

# Highlights of Stadshypotek's Annual Report January-December 2014



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January - December 2014

**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 and totalled 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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## JANUARY – DECEMBER 2014 COMPARED WITH JANUARY – DECEMBER 2013

Stadshypotek's operating profit increased by 8 per cent or SEK 645 million to SEK 8,741 million (8,096). Net interest income grew by SEK 809 million to SEK 10,240 million (9,431). SEK 1,014 million (1,003) of the net interest income 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 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 in net interest income 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).

Costs increased by SEK -143 million to SEK -1,521 million (-1,378). This increase was mainly due to a higher level of sales compensation paid to the parent company for the services performed by the branch office operations on behalf of Stadshypotek in relation to the sale and administration of mortgage loans.

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

## LENDING

Loans to the public increased by 7 per cent, or SEK 64 billion, to SEK 1,019 billion (955). In Sweden, loans to the public increased by 5 per cent, or SEK 45 billion, to SEK 879 billion (834). Loans to the private market in Sweden increased by 6 per cent, or SEK 31 billion, to SEK 577 billion (546).

The credit quality of our lending operations remains very good. Before deduction of the provision for probable loan losses, the volume of impaired loans was SEK 175 million (283). Of this amount, non-performing loans accounted for SEK 128 million (227), while SEK 47 million (56) 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 607 million (833) that are not classed as being impaired loans. After deductions for specific provisions totalling SEK -43 million (-48) and collective provisions of SEK -4 million (-5) for probable loan losses, impaired loans totalled SEK 128 million (230).

## FUNDING

Issues made under Stadshypotek's Swedish covered bond programme totalled SEK 111.1 billion (119.1). During the year, a nominal volume totalising SEK 20.1 billion matured and SEK 90.4 billion was repurchased. In Norway, bonds to the value of NOK 6.7 billion (4.0) were issued during the year. Issues of covered bonds under the EMTCN programme totalled EUR 2.8 billion (5.4). During the year, EUR 1.5 billion, CHF 0.1 billion and SEK 12.1 billion matured.

## CAPITAL ADEQUACY

The total capital ratio according to CRD IV was 67.1 per cent (62.3) while the Tier 1 ratio calculated according to CRD IV was 42.4 per cent (41.0). Further information on capital adequacy is provided in the 'Own funds and capital requirement' section on page 22.

## RATING

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

# Income statement – Group

SEK m	Jul-Dec 2014	Jul-Dec 2013	Change %	Full year 2014	Full year 2013	Change %
Interest income	13,060	14,426	-9	26,946	29,023	-7
Interest expense	-7,647	-9,634	-21	-16,706	-19,592	-15
<b>Net interest income</b>	<b>5,413</b>	<b>4,792</b>	<b>13</b>	<b>10,240</b>	<b>9,431</b>	<b>9</b>
Fee and commission income	7	8	-13	14	15	-7
Fee and commission expense	-11	-10	10	-21	-20	5
<b>Net fee and commission income</b>	<b>-4</b>	<b>-2</b>	<b>100</b>	<b>-7</b>	<b>-5</b>	<b>40</b>
<b>Net gains/losses on financial transactions</b>	<b>-75</b>	<b>-27</b>	<b>178</b>	<b>7</b>	<b>70</b>	<b>-90</b>
<b>Total income</b>	<b>5,334</b>	<b>4,763</b>	<b>12</b>	<b>10,240</b>	<b>9,496</b>	<b>8</b>
Staff costs	-44	-41	7	-86	-79	9
Other administrative expenses	-713	-686	4	-1,422	-1,286	11
Depreciation and amortisation	-7	-7	0	-13	-13	0
<b>Total expenses</b>	<b>-764</b>	<b>-734</b>	<b>4</b>	<b>-1,521</b>	<b>-1,378</b>	<b>10</b>
<b>Profit before loan losses</b>	<b>4,570</b>	<b>4,029</b>	<b>13</b>	<b>8,719</b>	<b>8,118</b>	<b>7</b>
Net loan losses	26	-18		22	-22	
<b>Operating profit</b>	<b>4,596</b>	<b>4,011</b>	<b>15</b>	<b>8,741</b>	<b>8,096</b>	<b>8</b>
Tax	-1,054	-906	16	-1,968	-1,805	9
<b>Profit for the period</b>	<b>3,542</b>	<b>3,105</b>	<b>14</b>	<b>6,773</b>	<b>6,291</b>	<b>8</b>
Net earnings per share, before and after dilution, SEK	21,865	19,166		41,809	38,833	

