-713	-709	-686
Depreciation and amortisation	-6	-7	-7	-6	-7
Total expenses	-521	-544	-764	-757	-734
Profit before loan losses	5,333	5,381	4,570	4,149	4,029
Net loan losses	-1	3	26	-4	-18
Operating profit	5,332	5,384	4,596	4,145	4,011

Condensed balance sheet

SEK m		31 Dec 2015	31 Dec 2014
Assets			
Loans to credit institutions		10,516	10,148
Loans to the public	Note 7	1,082,659	1,018,533
Value change of interest-hedged item in portfolio hedge		28	70
Derivative instruments	Note 8	20,514	24,960
Other assets		2,714	5,146
Total assets		1,116,431	1,058,857
Liabilities and equity			
Due to credit institutions		472,238	405,074
Issued securities	Note 9	568,416	579,485
Derivative instruments	Note 8	4,145	4,063
Other liabilities		18,316	17,167
Subordinated liabilities		20,700	20,700
Total liabilities		1,083,815	1,026,489
Equity		32,616	32,368
Total liabilities and equity		1,116,431	1,058,857
Memorandum items			
Collateral pledged for own debt*		622,726	628,244
Other pledged assets		None	None
Contingent liabilities		None	None
Undertakings		2,178	2,164

* Assets pledged 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 of up to 75% of the market value, as well as office and commercial properties with a loan-to-value ratio of up to 60% of the market value, and additional collateral in the form of cash funds on a blocked account.

Statement of changes in equity

Jan-Dec 2014 SEK m	Restricted equity		Non-restricted equity		Retained earnings	Total
	Share capital*	Statutory reserve	Hedge reserve	Translation reserve		
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

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

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

** Other comprehensive income consists primarily of the effective portion of the change in the fair value of interest rate swaps and cross-currency interest rate swaps used as hedging instruments in cash flow hedging. Cash flow hedging is used to manage exposures to variations in cash flows relating to changes in the variable interest rates on lending and funding. Cash flow hedging is also used to hedge currency risk in future cash flows relating to funding in foreign currencies. Lending and funding are recognised at amortised cost whereas the derivatives that hedge these items are recognised at market value. Over time, the market value of the derivatives reaches zero as each individual hedge reaches maturity, but this entails volatility in other comprehensive income during the term of the hedge. In 2015, changes in the value of hedge derivatives in cash flow hedges totalled SEK -542m (4,323) after tax. These changes in value are primarily derived from changes in the discount rates of each of the respective currencies.

Condensed statement of cash flows

SEK m	Full year 2015	Full year 2014
Operating profit	10,716	8,741
Adjustment for non-cash items in profit/loss	506	1,356
Paid income tax	-314	-343
Changes in the assets and liabilities of operating activities	-3,200	-482
Cash flow from operating activities	7,708	9,272
Cash flow from investing activities	0	0
Subordinated loans	-	-500
Group contribution paid out	-7,180	-6,670
Cash flow from financing activities	-7,180	-7,170
Cash flow for the year	528	2,102
Liquid funds at beginning of year	5,129	2,921
Cash flow for the year	528	2,102
Exchange rate difference on liquid funds	-141	106
Liquid funds at end of year	5,516	5,129
<i>Liquid funds consist of funds available with banks and equivalent institutions, excluding funds in blocked account.</i>		
Liquid funds with banks and equivalent institutions	5,516	5,129
Funds in a blocked bank account relating to issuance of covered bonds	5,000	5,019
Loans to credit institutions	10,516	10,148

Key figures

	Jul-Dec 2015	Jul-Dec 2014	Full year 2015	Full year 2014
Net interest margin, %	1.07	1.04	1.08	1.00
C/l ratio before loan losses, %	8.9	14.3	9.0	14.9
C/l ratio after loan losses, %	8.9	13.8	9.0	14.6
Return on equity, %	24.1	22.1	24.2	20.9
Total capital ratio, CRD IV, %	67.8	67.1	67.8	67.1
Tier 1 ratio, CRD IV, %	43.1	42.4	43.1	42.4
Common equity tier 1 ratio, CRD IV, %	40.2	39.0	40.2	39.0

