

Highlights of Stadshypotek's Annual Report

January–December

2017

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Income totalled SEK 13,373m (12,415).

Expenses before loan losses

increased by SEK 87m and amounted to SEK -1,134m (-1,047).

Net loan losses totalled SEK 10m (-2) as recovered loan losses exceeded new loan losses.

Operating profit rose by SEK 883m and amounted to SEK 12,249m (11,366).

Profit after tax totalled SEK 9,543m (8,857).

Loans to the public increased by 6%, or SEK 71bn, to SEK 1,222bn (1,151).

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JANUARY–DECEMBER 2017 COMPARED WITH JANUARY–DECEMBER 2016

Stadshypotek's operating profit increased by 8%, or SEK 883m, to SEK 12,249m (11,366). Net interest income grew by SEK 995m to SEK 13,357m (12,362), mainly due to higher lending volumes to the private market in Sweden. However, this change in net interest income was adversely affected by SEK 391m as a result of the significant increase of the fee to the Resolution Fund in 2017. Net interest income was affected positively by SEK 250m due to changes in the terms and conditions of subordinated loans. Of the net interest income, SEK 896m (598) was attributable to the branch in Norway, SEK 377m (385) to the branch in Finland and SEK 422m (345) to the branch in Denmark. The increase in net interest income at the Norwegian branch was mainly attributable to a lower funding cost, but also to an increase in lending volumes. Excluding the branches, net interest income increased by SEK 624m. Net gains/losses on financial transactions decreased by SEK 40m to SEK 42m (82).

Expenses increased by SEK 87m to SEK -1,134m (-1,047). This increase is mainly attributable to an increase in the sales compensation paid to the parent company for the services performed by the branch office operations on behalf of Stadshypotek in relation to the administration and sale of mortgage loans, and to higher pension costs. The increase can also be explained by higher costs of IT development and costs relating to the updating of funding programmes and ratings.

Recoveries exceeded new loan losses and the net amount recovered was SEK 10m (-2).

LENDING

Compared with the end of the corresponding period of the previous year, loans to the public increased by 6%, or SEK 71bn, to SEK 1,222bn (1,151). In Sweden, loans to the public increased by 7%, or SEK 68bn, to SEK 1,051bn (983). Loans to the private market in Sweden increased by 7%, or SEK 46bn, to SEK 717bn (670).

The credit quality of lending operations remains very good. Impaired loans, before deduction of the provision for probable loan losses, totalled SEK 135m (103). Of this amount, non-performing loans accounted for SEK 58m (41), while SEK 77m (62) related to loans on which the borrowers pay interest and amortisation, but which are nevertheless considered impaired due to uncertainty regarding the borrowers' payment capacity and/or the value of the collateral. There were also non-performing loans of SEK 236m (328) that are not classed as being impaired loans. After deductions for specific provisions totalling SEK -33m (-32) and collective provisions for individually assessed loans of SEK -4m (-4) for probable loan losses, net impaired loans totalled SEK 98m (67).

FUNDING

Issues of Stadshypotek's benchmark loans during the year totalled SEK 109.8bn (112.7). In 2017, a nominal volume totalling SEK 102.5bn (82.7) matured or was repurchased. Issues of covered bonds under the EMTCN programme totalled approximately EUR 1.75bn (2.75). The outstanding volume at year-end was about EUR 10.6bn (10.3). Issues of bonds under the US programme totalled USD 1.25bn (1.0). The outstanding volume at the year-end totalled USD 5bn. No issues were made in NOK or AUD during the year. The outstanding volume at the year-end totalled NOK 23bn (27). There is no longer any outstanding volume in AUD.

During 2017, some of the terms and conditions in Stadshypotek's subordinated loans were changed, which led to the loans being reclassified in the accounts as equity rather than liabilities, thereby increasing equity by SEK 21.7bn. In connection with the change in terms and conditions, the interest to the parent company in respect of 2017 has been reclassified as dividend, thereby reducing retained earnings.

CAPITAL ADEQUACY

The total capital ratio according to CRD IV was 53.1% (67.4) while the common equity tier 1 ratio calculated according to CRD IV was 30.7% (39.2). Further information on capital adequacy is provided in note 15, Capital adequacy, on page 19.

RATING

Stadshypotek's ratings remained unchanged during the year.