# Statement of comprehensive income – Group

SEK m	Jul-Dec 2014	Jul-Dec 2013	Change %	Full year 2014	Full year 2013	Change %
<b>Profit for the period</b>	<b>3,542</b>	<b>3,105</b>	<b>14</b>	<b>6,773</b>	<b>6,291</b>	<b>8</b>
<b>Items that may subsequently be reclassified to the income statement</b>						
Cash flow hedges	2,360	674	250	5,543	-244	-
Translation differences for the period	31	-66	-	149	-115	-
Tax on items that may subsequently be reclassified to the income statement						
– cash flow hedges	-520	-148	251	-1,220	54	-
<b>Total comprehensive income for the period</b>	<b>5,413</b>	<b>3,565</b>	<b>52</b>	<b>11,245</b>	<b>5,986</b>	<b>88</b>

# Half-yearly performance – Group

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

# Condensed balance sheet – Group

SEK m		31 Dec 2014	31 Dec 2013
<b>Assets</b>			
Loans to credit institutions		10,148	7,966
Loans to the public	Note 7	1,018,533	955,251
Value change of interest-hedged item in portfolio hedge		70	96
Derivative instruments	Note 8	24,960	15,235
Other assets		5,146	6,111
<b>Total assets</b>		<b>1,058,857</b>	<b>984,659</b>
<b>Liabilities and equity</b>			
Due to credit institutions		405,074	337,097
Issued securities	Note 9	579,485	572,746
Derivative instruments	Note 8	4,063	8,186
Other liabilities		17,167	18,707
Subordinated liabilities		20,700	21,200
<b>Total liabilities</b>		<b>1,026,489</b>	<b>957,936</b>
Equity		32,368	26,723
<b>Total liabilities and equity</b>		<b>1,058,857</b>	<b>984,659</b>

# Statement of changes in equity – Group

Jan–Dec 2014 SEK m	Share capital*	Hedge reserve	Translation reserve	Retained earnings	Total
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
<b>Total comprehensive income for the year</b>		<b>4,323</b>	<b>149</b>	<b>6,773</b>	<b>11,245</b>
Group contributions provided				-7,180	-7,180
Tax effect on group contributions				1,580	1,580
<b>Equity at 31 December 2014</b>	<b>4,050</b>	<b>4,133</b>	<b>-20</b>	<b>24,205</b>	<b>32,368</b>

Jan–Dec 2013 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
<b>Total comprehensive income for the year</b>		<b>-190</b>	<b>-115</b>	<b>6,291</b>	<b>5,986</b>
Group contributions provided				-6,670	-6,670
Tax effect on group contributions				1,467	1,467
<b>Equity at 31 December 2013</b>	<b>4,050</b>	<b>-190</b>	<b>-169</b>	<b>23,032</b>	<b>26,723</b>

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

\*\* Other comprehensive income consists primarily of the effective portion of the change in the fair value of interest rate swaps and cross-currency interest rate swaps used as hedging instruments in cash flow hedging, which, including the tax effect, increased by SEK 4,513 million and totalled SEK 4,323 (-190). 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, a change which has been favourably affected by the considerable decline in market rates during the year.

# Condensed statement of cash flows – Group

SEK m	Full year 2014	Full year 2013
Operating profit	8,741	8,096
Adjustment for non-cash items in profit/loss	1,356	-102
Paid income tax	-343	-412
Changes in the assets and liabilities of operating activities	-482	-2,664
<b>Cash flow from operating activities</b>	<b>9,272</b>	<b>4,918</b>
<b>Cash flow from investing activities</b>	<b>0</b>	<b>-11</b>
Subordinated loan	-500	4,500
Group contribution paid out	-6,670	-7,080
<b>Cash flow from financing activities</b>	<b>-7 170</b>	<b>-2,580</b>
<b>Cash flow for the year</b>	<b>2,102</b>	<b>2,327</b>
Liquid funds at beginning of year	2,921	686
Cash flow for the year	2,102	2,327
Exchange rate differences on liquid funds	106	-92
<b>Liquid funds at end of year</b>	<b>5,129</b>	<b>2,921</b>
<i>Liquid funds consist of funds available with banks and equivalent institutions, excluding funds in blocked account.</i>		
Liquid funds with banks and equivalent institutions	5,129	2,921
Funds in blocked account with banks relating to issuance of covered bonds	5,019	5,045
<b>Loans to credit institutions</b>	<b>10,148</b>	<b>7,966</b>