Segment information

SEK m	Full year 2015			Full year 2014		
	Private	Corporate	Total	Private	Corporate	Total
Net interest income	8,566	3,190	11,756	7,274	2,966	10,240
Net fee and commission income	-4	-2	-6	-5	-2	-7
Net gains/losses on financial transactions	21	8	29	5	2	7
Total income	8,583	3,196	11,779	7,274	2,966	10,240
Expenses	-777	-288	-1,065	-1,072	-449	-1,521
Profit before loan losses	7,806	2,908	10,714	6,202	2,517	8,719
Net loan losses	4	-2	2	14	8	22
Operating profit	7,810	2,906	10,716	6,216	2,525	8,741
Loans to the public	727,787	354,872	1,082,659	676,022	342,511	1,018,533

Private market is defined as lending secured by mortgages on 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 on multi-family dwellings, family farms, commercial and office buildings or state and municipal loans.

Geographical breakdown of business segments

SEK m	Full year 2015		Full year 2014	
	Income	Total assets	Income	Total assets
Sweden	10,202	967,279	8,599	916,701
Norway	875	67,777	1,014	65,748
Denmark	276	31,642	221	26,484
Finland	426	49,733	406	49,924
Total	11,779	1,116,431	10,240	1,058,857

Notes

NOTE 1 Accounting policies

This report has been prepared in accordance with IAS 34 Interim Financial Reporting. The contents of the report also comply with the applicable provisions of the Swedish Act on Annual Reports in Credit Institutions and Securities Companies, the Swedish Financial Supervisory Authority's regulations and general guidelines FFFS 2008:25 on annual reports in credit institutions and securities companies and recommendations from the Swedish Financial Reporting Board.

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

On 1 January 2015, the interpretative communication IFRIC 21 Levies came into effect for application within the EU. This regulatory change has not had any material impact on the company's financial position and earnings, nor does it have any impact on capital adequacy.

In all other respects, Stadshypotek's report has been prepared in accordance with the same accounting policies and calculation methods that were applied in the annual report for 2014.

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 the timing of its implementation proposed by the IASB remains unchanged, this standard will be applied as of the 2018 financial year. The standard covers

three areas: classification and measurement, impairment and general hedge accounting. Stadshypotek is currently analysing the financial effects of the new standard in more detail.

Further, IFRS 15 Revenue from contracts with customers has been adopted by the IASB. Assuming that IFRS 15 is adopted by the EU, and the timing of its implementation proposed by the IASB remains unchanged, this standard will be applied as of the 2018 financial year. The current assessment is that the new standard will not have any material impact on Stadshypotek's financial reports, capital adequacy and large exposures.

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

NOTE 2 Other information

RISK AND UNCERTAINTY FACTORS

The global economy is continuing to grow; the US economy is growing and economic growth has also been observed in parts of the euro-zone. Alongside these developments, however, turbulence and volatility continue to prevail, fuelled in part by events such as the devaluation in China and concerns about economic growth in Asia, falling commodity prices and geopolitical developments. There has been steady economic growth in Sweden, with low inflationary pressure and, at present, an expansionary monetary policy.

Regulatory developments are continuing at a fast pace. 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 of Stadshypotek facing economic loss because its counterparties cannot fulfil their contractual obligations. Market risk is the risk of price changes in the financial markets. The market risks affecting Stads-

hypotek are interest rate risk and exchange rate risk. At 31 December 2015, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -348m (-351). Liquidity risk is the risk that Stadshypotek will not be able to meet its payment obligations when they fall due without being affected by unacceptable costs or losses. Operational risks are defined as the risk of loss due to inadequate or failed internal processes, human error, malfunctioning systems, or external events. The definition includes legal risk. 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 its Board.

