

Highlights of Stadshypotek's
Annual report

JANUARY–DECEMBER 2006



- Lending increased by SEK 35bn (32) to SEK 480bn.
- Operating profit was SEK 4,581m (5,599).
- Recoveries exceeded new loan losses.
- Covered bonds were issued in Sweden and internationally during the fourth quarter.



Stadshypotek

– a Svenska Handelsbanken company

Highlights of Stadshypotek's annual report January – December 2006

Performance

Stadshypotek's operating profit for 2006 was SEK 4,581m. The figure for the previous year was SEK 5,599 m. The change in the profit figure was chiefly attributable to lower net interest income, partly due to decreasing lending margins. Stadshypotek's lending volumes on the private market showed a very positive trend during the year, but this did not fully offset declining lending margins resulting from price competition on the market. In addition, net interest income was burdened by effects attributable to the changeover to IFRS, which will gradually diminish until 2008. Moreover, return on equity was lower than in the previous year.

Low loan losses

Recoveries exceeded new loan losses; the net amount recovered was SEK 278m (133), which corresponds to a loan loss ratio of -0.06% (-0.03) of lending. As at 31 December 2006, Stadshypotek's bad debts before deduction of the provision for probable loan losses amounted to SEK 393m (600). SEK 44m (54) of the bad debts were non-performing loans, while SEK 349m (546) were loans on which the borrowers pay interest and amortisation, but which are considered doubtful in view of uncertainty as to the borrowers' repayment capacity and the value of the collateral. In addition, there were non-performing loans of SEK 229m (325) that are not assessed as being bad debts. After deduction of the provision for probable loan losses, the volume of bad debts was SEK 284m (454).

Growth in lending

Lending to the general public was SEK 480bn – an increase of SEK 35bn during the year. Last year saw a very favourable increase in Stadshypotek's share of net growth in the private market. Stadshypotek's overall share of mortgage institutions' lending on the private market was 26.4%. Stadshypotek strengthened its position as the leading player on the Swedish corporate market, with a share of 34,8 %.

Capital adequacy

As at 31 December 2006, the capital ratio was 8.3% (8.8). The decrease was due to a higher risk-weighted volume. As at 31 December 2006, the Tier 1 capital ratio was 7.1% (7.4). In February 2007, a decision was taken to raise a subordinated loan of SEK 4,800m from the parent company, with the aim of reinforcing the capital base.

Definitions:

Private market = lending secured by mortgages in single-family or two-family houses, housing co-operative apartments or residential farms.
Corporate market = lending secured by mortgages in multi-family dwellings, family farms, commercial and office buildings or state and municipal loans.

Rating

Stadshypotek's rating was unchanged.

Stadshypotek		
	Long-term	Short-term
Moody's	Aa1	P-1
Standard & Poor's	AA-	A-1+
Fitch	AA-	F1+

Covered bonds	
Moody's	Aaa

In September, all Stadshypotek's outstanding bonds were converted into covered bonds, which received an Aaa rating from Moody's. In the fourth quarter, new issues of covered bonds were carried out in Sweden and internationally.

Events after the balance sheet date

Stadshypotek will submit an application to the Swedish Financial Supervisory Authority regarding the establishment of a branch in Norway.

Accounting policies

Accounting in the parent company and Group follows the regulations of the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and the directives issued by the Swedish Financial Supervisory Authority (FFFS 2005:33). These directives mean that the Swedish Financial Accounting Standards Council's Recommendation 32 is applied, and that the accounting complies with IFRS through what is known as "statutory IFRS".

Stockholm, 20 February 2007



Frank Vang-Jensen
Chief executive

Income statement – Group

SEK m	Jan–Dec 2006	Jan–Dec 2005	Change %
Interest income	17,645	16,989	4%
Interest expense	-13,465	-11,752	15%
Net interest income	4,180	5,237	-20%
Net result on financial operations	312	414	-25%
Comission income	11	11	0%
Comission expense	-58	-62	-6%
Total income	4,445	5,600	-21%
General administrative expenses			
Staff costs	-20	-17	18%
Other	-122	-117	4%
Depreciation according to plan	0	0	-
Total expenses	-142	-134	6%
Profit before loan losses	4,303	5,466	-21%
Loan losses, net	<i>Note 1</i> 278	133	109%
Operating profit	4,581	5,599	-18%
Taxes	-1,259	-1,568	-20%
Profit for the period	3,322	4,031	-18%
Net earnings per share, SEK	20.51	24.87	