## Key figures – Group

	Jul-Dec 2014	Jul-Dec 2013	Full year 2014	Full year 2013
Net interest margin, %	1.04	0.99	1.00	0.99
C/l ratio before loan losses, %	14.3	15.4	14.9	14.5
C/l ratio after loan losses, %	13.8	15.8	14.6	14.7
Return on equity, %	22.1	20.3	20.9	20.3
Total capital ratio according to CRD IV, %	67.1	62.3	67.1	62.3
Tier 1 ratio according to CRD IV, %	42.4	41.0	42.4	41.0
Common equity tier 1 ratio, CRD IV, %	39.0	36.9	39.0	36.9



# Segment information

SEK m	Full year 2014			Full year 2013		
	Private	Corporate	Group	Private	Corporate	Group
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
<b>Total income</b>	<b>7,274</b>	<b>2,966</b>	<b>10,240</b>	<b>6,754</b>	<b>2,742</b>	<b>9,496</b>
<b>Expenses</b>	<b>-1,072</b>	<b>-449</b>	<b>-1,521</b>	<b>-963</b>	<b>-415</b>	<b>-1,378</b>
<b>Profit before loan losses</b>	<b>6,202</b>	<b>2,517</b>	<b>8,719</b>	<b>5,791</b>	<b>2,327</b>	<b>8,118</b>
Net loan losses	14	8	22	-26	4	-22
<b>Operating profit</b>	<b>6,216</b>	<b>2,525</b>	<b>8,741</b>	<b>5,765</b>	<b>2,331</b>	<b>8,096</b>
Loans to the public	676,022	342,511	1,018,533	639,329	315,922	955,251

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

# Geographical breakdown of business segments

SEK m	Full year 2014		Full year 2013	
	Income	Total assets	Income	Total assets
Sweden	8,599	916,701	7,990	860,405
Norway	1,014	65,748	1,003	63,570
Denmark	221	26,484	166	19,423
Finland	406	49,924	337	41,261
<b>Group</b>	<b>10,240</b>	<b>1,058,857</b>	<b>9,496</b>	<b>984,659</b>

# Income statement – Parent company

SEK m	Jul-Dec 2014	Jul-Dec 2013	Change %	Full year 2014	Full year 2013	Change %
Interest income	13,060	14,426	-9	26,946	29,023	-7
Interest expense	-7,647	-9,634	-21	-16,706	-19,592	-15
<b>Net interest income</b>	<b>5,413</b>	<b>4,792</b>	<b>13</b>	<b>10,240</b>	<b>9,431</b>	<b>9</b>
Fee and commission income	7	8	-13	14	15	-7
Fee and commission expense	-11	-10	10	-21	-20	5
<b>Net fee and commission income</b>	<b>-4</b>	<b>-2</b>	<b>100</b>	<b>-7</b>	<b>-5</b>	<b>40</b>
<b>Net gains/losses on financial transactions</b>	<b>-75</b>	<b>-27</b>	<b>178</b>	<b>7</b>	<b>70</b>	<b>-90</b>
<b>Total income</b>	<b>5,334</b>	<b>4,763</b>	<b>12</b>	<b>10,240</b>	<b>9,496</b>	<b>8</b>
Staff costs	-44	-41	7	-86	-79	9
Other administrative expenses	-713	-686	4	-1,422	-1,286	11
Depreciation and amortisation	-7	-7	0	-13	-13	0
<b>Total expense</b>	<b>-764</b>	<b>-734</b>	<b>4</b>	<b>-1,521</b>	<b>-1,378</b>	<b>10</b>
<b>Profit before loan losses</b>	<b>4,570</b>	<b>4,029</b>	<b>13</b>	<b>8,719</b>	<b>8,118</b>	<b>7</b>
Net loan losses	26	-18		22	-22	
<b>Operating profit</b>	<b>4,596</b>	<b>4,011</b>	<b>15</b>	<b>8,741</b>	<b>8,096</b>	<b>8</b>
Tax	-1,054	-906	16	-1,968	-1,805	9
<b>Profit for the period</b>	<b>3,542</b>	<b>3,105</b>	<b>14</b>	<b>6,773</b>	<b>6,291</b>	<b>8</b>