Stadshypotek's lending operations are integrated with those of Handelsbanken, which, among other things, means that Stadshypotek's lending is carried out via the Bank's branch network. Moreover Stadshypotek's funding needs are managed by Handelsbanken's Treasury department. A collaboration agreement regula-

tes 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 assessed by a dedicated credit organisation. Decisions on limits are made at the branch, regional or central level, depending on the size of the credit limit. As regards the procedures for limiting market risk and liquidity risk at Stadshypotek, the company's Board establishes limits for this purpose.

NOTE 2 Other information, Cont.

Stadshypotek also has risk control independent of business operations which is responsible for the regular follow-up and monitoring of all risks applying to operations, primarily credit risk, market risk, liquidity risk and operational risk. The risk control function performs daily calculations and checks to ensure that risk exposure remains within the set limits. Limit 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 has the task of identifying the Handelsbanken Group's risks, gauging them, and ensuring that management of these risks complies with the Group's low risk tolerance. Central Risk Control is responsible for the independent reporting of risks for the banking group of which Stadshypotek is a part. Central Risk Control also develops and provides models for measuring risk that are applied in Stadshypotek's operations and performs certain calculations that provide a basis for some of Stadshypotek's external reporting.

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

PREPAREDNESS FOR LIQUIDITY CRISIS

Stadshypotek has a contingency plan for managing a liquidity shortage, and this plan also des-

cribes 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 of relevance to its operations, for example disruptions in the market for covered bonds. Central Risk Control conducts stress tests focusing on long-term disruptions for the entire Group, taking Stadshypotek's liquidity requirements into consideration.

CAPITAL PLANNING

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

CAPITAL REQUIREMENT

The Swedish Financial Supervisory Authority has set the risk weight floor for Swedish mortgage loans covered by Pillar 2 at 25%. The Authority has also covered by a risk weight floor for Norwegian exposures. The countercyclical buffer is currently set at 1% for Swedish exposures and applies from 13 September 2015. The Swedish Financial Supervisory Authority has decided to raise the buffer to 1.5% as of 27 June 2016. Stadshypotek's assessment, even when taking these capital requirements into account, is that the company is well-capitalised.

MATERIAL EVENTS AFTER BALANCE SHEET DATE

No material events have occurred after the balance sheet date.

NOTE 3 Net interest income

SEK m	Jul-Dec 2015	Jul-Dec 2014	Change %	Full year 2015	Full year 2014	Change %
Interest income						
Loans to the public	10,321	12,947	-20	21,691	26,709	-19
Loans to credit institutions	94	113	-17	193	237	-19
Total	10,415	13,060	-20	21,884	26,946	-19
Interest expense						
Due to credit institutions	-934	-1,883	-50	-2,184	-4,056	-46
Issued securities	-5,004	-6,425	-22	-10,434	-13,636	-23
Subordinated liabilities	-226	-291	-22	-479	-611	-22
Derivative instruments*	1,742	1,045	67	3,177	1,802	76
Fee to the Swedish Stability Fund	-104	-91	14	-207	-203	2
Other	-1	-2	-50	-1	-2	-50
Total	-4,527	-7,647	-41	-10,128	-16,706	-39
Net interest income	5,888	5,413	9	11,756	10,240	15

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

NOTE 4 Net gains/losses on financial transactions

SEK m	Jul-Dec 2015	Jul-Dec 2014	Change %	Full year 2015	Full year 2014	Change %
Hedge accounting	-36	-44	-18	-111	-101	10
<i>of which fair value hedges</i>	-35	-44	-20	-112	-99	13
<i>of which ineffective portion of cash flow hedges</i>	-1	0	-	1	-2	-
Loans, valued at cost	144	182	-21	304	304	0
Financial liabilities, valued at cost	-206	-302	-32	-361	-408	-12
Derivatives not recognised as hedges	53	89	-40	181	188	-4
Other	15	0	-	16	24	-33
Total	-30	-75	-60	29	7	314

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 this hedge accounting. Interest income and interest expense for hedging instruments are recognised under net interest income. Changes in the value of hedging instruments in cash flow hedges which exceed the changes in value-hedged future cash flows, are recognised under the item 'ineffective portion of cash flow hedges'. Derivatives not recognised as hedges are included in the held-for-trading category.

