

17 February 1998

Highlights of Annual Report 1997

Stadshypotek has been part of the Handelsbanken Group since 26 February 1997. It is not included in the comparative figures for 1996.

Summary

In 1997, the Handelsbanken Group increased its profits by 16% to SEK 7.8bn.

Return on shareholders' equity rose to 20.1%.

The Board of Directors recommends that the dividend be raised to SEK 6.50 (5.00) per share and that the shares in Stadshypotek Fastigheter AB be distributed to the shareholders.

Continued substantial rise in profits

The Handelsbanken Group's profits increased by 16% to SEK 7 820m.

Return on shareholders' equity went up to 20.1% (19.8).

Earnings per share rose to SEK 25.15 (21.32).

Income and expenses

Total income increased by 9%.

Net interest income rose by 19%. It includes the fee of SEK 312m (139) to the Swedish government for the deposit protection guarantee.

Most of the increase in net interest income is the result of higher lending volumes due to the acquisition of Stadshypotek. Following the acquisition, the Handelsbanken Group continued to increase its lending volumes at a steady pace during the whole year.

The spread between deposit and lending rates in the Handelsbanken Group excluding Stadshypotek dropped by 0.1% to 3.0%, in spite of spreads for both mortgage loans and bank loans having fallen more than this. The reason for this relatively small drop in spread is that the volume of bank loans with on average better spread has increased more quickly than the volume of mortgage loans. This is mainly due to extra business generated by Stadshypotek's customers.

Net commission income went up by 27%, principally due to higher volumes for fund management and securities trading.

The net result on financial operations has dropped substantially, mainly as a result of lower earnings on the Bank's interest-rate related trading operations.

Expenses were 28% up, of which 16 percentage points are attributable to the acquisition of Stadshypotek and 2 percentage points to changes in exchange rates. The remaining part of the increase is due to higher IT costs.

During 1997, the Bank has spent more than SEK 2bn on IT operations, which corresponds to 27% of the total costs. This is a record level and is greater than the cost of running all of our almost 500 branches in Sweden.

The adaptations which are necessary for EMU and Year 2000 represent only a small part of the increase. It has been possible to solve the Year 2000 problem in a very cost-effective way since 80% of the Bank's systems date from the mid-80s and were therefore already Year 2000 compliant. Thus, our total cost for Year 2000 adaptations will be only just over SEK 100m distributed over several years. The main reason for the substantial increase in our IT costs is instead a number of important investments for the future.

The most important of these are a completely new PC-based branch office terminal system which is being gradually implemented until the year 2000, a new system for trading operations and a new base system for the whole of our Nordic banking operations which will be fully implemented at the beginning of the 2000s. Apart from this, Handelsbanken Finans is completely replacing its computer systems.

Our Internet banking service which was launched in December 1997 has cost SEK 40m so far. At present we have 20 000 Internet users and 300 new users joining each day.

Expenses in Swedish branch office operations were generally unchanged.

Low loan losses

Loan losses, including changes in value for property taken over, fell by 83% to SEK 302m or 0.05% (0.60) of lending.

The proportion of bad debts was 0.6% (0.8) of lending. The volume of collateral taken over was SEK 7 251m (480). This increase is related to the acquisition of Stadshypotek and is entirely due to property taken over.

Low exposure in South-East Asia

Handelsbanken's exposure to the problem countries in South-East Asia (Thailand, Malaysia, The Philippines, South Korea and Indonesia) is SEK 3.4bn, which represents 0.47% of total lending to the general public and credit institutions. Half of this exposure is loans to local banks. The remaining part is mainly L/Cs and loans to the subsidiaries or branches of Nordic and other foreign companies.

The Bank has made the necessary provisions for possible loan losses in these countries on the basis of the information currently available.

Capital ratio and rating

The Handelsbanken Group's capital ratio is 10.4% (12.2). The decrease is explained by the acquisition of Stadshypotek and a continued increase in the volume of operations. The Tier 1 capital ratio was 6.2% (10.0). Handelsbanken continues to have the highest rating of the Swedish banks.

Earnings per share and dividend

Net earnings per ordinary share were SEK 25.15 (21.32).

The Board recommends a dividend on the ordinary shares, class A and B of SEK 6.50 (5.00). The dividend on the index shares, which according to the Bank's Articles of Association is to follow the consumer price index, will be SEK 0.80 (0.80). In accordance with the Articles of Association, the dividend on preference shares will be SEK 0.45 for class A and SEK 0.60 for class B.