# Statement of comprehensive income – Parent company

SEK m	Jul-Dec 2014	Jul-Dec 2013	Change %	Full year 2014	Full year 2013	Change %
<b>Profit for the period</b>	<b>3,542</b>	<b>3,105</b>	<b>14</b>	<b>6,773</b>	<b>6,291</b>	<b>8</b>
<b>Items that may subsequently be reclassified to the income statement</b>						
Cash flow hedges	2,360	674	250	5,543	-244	-
Translation differences for the period	31	-66	-	149	-115	-
Tax on items that may subsequently be reclassified to the income statement – cash flow hedges	-520	-148	251	-1,220	54	-
<b>Total comprehensive income for the period</b>	<b>5,413</b>	<b>3,565</b>	<b>52</b>	<b>11,245</b>	<b>5,986</b>	<b>88</b>

# Condensed balance sheet

## – Parent company

SEK m		31 Dec 2014	31 Dec 2013
<b>Assets</b>			
Loans to credit institutions		10,148	7,966
Loans to the public	Note 7	1,018,533	955,251
Value change of interest-hedged item in portfolio hedge		70	96
Derivative instruments	Note 8	24,960	15,235
Other assets		5,146	6,111
<b>Total assets</b>		<b>1,058,857</b>	<b>984,659</b>
<b>Liabilities and equity</b>			
Due to credit institutions		405,074	337,097
Issued securities	Note 9	579,485	572,746
Derivative instruments	Note 8	4,063	8,186
Other liabilities		17,167	18,707
Subordinated liabilities		20,700	21,200
<b>Total liabilities</b>		<b>1,026,489</b>	<b>957,936</b>
Equity		32,368	26,723
<b>Total liabilities and equity</b>		<b>1,058,857</b>	<b>984,659</b>
<b>Memorandum items</b>			
Assets pledged for own debt *		628,244	624,110
Other pledged assets		None	None
Contingent liabilities		None	None
Commitments		2,164	2,027

\* 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.

# Notes

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

## NOTE 1 Accounting policies

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

This report has been prepared in accordance with the same accounting policies and calculation methods that were applied in the annual report for 2013.

### 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.

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.

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.

## NOTE 2 Other information

### RISKS AND UNCERTAINTY FACTORS

Diverging economic trends have continued to prevail in the global economy, with many 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 of Stadshypotek facing economic loss because of its counterparties' inability to fulfil their contractual obligations. 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. 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). Liquidity risk is the risk that Stadshypotek will

not be able to meet its payment obligations when they fall due without being affected by unacceptable costs or losses. Operational risk is the risk of processing errors in procedures and systems, and business risk is the risk of unexpected changes in financial performance. Credit risk is the most significant risk for Stadshypotek. The Stadshypotek Board establishes policies which describe how various risks should be managed and reported. In addition, Stadshypotek's Chief Executive sets guidelines and instructions for managing and controlling all types of risk. These documents have been based on the policies that the Board of Handelsbanken has adopted for managing and reporting risks within the Handelsbanken Group as a whole. Stadshypotek's risk management aims to ensure compliance with the strict approach to risk established by its 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. Stadshypotek's funding is managed by Handelsbanken's Treasury. 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 limits are set for large loans and these loans are assessed by a special credit organisation. Decisions on limits are made at the branch, regional or central level, depending on the size of the credit limit. Procedures also exist to limit market risk and liquidity risk at Stadshypotek and the company's Board establishes limits for this purpose.

Stadshypotek also has risk control independent of business operations which is responsible for the regular follow-up and monitoring of all risks applying to operations, primarily credit risk, market risk, liquidity risk and operational risk. The risk control function carries out daily measurements and checks to ensure that market and liquidity risk 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

## NOTE 2 Other information, cont.

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 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. 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

On 8 September, following the Riksdag's 26 June decision regarding strengthened capital

adequacy regulations, the Swedish Financial Supervisory Authority published a memorandum describing the structure of the new capital requirements for Swedish credit providers.

The countercyclical buffer for Swedish exposures is currently set at 1 per cent, and it applies from 13 September 2015. The memorandum also established that the risk weight floor for Swedish mortgage loans under Pillar 2 has been raised to 25 per cent. The Swedish Financial Supervisory Authority has also included the risk weight floor for Norwegian exposures.