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

NOTE 5 Other administrative expenses

SEK m	Jul-Dec 2015	Jul-Dec 2014	Change %	Full year 2015	Full year 2014	Change %
Cost of premises	-4	-3	33	-7	-7	0
IT costs	-57	-56	2	-116	-117	-1
Communication	-1	-1	0	-1	-1	0
Travel and marketing	-1	-1	0	-3	-3	0
Purchased services	-395	-643	-39	-816	-1,277	-36
Supplies	0	0	0	0	0	0
Other expenses	-10	-9	11	-20	-17	18
Total	-468	-713	-34	-963	-1,422	-32

NOTE 6 Loan losses

SEK m	Jul-Dec 2015	Jul-Dec 2014	Change %	Full year 2015	Full year 2014	Change %
Specific provision for individually assessed loans						
Provisions for the period	-4	-15	-73	-11	-22	-50
Reversal of previous provisions	1	3	-67	4	7	-43
Total	-3	-12	-75	-7	-15	-53
Collective provision						
Collective provision for individually assessed loans	-2	0	-	-1	1	-
Write-offs						
Actual loan losses for the period	-12	-17	-29	-36	-50	-28
Utilised share of previous provisions	5	3	67	18	20	-10
Reversal of actual loan losses in previous years	11	52	-79	28	66	-58
Total	4	38	-89	10	36	-72
Net loan losses	-1	26	-	2	22	-91

Impaired loans SEK m	31 Dec 2015	31 Dec 2014
Impaired loans	109	175
Specific provision for individually assessed loans	-32	-43
Collective provision for individually assessed loans	-5	-4
Net impaired loans	72	128
Proportion of impaired loans, %	0.01	0.01
Reserve ratio for impaired loans, %	29.6	24.4
Loan loss ratio, %	-0.00	-0.00
Non-performing loans which are not impaired loans	338	607

NOTE 7 Loans to the public

Loans to the public, by borrower category	31 Dec 2015			31 Dec 2014		
	Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses	Loans after provisions
SEK m						
Households	765,109	-18	765,091	709,974	-29	709,945
Public sector, municipal companies	30,111	-	30,111	35,492	-	35,492
Housing co-operative associations	152,046	-7	152,039	139,948	-9	139,939
Other legal entities	135,430	-7	135,423	133,166	-5	133,161
Total loans to the public, before collective provision	1,082,696	-32	1,082,664	1,018,580	-43	1,018,537
Collective provision		-5	-5		-4	-4
Total loans to the public	1,082,696	-37	1,082,659	1,018,580	-47	1,018,533
of which in operations outside Sweden						
Households	103,253	-	103,253	98,933	-	98,933
Public sector, municipal companies	11,193	-	11,193	11,424	-	11,424
Housing co-operative associations	24,945	-	24,945	22,091	-	22,091
Other legal entities	6,550	-	6,550	6,677	-	6,677
Total loans to the public in operations outside Sweden	145,941	-	145,941	139,125	-	139,125

Loans to the public, by type of collateral	31 Dec 2015			31 Dec 2014		
	Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses	Loans after provisions
SEK m						
Single-family housing	527,725	-17	527,708	499,306	-29	499,277
Housing co-operative apartments	184,313	-1	184,312	160,422	-1	160,421
Owner-occupied apartments	15,767	-	15,767	16,324	-	16,324
Private market	727,805	-18	727,787	676,052	-30	676,022
Multi-family dwellings	283,784	-14	283,770	269,843	-11	269,832
Offices and commercial buildings	71,107	-	71,107	72,685	-2	72,683
Corporate market	354,891	-14	354,877	342,528	-13	342,515
Total loans to the public, before collective provision	1,082,696	-32	1,082,664	1,018,580	-43	1,018,537
Collective provision		-5	-5		-4	-4
Total loans to the public	1,082,696	-37	1,082,659	1,018,580	-47	1,018,533
of which in operations outside Sweden						
Single-family housing	83,256	-	83,256	77,743	-	77,743
Housing co-operative apartments	4,333	-	4,333	4,218	-	4,218
Owner-occupied apartments	15,767	-	15,767	16,324	-	16,324
Private market	103,356	-	103,356	98,285	-	98,285
Multi-family dwellings	42,286	-	42,286	40,315	-	40,315
Offices and commercial buildings	299	-	299	525	-	525
Corporate market	42,585	-	42,585	40,840	-	40,840
Total loans to the public in operations outside Sweden	145,941	-	145,941	139,125	-	139,125

NOTE 7 Loans to the public, Cont.