In addition, the Board proposes that the shares in Stadshypotek Fastigheter Holding AB ¹⁾ be distributed to the holders of ordinary shares, which is calculated to utilise approximately SEK 2.4bn of the Group's equity.

Distribution of Stadshypotek Fastigheter

The Board of Directors of Handelsbanken is proposing to the 1998 Annual General Meeting that all shares in Stadshypotek Fastigheter be distributed to the Bank's holders of ordinary shares. For shareholders in Sweden, this is possible without tax being payable. The distribution is intended to take place using the same technique as when Fastighets AB Näckebro was distributed in 1996. It is expected that Stadshypotek Fastigheter will be listed on the Stockholm Stock Exchange at the end of June 1998.

The procedure and preliminary schedule appear in an appendix. Further information will be sent to Handelsbanken's shareholders at the

¹⁾ The distribution will actually be of shares in a newly-formed and wholly-owned subsidiary within the Handelsbanken Group to which the shares in Stadshypotek Fastigheter Holding AB will be transferred prior to the distribution.

beginning of April 1998 in order to assist them in the decision-making process ahead of the Annual General Meeting.

Background and reasons

Since 26 February 1997, Stadshypotek Fastigheter has been a wholly-owned subsidiary within the Handelsbanken Group. At present, Stadshypotek Fastigheter - which was formed at the end of 1992 - is a Group consisting of 14 property management companies and 4 subsidiaries with only hotel operations. The properties owned and managed by the Group were acquired by the Stadshypotek Group to protect its claims.

The Handelsbanken Group's capital situation following the large cash acquisition of Stadshypotek costing SEK 23bn did not allow for Stadshypotek Fastigheter to be immediately distributed to the shareholders in the same way as the Bank had previously done with Närkebro. As a result of the Bank's strong performance in 1997, the capital situation has improved so quickly that it is now possible to distribute Stadshypotek Fastigheter to the Bank's shareholders. In order for the Handelsbanken Group to concentrate on its core operations, the majority of the Group's other properties will be sold to Stadshypotek Fastigheter - with the exception of premises housing the head office and the regional head offices.

As a result of the distribution, Stadshypotek Fastigheter will be able to structure its property stock by both buying and selling properties. As a bank-owned property company, Stadshypotek Fastigheter is not allowed to buy properties in the market.

For the ordinary shareholders of Handelsbanken, the distribution means that they will be able to decide themselves whether they want to own a property company.

Stadshypotek Fastigheter

At the end of 1997, Stadshypotek Fastigheter's property stock consisted of 139 properties, situated only in Sweden, with a book value of SEK 6.1bn and a total rentable area of 857 000 sq.m. Properties in the three metropolitan areas, Stockholm, Malmö and Göteborg and also in Helsingborg and Uppsala represented 92% of book value and 88% of annual rental income.

Office and commercial property represented 47% of the total annual rental income of SEK 743m while multi-family dwellings constituted 30%, industrial and warehouse premises 14% and hotels 9%. Office and commercial property represented one-third of rentable area, multi-family dwellings, one-third; industrial and warehouse premises 23% and hotels 10%.

During 1997, the vacancy rate taken as a whole has fallen from 9% to 6% measured in rental income and from 14% to 9% in area. The net operating surplus excluding interest subsidies corresponded to a direct yield of 6.4%. During 1998, the full effect of increased letting in previous years is expected to be noticed.

The surplus on property management during 1997 was SEK 96m after net financial items but excluding depreciation. Net operating income before depreciation was SEK 148m including profits on sales of property and write-ups and write-downs totalling SEK 51m. Shareholders' equity at the end of 1997 was SEK 1 650m, thus resulting in an equity/assets ratio of 26%.

Before the shares in Stadshypotek Fastigheter are distributed, the Handelsbanken Group will sell the majority of its other properties to Stadshypotek Fastigheter for SEK 1.4bn. In connection with this, Stadshypotek Fastigheter will receive a capital injection thus increasing its equity to approx. SEK 2bn. Stadshypotek Fastigheter will also change its name prior to the distribution.

Other information

Detailed information as a result of sale of property, the capital injection to Stadshypotek Fastigheter, name change, estimated effects on the Handelsbanken Group's profits in 1998 etc will be provided in the documentation to be sent to shareholders.

The formation of the new company which is to own Stadshypotek Fastigheter is subject to the approval of the Swedish Financial Supervisory Authority and to an amendment to Stadshypotek Fastigheter's Articles of Association.