Stadshypotek's assessment, even when taking future regulations 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 2014	Jul-Dec 2013	Change %	Full year 2014	Full year 2013	Change %
<b>Interest income</b>						
Loans to the public	12,947	14,284	-9	26,709	28,729	-7
Loans to credit institutions	113	142	-20	237	294	-19
<b>Total</b>	<b>13,060</b>	<b>14,426</b>	<b>-9</b>	<b>26,946</b>	<b>29,023</b>	<b>-7</b>
<b>Interest expense</b>						
Due to credit institutions	-1,883	-2,245	-16	-4,056	-4,542	-11
Issued securities	-6,425	-7,711	-17	-13,636	-15,657	-13
Subordinated liabilities	-291	-284	2	-611	-566	8
Derivative instruments *	1,045	720	45	1,802	1,386	30
Fee to the Swedish Stabilisation Fund	-91	-112	-19	-203	-211	-4
Other	-2	-2	0	-2	-2	0
<b>Total</b>	<b>-7,647</b>	<b>-9,634</b>	<b>-21</b>	<b>-16,706</b>	<b>-19,592</b>	<b>-15</b>
<b>Net interest income</b>	<b>5,413</b>	<b>4,792</b>	<b>13</b>	<b>10,240</b>	<b>9,431</b>	<b>9</b>

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

## NOTE 4 Net gains/losses on financial transactions

SEK m	Jul-Dec 2014	Jul-Dec 2013	Change %	Full year 2014	Full year 2013	Change %
Hedge accounting	-44	-76	-42	-101	-51	98
<i>of which fair value hedges</i>	-44	-71	-38	-99	-46	115
<i>of which ineffective portion of cash flow hedges</i>	0	-5	-100	-2	-5	-60
Loans, valued at cost	182	136	34	304	267	14
Financial liabilities, valued at cost	-302	-115	163	-408	-247	65
Derivatives not recognised as hedges	89	12	642	188	84	124
Other	0	16	-100	24	17	41
<b>Total</b>	<b>-75</b>	<b>-27</b>	<b>178</b>	<b>7</b>	<b>70</b>	<b>-90</b>

The profit/loss item 'fair value hedges' includes the net result of unrealised and realised changes in the fair value of financial assets and liabilities which are subject to 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 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 receivables which are repaid ahead of time. Financial liabilities, valued at cost, refers to realised price differences when repurchasing bonds.

## NOTE 5 Other administrative expenses

SEK m	Jul-Dec 2014	Jul-Dec 2013	Change %	Full year 2014	Full year 2013	Change %
Cost of premises	-3	-3	0	-7	-6	17
IT costs	-56	-50	12	-117	-101	16
Communication	-1	-1	0	-1	-1	0
Travel and marketing	-1	-1	0	-3	-3	0
Purchased services	-643	-617	4	-1,277	-1,156	10
Supplies	0	0	0	0	0	0
Other expenses	-9	-14	-36	-17	-19	-11
<b>Total</b>	<b>-713</b>	<b>-686</b>	<b>4</b>	<b>-1,422</b>	<b>-1,286</b>	<b>11</b>

## NOTE 6 Loan losses

SEK m	Jul-Dec 2014	Jul-Dec 2013	Change %	Full year 2014	Full year 2013	Change %
<b>Specific provision for individually assessed loans</b>						
Provision for the period	-15	-13	15	-22	-24	-8
Reversal of previous provisions	3	3	0	7	7	0
<b>Total</b>	<b>-12</b>	<b>-10</b>	<b>20</b>	<b>-15</b>	<b>-17</b>	<b>-12</b>
<b>Collective provision</b>						
Collective provision for individually assessed loans	0	-1		1	-1	
<b>Write-offs</b>						
Actual loan losses for the period	-17	-27	-37	-50	-59	-15
Utilised share of previous provisions	3	5	-40	20	19	5
Reversal of actual loan losses in previous years	52	15	247	66	36	83
<b>Total</b>	<b>38</b>	<b>-7</b>		<b>36</b>	<b>-4</b>	
<b>Net loan losses</b>	<b>26</b>	<b>-18</b>		<b>22</b>	<b>-22</b>	

Impaired loans SEK m	31 Dec 2014	31 Dec 2013
Impaired loans	175	283
Specific provision for individually assessed loans	-43	-48
Collective provision for individually assessed loans	-4	-5
<b>Net impaired loans</b>	<b>128</b>	<b>230</b>
Proportion of impaired loans, %	0.01	0.02
Reserve ratio for impaired loans, %	24.4	17.0
Loan loss ratio, %	-0.00	0.00
Non-performing loans which are not impaired loans	607	833