Non-performing loans by borrower category	31 Dec 2015		31 Dec 2014	
	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	316	50	545	71
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	-	-	1	5
Other legal entities	22	16	61	52
Total	338	66	607	128
of which in operations outside Sweden				
Households	70	2	115	12
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	-	-	-	-
Other legal entities	8	1	30	1
Total non-performing loans in operations outside Sweden	78	3	145	13

Non-performing loans by type of collateral	31 Dec 2015		31 Dec 2014	
	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	254	46	440	76
Housing co-operative apartments	31	9	71	2
Owner-occupied apartments	21	2	50	0
Private market	306	57	561	78
Multi-family dwellings	14	9	24	8
Offices and commercial buildings	18	0	22	42
Corporate market	32	9	46	50
Total	338	66	607	128
of which in operations outside Sweden				
Single-family housing	56	1	92	13
Housing co-operative apartments	1	-	3	-
Owner-occupied apartments	21	2	50	0
Private market	78	3	145	13
Multi-family dwellings	-	-	-	-
Offices and commercial buildings	-	-	-	-
Corporate market	-	-	-	-
Total non-performing loans in operations outside Sweden	78	3	145	13

NOTE 7 Loans to the public, Cont.

Impaired loans by borrower category	31 Dec 2015			31 Dec 2014		
	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans
SEK m						
Households	72	-18	54	96	-30	66
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	21	-7	14	26	-8	18
Other legal entities	16	-7	9	53	-5	48
Total	109	-32	77	175	-43	132
of which in operations outside Sweden						
Households	2	0	2	12	0	12
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-
Other legal entities	1	0	1	1	0	1
Total impaired loans in operations outside Sweden	3	0	3	13	0	13

Impaired loans by type of collateral	31 Dec 2015			31 Dec 2014		
	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	68	-17	51	101	-30	71
Housing co-operative apartments	10	-1	9	3	0	3
Owner-occupied apartments	1	0	1	0	0	0
Private market	79	-18	61	104	-30	74
Multi-family dwellings	30	-14	16	30	-11	19
Offices and commercial buildings	0	0	0	41	-2	39
Corporate market	30	-14	16	71	-13	58
Total	109	-32	77	175	-43	132
of which in operations outside Sweden						
Single-family housing	2	0	2	13	0	13
Housing co-operative apartments	-	-	-	-	-	-
Owner-occupied apartments	1	0	1	0	0	0
Private market	3	0	3	13	0	13
Multi-family dwellings	-	-	-	-	-	-
Offices and commercial buildings	-	-	-	-	-	-
Corporate market	-	-	-	-	-	-
Total impaired loans in operations outside Sweden	3	0	3	13	0	13

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

NOTE 8 Derivative instruments

SEK m	Market value 31 Dec 2015	Market value 31 Dec 2014
Positive values		
Interest rate-related instruments	10,599	14,475
Currency instruments	9,915	10,485
Total	20,514	24,960
Negative values		
Interest rate-related instruments	1,255	2,375
Currency instruments	2,890	1,688
Total	4,145	4,063
Net	16,369	20,897

NOTE 9 Issued securities

SEK m	2015	2014
Issued securities at beginning of year	579,485	572,746
Issued	171,274	189,284
Repurchased	-56,841	-91,839
Matured	-112,183	-89,714
Price differences, exchange rate effects, etc.	-13,319	-992
Issued securities at end of year	568,416	579,485

NOTE 10 Classification of financial assets and liabilities

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

31 Dec 2014 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives designated as hedging instruments	Financial liabilities valued at amortised cost	Non-financial assets/liabilities	Total	Fair value
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
Other assets	5,098				48	5,146	5,146
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
Other liabilities				16,001	1,166	17,167	17,167
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 11 Fair value measurement of financial instruments