If Stadshypotek Fastigheter had been distributed as at 1 January 1997, the Handelsbanken Group's pro-forma 1997 return on equity would have increased by just over 1 percentage point and pro-forma 1997 earnings per share would have fallen by some 2%. As at 31 March 1998, the Handelsbanken Group's capital ratio and Tier 1 ratio, with respect to the distribution, is roughly estimated at approx. 10 % and nearly 6 % respectively.

The sale of properties to Stadshypotek Fastigheter is expected to lead to capital gains of approximately SEK 300m which will have an impact on the Handelsbanken Group's profits for 1998.

Stockholm, 17 February 1998

Arne Mårtensson
President and Group Chief Executive

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Profit and loss account		January - December	
Svenska Handelsbanken Group	1997	1996	Change
	SEK M	SEK M	%
<i>Interest income</i>	58 357	40 179	+ 45
<i>Interest expense</i>	- 47 188	- 30 798	+ 53
Net interest income	11 169	9 381	+ 19
Dividends received	150	107	+ 40
<i>Commission income</i>	4 024	3 294	+ 22
<i>Commission expense</i>	- 687	- 666	+ 3
Net commission income	3 337	2 628	+ 27
Net result on financial operations Note 1	593	2 143	- 72
Other operating income	566	290	+ 95
Total income	15 815	14 549	+ 9
General administrative expenses			
- Staff costs	4 150	3 477	+ 19
- Other administrative expenses	2 926	2 237	+ 31
Depreciation and write-down in value of tangible and intangible fixed assets	617	310	+ 99
Total expenses	7 693	6 024	+ 28
Profit before loan losses	8 122	8 525	- 5
Net loan losses	Note 2 231	1 717	- 87
Change in value of property taken over	71	89	- 20
Operating profit	7 820	6 719	+ 16
Minority interests	- 19	- 1	-
Appropriations			
- Pension provisions	532	201	+ 165
Tax on profit for the year	- 2 326	- 1 829	+ 27
Net profit for the year	6 007	5 090	+ 18

Note 1 Net result on financial operations

Shares and participations	86	48
Interest-bearing securities	42	920
Realised profit	128	968
Shares and participations	- 42	38
Interest-bearing securities	- 360	822
Unrealised changes in value	- 402	860
Foreign exchange changes	867	315
Net result on financial operations	593	2 143

Note 2 Loan losses	1997	1996
	31 Dec	31 Dec
	SEK M	SEK M
A. Individually valued claims:		
The year's write-down for actual loan losses	2 200	2 503
Write-back of previous provisions for possible loan losses which are reported as actual loan losses in the year's accounts	- 1 705	- 1 471
The year's write-down relating to possible loan losses	940	1 247
Recovered from actual losses in previous years	- 605	- 132
Write-back of provisions for possible losses which are no longer necessary	- 548	- 350
Net expense for the year for individually valued loan losses	282	1 797
B. Claims valued as a group:		
The year's write down for actual loan losses	29	51
Recovered from actual losses in previous years	- 11	- 12
Allocation to/dissolution of reserve for loan losses	- 7	- 64
Net expense for the year for loan losses valued as a group	11	- 25
C. Provisions to general reserve for country risks:	- 62	- 55
Total loan losses (A+B+C)	231	1 717

Balance sheet	1997	1996	
Svenska Handelsbanken Group	31 Dec	31 Dec	Change
	SEK M	SEK M	%
Lending to the general public	586 824	277 790	+ 111
Lending to credit institutions	134 472	119 166	+ 13
Interest-bearing securities			
- Financial fixed assets	5 790	21 191	- 73
- Financial current assets	60 165	86 774	- 31
Other assets	72 215	66 202	+ 9
Total assets	859 466	571 123	+ 50
Deposits and funding from the general public	204 747	167 507	+ 22
Liabilities to credit institutions	241 436	170 974	+ 41
Issued securities etc	284 051	129 284	+ 120
Subordinated liabilities	23 231	12 302	+ 89
Other liabilities	73 639	63 499	+ 16
Shareholders' equity	32 362	27 557	+ 17
Total liabilities and shareholders' equity	859 466	571 123	+ 50

Bad debts etc

Svenska Handelsbanken Group	1997 31 Dec SEK M	1996 31 Dec SEK M
Bad debts	8 063	6 312
Reserve for possible loan losses	- 4 242	- 4 117
Bad debts, net	3 821	2 195
Reduced rate loans without a provision for possible loan losses	272	357
Total problem loans	4 093	2 552
Bad debt reserve ratio	52,6%	65,2%
Proportion of bad debts	0,64%	0,76%
Problem loans before write-down for possible loan losses	8 335	6 669
Loan loss ratio	0,05%	0,60%
Non-performing loans for which interest is accrued	1 983	884
Collateral taken over:		
– Buildings and land	6 876	69
– Shares and other participations	347	390
– Other	28	21
Total collateral taken over	7 251	480