## NOTE 7 Loans to the public

Loans to the public, by borrower category	31 Dec 2014			31 Dec 2013		
	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	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
<b>Total loans to the public, before collective provision</b>	<b>1,018,580</b>	<b>-43</b>	<b>1,018,537</b>	<b>955,304</b>	<b>-48</b>	<b>955,256</b>
Collective provision		-4	-4		-5	-5
<b>Total loans to the public</b>	<b>1,018,580</b>	<b>-47</b>	<b>1,018,533</b>	<b>955,304</b>	<b>-53</b>	<b>955,251</b>
<b>of which in operations outside Sweden</b>						
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
<b>Total loans to the public in operations outside Sweden</b>	<b>139,125</b>	<b>-</b>	<b>139,125</b>	<b>120,404</b>	<b>-</b>	<b>120,404</b>

Loans to the public, by type of collateral	31 Dec 2014			31 Dec 2013		
	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	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
<b>Private market</b>	<b>676,052</b>	<b>-30</b>	<b>676,022</b>	<b>639,359</b>	<b>-30</b>	<b>639,329</b>
Multi-family housing	269,843	-11	269,832	247,875	-17	247,858
Offices and commercial buildings	72,685	-2	72,683	68,070	-1	68,069
<b>Corporate market</b>	<b>342,528</b>	<b>-13</b>	<b>342,515</b>	<b>315,945</b>	<b>-18</b>	<b>315,927</b>
<b>Total loans to the public, before collective provision</b>	<b>1,018,580</b>	<b>-43</b>	<b>1,018,537</b>	<b>955,304</b>	<b>-48</b>	<b>955,256</b>
Collective provision		-4	-4		-5	-5
<b>Total loans to the public</b>	<b>1,018,580</b>	<b>-47</b>	<b>1,018,533</b>	<b>955,304</b>	<b>-53</b>	<b>955,251</b>
<b>of which in operations outside Sweden</b>						
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
<b>Private market</b>	<b>98,285</b>	<b>-</b>	<b>98,285</b>	<b>92,529</b>	<b>-</b>	<b>92,529</b>
Multi-family housing	40,315	-	40,315	27,417	-	27,417
Offices and commercial buildings	525	-	525	458	-	458
<b>Corporate market</b>	<b>40,840</b>	<b>-</b>	<b>40,840</b>	<b>27,875</b>	<b>-</b>	<b>27,875</b>
<b>Total loans to the public in operations outside Sweden</b>	<b>139,125</b>	<b>-</b>	<b>139,125</b>	<b>120,404</b>	<b>-</b>	<b>120,404</b>



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

Non-performing loans by borrower category	31 Dec 2014		31 Dec 2013	
	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	545	71	707	95
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	1	5	1	-
Other legal entities	61	52	125	132
<b>Total</b>	<b>607</b>	<b>128</b>	<b>833</b>	<b>227</b>
<b>of which in operations outside Sweden</b>				
Households	115	12	73	11
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	-	-	-	-
Other legal entities	30	1	6	-
<b>Total non-performing loans in operations outside Sweden</b>	<b>145</b>	<b>13</b>	<b>79</b>	<b>11</b>

Non-performing loans by type of collateral	31 Dec 2014		31 Dec 2013	
	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	440	76	592	87
Housing co-operative apartments	71	2	84	5
Owner-occupied apartments	50	0	27	1
<b>Private market</b>	<b>561</b>	<b>78</b>	<b>703</b>	<b>93</b>
Multi-family housing	24	8	87	79
Offices and commercial buildings	22	42	43	55
<b>Corporate market</b>	<b>46</b>	<b>50</b>	<b>130</b>	<b>134</b>
<b>Total</b>	<b>607</b>	<b>128</b>	<b>833</b>	<b>227</b>
<b>of which in operations outside Sweden</b>				
Single-family housing	92	13	52	10
Housing co-operative apartments	3	-	-	-
Owner-occupied apartments	50	0	27	1
<b>Private market</b>	<b>145</b>	<b>13</b>	<b>79</b>	<b>11</b>
Multi-family housing	-	-	-	-
Offices and commercial buildings	-	-	-	-
<b>Corporate market</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total non-performing loans in operations outside Sweden</b>	<b>145</b>	<b>13</b>	<b>79</b>	<b>11</b>

NOTE 7 Loans to the public, cont.