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 2017	Jul-Dec 2016	Change %	Full year 2017	Full year 2016	Change %
Interest income		10,126	10,153	0	20,210	20,295	0
Interest expense		-3,146	-3,825	-18	-6,853	-7,933	-14
Net interest income	Note 3	6,980	6,328	10	13,357	12,362	8
Fee and commission income		6	6	0	12	13	-8
Fee and commission expense		-19	-21	-10	-38	-42	-10
Net fee and commission income		-13	-15	-13	-26	-29	-10
Net gains/losses on financial transactions	Note 4	36	39	-8	42	82	-49
Total income		7,003	6,352	10	13,373	12,415	8
Staff costs		-57	-46	24	-116	-94	23
Other administrative expenses	Note 5	-519	-480	8	-1,012	-947	7
Depreciation and amortisation		-3	-3	0	-6	-6	0
Total expenses		-579	-529	9	-1,134	-1,047	8
Profit before loan losses		6,424	5,823	10	12,239	11,368	8
Net loan losses	Note 6	8	-7	-	10	-2	-
Operating profit		6,432	5,816	11	12,249	11,366	8
Tax		-1,395	-1,288	8	-2,706	-2,509	8
Profit for the period		5,037	4,528	11	9,543	8,857	8
Earnings per share, before and after dilution, SEK		31,086	27,951		58,905	54,674	

Statement of comprehensive income

SEK m	Jul-Dec 2017	Jul-Dec 2016	Change %	Full year 2017	Full year 2016	Change %
Profit for the period	5,037	4,528	11	9,543	8,857	8
Other comprehensive income						
Items that may subsequently be reclassified to the income statement						
Cash flow hedges	-934	-3,315	-72	-2,391	-1,262	89
Translation differences for the period	85	170	-50	-44	407	-
Tax on items that may subsequently be reclassified to the income statement						
Cash flow hedges	205	730	-72	526	278	89
Total comprehensive income for the period	4,393	2,113	108	7,634	8,280	-8

Half-yearly performance

SEK m	Jul-Dec 2017	Jan-Jun 2017	Jul-Dec 2016	Jan-Jun 2016	Jul-Dec 2015
Interest income	10,126	10,084	10,153	10,142	10,415
Interest expense	-3,146	-3,707	-3,825	-4,108	-4,527
Net interest income	6,980	6,377	6,328	6,034	5,888
Net fee and commission income	-13	-13	-15	-14	-4
Net gains/losses on financial transactions	36	6	39	43	-30
Total income	7,003	6,370	6,352	6,063	5,854
Staff costs	-57	-59	-46	-48	-47
Other administrative expenses	-519	-493	-480	-467	-468
Depreciation and amortisation	-3	-3	-3	-3	-6
Total expenses	-579	-555	-529	-518	-521
Profit before loan losses	6,424	5,815	5,823	5,545	5,333
Net loan losses	8	2	-7	5	-1
Operating profit	6,432	5,817	5,816	5,550	5,332

Balance sheet

SEK m		31 Dec 2017	31 Dec 2016
Assets			
Loans to credit institutions		12,565	12,027
Loans to the public	Note 7	1,222,456	1,150,611
Value change of interest-hedged item in portfolio hedge		36	35
Shares and participating interests in Group companies		0	0
Derivative instruments	Note 8	16,895	22,746
Intangible assets		6	12
Property and equipment		0	0
Current tax assets		3	-
Other assets		3,153	701
Prepaid expenses and accrued income		1,337	1,393
Total assets		1,256,451	1,187,525
of which Group claims	Note 14	29,515	34,849
Liabilities and equity			
Due to credit institutions		557,742	497,110
Issued securities	Note 9	621,958	612,787
Derivative instruments	Note 8	3,697	4,429
Current tax liability		341	188
Deferred tax liability		210	735
Other liabilities		12,808	10,143
Accrued expenses and deferred income		5,627	7,415
Subordinated liabilities		-	21,700
Total liabilities		1,202,383	1,154,507
Equity			
Share capital		4,050	4,050
Other funds		30,567	10,782
Retained earnings		9,908	9,329
Profit for the year		9,543	8,857
Total equity		54,068	33,018
Total liabilities and equity		1,256,451	1,187,525
of which Group liabilities	Note 14	572,297	533,896