Derivatives

31 December 1997, SEK M

	Interest-rate related		Currency-related		Equity-related	
	Market value	Book value	Market value	Book value	Market value	Book value
Positive values	19 813	18 473	27 827	25 437	1 385	1 385
Negative values	25 372	23 174	25 970	24 501	219	219

The above table is compiled in accordance with the Swedish Financial Supervisory Authority's regulations and includes all derivative instruments in the Group. For derivative instruments which are part of trading operations, the book value is the same as the market value. The differences between market value and book value reported in the table correspond to the reversed differences between market value and book value in that part of the Group's operations which is subject to hedge accounting.

Quarterly performance of Svenska Handelsbanken Group

SEK M	1996:4	1997:1	1997:2	1997:3	1997:4
Net interest income	2 484	2 593	2 794	2 783	2 999
Commission, net	655	797	785	765	990
Net result on financial operations	980	20	213	177	183
Other	106	165	292	133	126
Total income	4 225	3 575	4 084	3 858	4 298
Staff costs	869	978	1 037	1 057	1 078
Other administrative expenses	582	629	744	660	893
Depreciation and write-downs	76	105	156	166	190
Total expenses	1 527	1 712	1 937	1 883	2 161
Profit before loan losses	2 698	1 863	2 147	1 975	2 137
Loan losses	499	136	98	- 55	123
Operating profit	2 199	1 727	2 049	2 030	2 014

Financial ratios for the Group

	January-December	
	1997	1996
Return on shareholders' equity	20.1%	19.8%
Capital ratio	10.4%	11.7%
Tier 1 capital ratio	6.2%	10.0%
Income/expenses (I/E ratio)		
• before loan losses	2.06	2.41
• after loan losses	1.98	1.86
Earnings per ordinary share, SEK	25.15	21.32

The Bank's Annual Report will be sent to shareholders in April. The interim report for the first quarter of 1998 will be published on 27 April 1998.

The Annual General Meeting of Svenska Handelsbanken will be held in Stockholm on Tuesday, 28 April 1998.

Handelsbanken's interim reports and other publications are also available on the Internet (<http://www.handelsbanken.se>).

Appendix to Handelsbanken's Highlights of Annual Report 1997

Procedure and preliminary schedule for the proposed distribution of shares in Stadshypotek Fastigheter

Procedure

For each ordinary share, a share unit in Stadshypotek Fastigheter is received. 10 share units entitle the holder to one share in Stadshypotek Fastigheter.

Over a period of a few weeks, trade in the share units can take place (see schedule). After this, the following occurs:

- a. Holders of at least 200 units per securities account (VP-konto) automatically receive shares in Stadshypotek Fastigheter (at least 20).
- b. Holders of less than 200 units also receive shares in Stadshypotek Fastigheter if the holder has requested this (see schedule).
- c. For other holders of less than 200 share units, the units are converted to shares in Stadshypotek Fastigheter which the Bank helps to sell. The proceeds of the sale, without deduction of brokerage commission, will be paid by the Swedish Securities Register (VPC).
- d. Individual share units - a maximum of 9 share units per holder - are totalled for all holders and converted to shares in Stadshypotek Fastigheter which the Bank helps to sell. The proceeds of the sale, without deduction of brokerage commission, will be paid by the Swedish Securities Register (VPC).

All holders of share units will receive the same price in the sale by the Bank.

Preliminary schedule

Early April	Information material sent to the Bank's shareholders.
28 April	The Annual General Meeting considers the proposal for distribution of the shares in Stadshypotek Fastigheter.
Week beginning	
11 May	A stock exchange prospectus concerning Stadshypotek Fastigheter is sent to holders of ordinary shares in Handelsbanken. Final day for trade in the Handelsbanken share with the right to receive share units in Stadshypotek Fastigheter.
18 May	The record day for receipt of share units in Stadshypotek Fastigheter.
25 May - 19 June	Trade in the share units. Holders of less than 200 units can request for the units to be converted to Stadshypotek Fastigheter shares instead of selling them.
22 June - 3 July	Automatic conversion of share units to shares. Planned listing of Stadshypotek Fastigheter shares on the stock exchange. Automatic sale of individual and small holdings of share units.
Mid-July	Proceeds of sale from VPC in respect of share units sold through the Bank.