Impaired loans by borrower category	31 Dec 2014			31 Dec 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
<b>Total</b>	<b>175</b>	<b>-43</b>	<b>132</b>	<b>283</b>	<b>-48</b>	<b>235</b>
<b>of which in operations outside Sweden</b>						
Households	12	0	12	11	0	11
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-
Other legal entities	1	0	1	0	0	0
<b>Total impaired loans in operations outside Sweden</b>	<b>13</b>	<b>0</b>	<b>13</b>	<b>11</b>	<b>0</b>	<b>11</b>

Impaired loans by type of collateral	31 Dec 2014			31 Dec 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
<b>Private market</b>	<b>104</b>	<b>-30</b>	<b>74</b>	<b>122</b>	<b>-31</b>	<b>91</b>
Multi-family housing	30	-11	19	106	-17	89
Offices and commercial buildings	41	-2	39	55	0	55
<b>Corporate market</b>	<b>71</b>	<b>-13</b>	<b>58</b>	<b>161</b>	<b>-17</b>	<b>144</b>
<b>Total</b>	<b>175</b>	<b>-43</b>	<b>132</b>	<b>283</b>	<b>-48</b>	<b>235</b>
<b>of which in operations outside Sweden</b>						
Single-family housing	13	0	13	10	0	10
Housing co-operative apartments	-	-	-	-	-	-
Owner-occupied apartments	0	0	0	1	0	1
<b>Private market</b>	<b>13</b>	<b>0</b>	<b>13</b>	<b>11</b>	<b>0</b>	<b>11</b>
Multi-family housing	-	-	-	-	-	-
Offices and commercial buildings	-	-	-	-	-	-
<b>Corporate market</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total impaired loans in operations outside Sweden</b>	<b>13</b>	<b>0</b>	<b>13</b>	<b>11</b>	<b>0</b>	<b>11</b>

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 2014	Market value 31 Dec 2013
<b>Positive values</b>		
Interest rate instruments	14,475	13,684
Currency instruments	10,485	1,551
<b>Total</b>	<b>24,960</b>	<b>15,235</b>
<b>Negative values</b>		
Interest rate instruments	2,375	3,470
Currency instruments	1,688	4,716
<b>Total</b>	<b>4,063</b>	<b>8,186</b>
<b>Net</b>	<b>20,897</b>	<b>7,049</b>

## NOTE 9 Issued securities

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

## NOTE 10 Classification of financial assets and liabilities

31 Dec 2014 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives desig- nated as hedging instruments	Financial liabilities valued at amortised cost	Non-financial assets/liabilities	Total	Fair value
<b>Assets</b>							
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
<b>Total assets</b>	<b>1,033,849</b>	<b>751</b>	<b>24,209</b>		<b>48</b>	<b>1,058,857</b>	<b>1,070,669</b>
<b>Liabilities</b>							
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
<b>Total liabilities</b>		<b>242</b>	<b>3,821</b>	<b>1,021,260</b>	<b>1,166</b>	<b>1,026,489</b>	<b>1,044,230</b>

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

## NOTE 11 Fair value measurement of financial instruments

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

### 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 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 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 amortised cost is shown in the table on the next page. 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 esti-

mate 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.

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

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.

<b>Financial instruments at cost or amortised cost</b>				
<b>31 December 2014</b>				
SEK m	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Loans to the public	-	-	1,030,415	1,030,415
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,030,415</b>	<b>1,030,415</b>
<b>Liabilities</b>				
Due to credit Institutions	-	406,208	-	406,208
Issued securities	513,814	80,425	-	594,239
Subordinated liabilities	-	22,553	-	22,553
<b>Total</b>	<b>513,814</b>	<b>509,186</b>	<b>-</b>	<b>1,023,000</b>

<b>Financial instruments at cost or amortised cost</b>				
<b>31 December 2013</b>				
SEK m	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Loans to the public	-	-	958,625	958,625
<b>Total</b>	<b>-</b>	<b>-</b>	<b>958,625</b>	<b>958,625</b>
<b>Liabilities</b>				
Due to credit Institutions	-	336,856	-	336,856
Issued securities	508,202	69,342	-	577,544
Subordinated liabilities	-	22,996	-	22,996
<b>Total</b>	<b>508,202</b>	<b>429,194</b>	<b>-</b>	<b>937,396</b>

# Related-party transactions

Group claims/Group liabilities SEK m	31 Dec 2014	31 Dec 2013
<b>BALANCE SHEET</b>		
<b>Group claims</b>		
Loans to credit institutions	10,148	7,966
Derivative instruments	24,956	15,235
Other assets	53	55
<b>Total</b>	<b>35,157</b>	<b>23,256</b>
<b>Group liabilities</b>		
Due to credit institutions	405,074	337,096
Derivative instruments	4,063	8,186
Other liabilities	7,735	7,342
Subordinated liabilities	20,700	21,200
<b>Total</b>	<b>437,572</b>	<b>373,824</b>
<b>INCOME STATEMENT</b>		
Interest income	232	289
Interest expense	-4,664	-4,892
Fee and commission expense	0	-2
Other administrative expenses	-1,392	-1,251
<b>Total</b>	<b>-5,824</b>	<b>-5,856</b>