31 December 2015 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Derivative instruments	-	20,514	-	20,514
Total financial assets measured at fair value	-	20,514	-	20,514
Liabilities				
Derivative instruments	-	4,145	-	4,145
Total financial liabilities measured at fair value	-	4,145	-	4,145
31 December 2014 SEK m				
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

Valuation process

Stadshypotek's independent risk control is responsible for the existence of fit-for-purpose instructions and processes for the fair value measurement of financial instruments. In general, the valuations are based on externally generated data as far as is possible, considering the circumstances in each case. In the case of model valuation, valuation models that are established in the market are always used. The models and input data which form the basis of the valuations are regularly validated by the independent risk control function to ensure that they are consistent with market practices and established financial theory. New or revised valuation models are always validated before they come into use.

Stadshypotek is also 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.

Principles for fair value measurement of financial instruments

Fair value is defined as the price at which an asset could be sold or a liability could be transferred in a normal transaction between indepen-

dent market participants. For financial instruments traded on an active market, the fair value is the same as the quoted market price. An active market is one where quoted prices are readily and regularly available from a regulated market, execution venue, reliable news service or equivalent source, and where the price information received can be easily verified by means of regularly occurring transactions. The current market price is generally the same as the current bid price for financial assets or the current asking price for financial liabilities.

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

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

Valuation hierarchy

In the tables, financial instruments measured at fair value have been categorised in terms of how the valuations have been carried out and the extent of market data used in the valuation. The categorisation is shown as levels 1–3 in the

table. The categorisation is based on the valuation method used on the balance sheet date.

Financial instruments which are valued at the current market price are categorised as level 1. Financial instruments which are valued using valuation models which are essentially based on market data are categorised as level 2. Level 2 includes interest and currency-related derivatives. Financial instruments valued using models which to a substantial extent are based on input data that is not possible to verify using external market information are categorised as level 3.

Principles for information about the fair values of financial instruments which are carried at cost or amortised cost

Information about the fair values of financial instruments which are carried at cost or amortised cost is shown in the table on page 18. 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. These items have therefore 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.

NOTE 11 Fair value measurement of financial instruments, Cont.

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

In the table below, the valuation used for the

information about the fair value of financial instruments carried at cost or amortised cost is categorised in the valuation hierarchy described above. Level 1 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 premiums which have been used. Other instruments are categorised as level 2.

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

Related-party transactions

Group claims/Group liabilities SEK m	31 Dec 2015	31 Dec 2014
BALANCE SHEET		
Group claims		
Loans to credit institutions	10,516	10,148
Derivative instruments	20,512	24,956
Other assets	65	53
Total	31,093	35,157
Group liabilities		
Due to credit institutions	472,220	405,074
Derivative instruments	4,145	4,063
Other liabilities	9,675	7,735
Subordinated liabilities	20,700	20,700
Total	506,740	437,572
INCOME STATEMENT		
Interest income	195	232
Interest expense	-2,668	-4,664
Fee and commission expense	0	0
Other administrative expenses	-925	-1,392
Total	-3,398	-5,824

The business operations of Stadshypotek are highly decentralised. The basic principle is that the organisation and working practices are centred around the branch offices of the Handelsbanken Group, which are responsible for all the business of individual customers. One consequence of this approach is that Stadshypotek's lending operations in Sweden are run via Handelsbanken's Swedish branch operations and the lending operations at Stadshypotek's branches in Norway, Denmark and Finland are run via Handelsbanken's branch operations in the respective countries. Lending is to be carried out to the extent and on

the terms stated in 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. Moreover Stadshypotek's funding needs are managed by Handelsbanken's Treasury department. The services which Handelsbanken performs on behalf of Stadshypotek are regulated in

outsourcing agreements between the parties. Most of the inter-company transactions are thus with the parent company, Handelsbanken. The services that Stadshypotek purchases from the parent company, which are included under Other administrative expenses, consist primarily of sales compensation, IT services and the treasury function. In addition, inter-company transactions consist of funding from the parent company, derivative transactions and lending to the parent company.