Note 1 Loan losses

SEK m	Jan–Dec 2006	Jan–Dec 2005
Specific provision for individually assessed loan receivables		
The period's write-down for actual loan losses	-18	-45
Writeback of previous provisions for probable loan losses reported as actual loan losses in the period's accounts	8	29
The period's provision relating to probable loan losses	-13	-8
Recovered from actual loan losses in previous years	259	76
Write-back of provisions for probable loan losses which are no longer necessary	42	81
Net recoveries for the period for individually assessed loan receivables	278	133

Recovered from actual loan losses in previous years include calculations relating to recoveries in the portfolio that is subject to long-term monitoring. Previously these were only reported in Handelsbanken's consolidated accounts but from the fourth quarter they are reported in each legal unit. For 2006, this has resulted in an item in the income statement of SEK 181m.

Balance sheet – Group

SEK m		2006 31 Dec	2005 31 Dec
Assets			
Loans to credit institutions		5,495	962
Loans to the public	Note 2	480,219	445,361
Derivatives	Note 3	1,091	3,004
Tangible assets		0	0
Other assets		3,917	5,747
Total assets		490,722	455,074
Liabilities and shareholders' equity			
Liabilities to credit institutions		141,196	166,214
Issued securities etc.		311,687	251,999
Derivatives	Note 3	4,368	4,893
Other liabilities and provisions		10,099	9,419
Subordinated loans		3,500	3,500
Total liabilities		470,850	436,025
Shareholders' equity	Note 4	19,872	19,049
Total liabilities and shareholders' equity		490,722	455,074

Note 2 Loans to the public

LOANS TO THE PUBLIC BY SECTOR

31 December		Lending before deduction of provisions	Provisions for probable loan losses	Lending after deduction of provisions
SEK m				
Households		338,085	-21	338,064
Municipalities		6,787		6,787
Housing co-operatives		74,822	-55	74,767
Other legal entities		60,633	-32	60,601
Total loans to the public		480,327	-108	480,219

NON-PERFORMING LOANS BY BORROWER

31 December	2006		2005	
SEK m	Non-performing loans which are not bad debts	Non-performing loans which are included in bad debts	Non-performing loans which are not bad debts	Non-performing loans which are included in bad debts
Households	199	14	289	18
Municipalities	-	-	-	-
Housing co-operatives	1	2	5	9
Other legal entities	29	28	31	27
Total	229	44	325	54

BAD DEBTS BY BORROWER

31 December	2006			2005		
SEK m	Bad debts	Provision for probable losses	Bad debts net	Bad debts	Provision for probable losses	Bad debts net
Households	56	-22	34	97	-35	62
Municipalities	-	-	-	-	-	-
Housing co-operatives	199	-55	144	286	-69	217
Other legal entities	138	-32	106	217	-42	175
Total	393	-109	284	600	-146	454

The provision for probable losses refers to a specific provision for individually valued claims.

Note 3 Derivatives

31 December SEK m	Interest-rate related instruments		Currency-related instruments	
	Fair value	Book value	Fair value	Book value
Positive values	1,038	1,038	53	53
Negative values	3,341	3,341	1,027	1,027

Derivative agreements entered into constitute a hedge against unfavourable changes in value in Stadshypotek's lending and borrowing portfolios. The majority of derivative transactions entered into by Stadshypotek are interest rate swaps. The purpose of this is to hedge the risk in its own balance sheet or to obtain cheaper funding. The latter may be obtained by extending the maturity of short-term borrowing via interest rate swap agreements.

Note 4 Change in shareholders' equity

SEK m	2006 31 Dec	2005 31 Dec
Opening shareholders' equity	19,049	19,049
Group contribution	-3,471	-4,703
Tax on group contribution	972	1,317
Restatement according to IAS39	-	-645
Profit for the period	3,322	4,031
Closing shareholders' equity	19,872	19,049

CASH FLOW STATEMENT

SEK m	2006 Jan-Dec	2005 Jan-Dec
Cash flow from operating activities	9,237	1,508
Cash flow from investing activities	0	0
Cash flow from financing activities	-8,737	-2,547
Cash flow for the period	500	-1,039
Liquid funds at beginning of period	962	2,001
Cash flow for the period	500	-1,039
Liquid funds at end of period	1,462	962

TURNOVER – OWN DEBT INSTRUMENTS

Stadshypotek issues and repurchases debt instruments which it has issued on its account. This is for the purposes of financing its operations. Turnover during the first three quarters of the year was as follows:

Issued (sold):	SEK 400 bn
Repurchased:	SEK 75 bn
Maturity:	SEK 265 bn

Quarterly performance

SEK m	Q 4 2006	Q 3 2006	Q 2 2006	Q 1 2006	Q 4 2005
Interest income	4,719	4,468	4,274	4,184	4,070
Interest expense	-3,747	-3,482	-3,222	-3,014	-2,820
Net interest income	972	986	1,052	1,170	1,250
Net gain/losses on financial items	62	-2	168	84	124
Net operating income	-12	-13	-10	-12	-14
Total income	1,022	971	1,210	1,242	1,360
General administrative expenses					
Staff costs	-6	-5	-5	-4	-4
Other	-39	-27	-28	-28	-27
Depreciation according to plan	0	0	0	0	0
Total expenses	-45	-32	-33	-32	-31
Profit before loan losses	977	939	1,177	1,210	1,329
Loan losses	196	17	11	54	58
Operating profit	1,173	956	1,188	1,264	1,387

Segment information

SEK m	2006			2005		
	Private	Corporate	Total	Private	Corporate	Total
Net interest income	3,073	1,107	4,180	3,821	1,416	5,237
Net gain/losses on financial items	229	83	312	302	112	414
Net operating income	-35	-12	-47	-37	-14	-51
Total income	3,267	1,178	4,445	4,086	1,514	5,600
General administrative expenses						
Staff costs	-15	-5	-20	-12	-5	-17
Other	-90	-32	-122	-85	-32	-117
Total expenses	-105	-37	-142	-97	-37	-134
Profit before loan losses	3,162	1,141	4,303	3,989	1,477	5,466
Loan losses	212	66	278	35	98	133
Operating profit	3,374	1,207	4,581	4,024	1,575	5,599

Jan-Dec 2006	Q 4			Q 3			Q 2			Q 1		
SEK m	Private	Corporate	Total	Private	Corporate	Total	Private	Corporate	Total	Private	Corporate	Total
Net interest income	716	256	972	728	258	986	773	279	1,052	854	316	1,170
Net gain/losses on financial items	46	16	62	-1	-1	-2	123	45	168	61	23	84
Net operating income	-9	-3	-12	-10	-3	-13	-7	-3	-10	-9	-3	-12
Total income	753	269	1,022	717	254	971	889	321	1,210	906	336	1,242
General administrative expenses												
Staff costs	-4	-2	-6	-4	-1	-5	-4	-1	-5	-3	-1	-4
Other	-29	-10	-39	-20	-7	-27	-21	-7	-28	-20	-8	-28
Total expenses	-33	-12	-45	-24	-8	-32	-25	-8	-33	-23	-9	-32
Profit before loan losses	720	257	977	693	246	939	864	313	1,177	883	327	1,210
Loan losses	188	8	196	7	10	17	7	4	11	10	44	54
Operating profit	908	265	1,173	700	256	956	871	317	1,188	893	371	1,264

Key figures

	Jan-Dec 2006	Jan-Dec 2005
Overall interest margin, %	0.89	1.23
C/I ratio before loan losses, %	3.2	2.4
C/I ratio after loan losses, %	-3.0	0.0
Loan loss ratio, %	-0.06	-0.03
Proportion of bad debts, %	0.06	0.10
Bad debt provision ratio, %	27.7	24.3
Return on shareholders' equity, %	15.1	18.1
Capital ratio, %	8.3	8.8
Tier 1 capital ratio, %	7.1	7.4

Other disclosures

The Handelsbanken Group has conducted a number of disputes in various tax courts. For Stadshypotek, the total claim was SEK 23m. The disputes have been settled in favour of the company and thus previously reported contingent assets relating to taxes for SEK 23m have been recognised as income during the third quarter.

Parent company

Total income for the period was SEK 4,445 m (5,600). Profit before appropriations and tax was SEK 4,581 m (5,599).

LENDING PERFORMANCE

SEK m	2006 31 Dec	2006 30 Sep	2006 30 Jun	2006 31 Mar	2005 31 Dec
Loans to credit institutions	5,495	4,042	1,031	444	962
Loans to the public	480,219	469,483	461,057	452,976	445,361
Total	485,714	473,525	462,088	453,420	446,323

BORROWING PERFORMANCE

SEK m	2006 31 Dec	2006 30 Sep	2006 30 Jun	2006 31 Mar	2005 31 Dec
Liabilities to credit institutions	164,484	159,723	154,590	172,752	177,658
Issued securities	288,399	284,928	278,689	255,170	240,556
Subordinated loans	3,500	3,500	3,500	3,500	3,500
Total	456,383	448,151	436,779	431,422	421,714



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