The business operations of Stadshypotek are highly decentralised. The basic principle is that organisation and working practices are determined by the branch offices of the Handelsbanken Group, which are responsible for all the business of individual customers. One consequence of this approach is that Stadshypotek's lending operations are run via Handelsbanken's Swedish branch operations and the lending operations in Stadshypotek's branches in Norway, Denmark and Finland are run via Handelsbanken's branch operations in the respective countries. Lending is to be carried out to the extent and on the terms stated in Guidelines for granting credits, established annually by the Board of Stadshypotek. These guidelines include the maximum permitted loan-to-value ratio for various property types, as well as the decision limits which apply to the branches' lending. In addition, for 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 outsourcing agreements between the parties.

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

# Own funds and capital requirements

Figures reported in this section refer to the minimum capital requirements under Pillar 1, according to the capital adequacy regulations applying from time to time. On 1 January 2014, the European Capital Requirements Regulation (CRR) came into force and on 2 August, CRD IV was implemented in Sweden. Own funds and capital requirements at 31 December 2014 are calculated in accordance with the new EU regulations.

Own funds*	31 Dec 2014	31 Dec 2013
SEK m		
Equity	32,368	26,723
Deduction for the year's profit	-	-
Deduction for intangible assets	-28	-40
Adjustment for cash flow hedges	-4,134	190
Special deduction for IRB institutions	-243	-190
<b>Common equity tier 1 capital</b>	<b>27,963</b>	<b>26,683</b>
Tier 1 capital contributions	2,400	3,000
<b>Tier 1 capital</b>	<b>30,363</b>	<b>29,683</b>
Perpetual subordinated loans	5,300	5,300
Dated subordinated loans	12,400	10,100
<b>Tier 2 capital</b>	<b>17,700</b>	<b>15,400</b>
<b>Own funds</b>	<b>48,063</b>	<b>45,083</b>
<b>Capital requirements</b>		
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
<b>Total capital requirements</b>	<b>5,732</b>	<b>5,785</b>
Adjustment according to Basel I floor	33,703	31,095
<b>Capital requirements Basel I floor</b>	<b>39,435</b>	<b>36,880</b>
Total own funds, Basel 1 floor	48,307	45,273
<b>Capital adequacy analysis*</b>	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%	
<i>of which capital conservation buffer requirement</i>	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

Credit risk IRB SEK m	Exposure amount		Average risk weight %		Capital requirement	
	2014	2013	2014	2013	2014	2013
<b>Corporate exposures</b>	<b>288,301</b>	<b>273,836</b>	<b>7.7</b>	<b>10.0</b>	<b>1,777</b>	<b>2,184</b>
<i>of which repos and securities loans</i>	-	-	-	-	-	-
<i>of which other lending, foundation approach</i>	486	525	7.6	9.8	3	4
<i>of which other lending, advanced approach</i>	287,815	273,311	7.7	10.0	1,774	2,180
- Large corporates	302	270	46.7	40.4	11	9
- Small and 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
<b>Retail exposures</b>	<b>682,189</b>	<b>641,334</b>	<b>5.1</b>	<b>5.1</b>	<b>2,787</b>	<b>2,609</b>
<b>Small companies</b>	<b>6,636</b>	<b>6,475</b>	<b>16.4</b>	<b>22.0</b>	<b>87</b>	<b>114</b>
<b>Total IRB</b>	<b>977,126</b>	<b>921,645</b>	<b>6.0</b>	<b>6.7</b>	<b>4,651</b>	<b>4,907</b>

Capital requirements, standardised approach 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
<b>Total</b>	<b>87,237</b>	<b>0.7</b>	<b>49</b>	<b>65,525</b>	<b>0.4</b>	<b>21</b>

# Submission of report

I hereby submit this report.  
Stockholm, 4 February 2015

**Ulrica Stolt Kirkegaard**  
Chief Executive

The 2014 annual report will be published in the week beginning 16 February and will be available at [www.stadshypotek.se](http://www.stadshypotek.se)

Next report: to be published on 21 July 2015

# Facts about the company

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

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

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

## ADDRESS

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