Own funds and capital requirement

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

Own funds SEK m	31 Dec 2015	31 Dec 2014
Equity	32,616	32,368
Deduction for the year's profit	-	-
Deduction for intangible assets	-14	-28
Value adjustments (fair value)	0	
Adjustment for cash flow hedges	-3,591	-4,134
Special deduction for IRB institutions	-214	-243
Common equity tier 1 capital	28,797	27,963
Additional tier 1 capital	2,100	2,400
Tier 1 capital	30,897	30,363
Perpetual subordinated loans	5,300	5,300
Dated subordinated loans	12,400	12,400
Tier 2 capital	17,700	17,700
Own funds	48,597	48,063
Capital requirement SEK m	31 Dec 2015	31 Dec 2014
Credit risk according to standardised approach	33	49
Credit risk according to IRB Approach	4,500	4,651
Operational risk	1,205	1,032
Total capital requirements	5,738	5,732
Adjustment according to Basel I floor	36,655	33,703
Capital requirement, Basel I floor	42,293	39,435
Total own funds, Basel I floor	48,811	48,307
Capital adequacy analysis	31 Dec 2015	31 Dec 2014
Common equity tier 1 ratio, CRD IV	40.2%	39.0%
Tier 1 ratio, CRD IV	43.1%	42.4%
Total capital ratio, CRD IV	67.8%	67.1%
Risk exposure amount CRD IV, SEK m	71,718	71,648
Own funds in relation to capital requirement according to Basel I floor	115%	122%
Institution-specific buffer requirement	3.5%	2.5%
<i>of which capital conservation buffer requirement</i>	2.5%	2.5%
<i>of which countercyclical capital buffer requirement</i>	1.0%	
Common equity tier 1 capital available for use as a buffer	35.7%	34.5%

Credit risks

Credit risks IRB SEK m	Exposure amount		Average risk weight, %		Capital requirement	
	2015	2014	2015	2014	2015	2014
Corporate exposures	303,628	288,301	6.8	7.7	1,646	1,777
<i>of which other lending, foundation approach</i>	463	486	8.0	7.6	3	3
<i>of which other lending, advanced approach</i>	303,165	287,815	6.8	7.7	1,643	1,774
– Large corporates	191	302	43.5	46.7	7	11
– Medium-sized companies	8,687	7,616	20.1	22.6	139	138
– Property companies	148,258	145,250	10.2	11.4	1,206	1,322
– Housing co-operative associations	146,029	134,647	2.5	2.8	291	303
Retail exposures	741,976	688,825	4.8	5.2	2,854	2,874
<i>of which private individuals</i>	735,284	682,189	4.7	5.0	2,770	2,787
<i>of which small companies</i>	6,692	6,636	15.7	16.4	84	87
Total	1,045,604	977,126	5.4	6.0	4,500	4,651

Capital requirements, standardised approach*	2015			2014		
	Exposure value	Average risk weight, %	Capital requirement	Exposure value	Average risk weight, %	Capital requirement
SEK m						
Sovereign and central banks	4,427	0.0	0	5,160	0.0	0
Municipalities	29,632	0.0	0	32,262	0.0	0
Institutions	43,686	0.0	0	49,202	0.0	0
Corporate	11	100.0	1	45	100.0	4
Retail	-	-	-	15	75.0	1
Past due items	-	-	-	3	0.0	0
Other items	402	100.0	32	550	100.0	44
Total	78,158	0.5	33	87,237	0.7	49

* Details of capital requirement for exposure classes where applicable.

Submission of report

I hereby submit this report.
Stockholm, 9 February 2016

Ulrica Stolt Kirkegaard
Chief Executive

The 2015 Annual Report will be published in the week beginning 22 February and will be available at www.stadshypotek.se

Next report: to be published on 15 July 2016

Facts about the company

Registered name: Stadshypotek AB (publ).

Corporate identity no.: 556459-6715.

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

ADDRESS

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