Statement of changes in equity

SEK m	Restricted equity				Non-restricted equity				Total
	Share capital ¹	Statutory reserve	Capital contributions	Fund for internally developed software	Hedge reserve	Translation reserve	Retained earnings		
Equity at 31 December 2015	4,050	8,106			3,591	-350	17,219	32,616	
Profit for the year							8,857	8,857	
Other comprehensive income					-984	407		-577	
Total comprehensive income for the year					-984	407	8,857	8,280	
Fund for internally developed software				12			-12	-	
Group contributions provided							-10,100	-10,100	
Tax effect on Group contributions							2,222	2,222	
Equity at 31 December 2016	4,050	8,106	12	2,607	57		18,186	33,018	
SEK m	Restricted equity				Non-restricted equity				Total
	Share capital ¹	Statutory reserve	Capital contributions	Fund for internally developed software	Hedge reserve	Translation reserve	Retained earnings		
Equity at 31 December 2016	4,050	8,106	12	2,607	57		18,186	33,018	
Profit for the year							9,543	9,543	
Other comprehensive income					-1,865	-44		-1,909	
Total comprehensive income for the year					-1,865	-44	9,543	7,634	
Fund for internally developed software				-6			6	0	
Reclassification of subordinated loans as equity			21,700					21,700	
Dividend paid							-250	-250	
Group contributions provided							-10,300	-10,300	
Tax effect on Group contributions							2,266	2,266	
Equity at 31 December 2017	4,050	8,106	21,700	6	742	13	19,451	54,068	

¹ Average number of shares, before and after dilution, 162,000.

OTHER COMPREHENSIVE INCOME

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 hedges are applied to manage exposures to variations in cash flows relating to changes in the floating 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 used to hedge these items are recognised at market value. Over time, the market values of the derivatives reach zero as each individual hedge reaches maturity, but this entails volatility in other comprehensive

income during the term of the hedge. During the period, changes in the value of hedge derivatives in cash flow hedges totalled SEK -1,865m (-984) after tax. The changes in value derive primarily from changes in the discount rates of the respective currencies and the time factor, which means that the market value of the derivatives moves towards zero up to the time of maturity.

Condensed statement of cash flows

SEK m	Full year 2017	Full year 2016
Operating profit	12,249	11,366
Adjustment for non-cash items in profit/loss	-44	186
Paid income tax	-284	-169
Changes in the assets and liabilities of operating activities	-1,080	-1,841
Cash flow from operating activities	10,841	9,542
Cash flow from investing activities	0	-3
Subordinated loans	0	1,000
Group contribution paid	-10,100	-9,235
Dividend paid	-250	-
Cash flow from financing activities	-10,350	-8,235
Cash flow for the year	491	1,304
Liquid funds at beginning of year	7,027	5,516
Cash flow for the year	491	1,304
Exchange rate difference on liquid funds	47	207
Liquid funds at end of year	7,565	7,027
<i>Liquid funds consist of funds available with banks and equivalent institutions, excluding funds on a blocked account.</i>		
Liquid funds with banks and equivalent institutions	7,565	7,027
Funds on a blocked account with banks relating to issuance of covered bonds	5,000	5,000
Loans to credit institutions	12,565	12,027

The cash flow statement has been prepared using the indirect method.

Key figures

	Jul-Dec 2017	Jul-Dec 2016	Full year 2017	Full year 2016
Net interest margin, %	1.09	1.08	1.10	1.07
C/I ratio before loan losses, %	8.3	8.3	8.5	8.4
C/I ratio after loan losses, %	8.2	8.4	8.4	8.4
Return on equity, %	27.1	25.2	25.2	24.4
Total capital ratio, CRD IV, %	53.1	67.4	53.1	67.4
Tier 1 ratio, CRD IV, %	30.7	39.2	30.7	39.2
Common equity tier 1 ratio, CRD IV, %	30.7	39.2	30.7	39.2

For definitions and calculation of key figures, see pages 21 and 22.

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 Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) and the Swedish Financial Supervisory Authority's regulations and general guidelines FFFS 2008:25 on annual reports in credit institutions and securities companies. RFR 2 Accounting for legal entities, as well as statements issued by the Swedish Financial Reporting Board, were also applied when preparing the accounts.

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. These highlights of Stadshypotek's annual report have been prepared in accordance with the same accounting policies and calculation methods that were applied in the annual report for 2016.

REGULATORY CHANGES

With effect from 1 January 2018, IFRS 9 is applied, which states that financial assets recognised at amortised cost and debt instruments recognised at fair value through other comprehensive income, as well as financial guarantees and credit commitments, must be subject to the new model for reporting expected loan losses. All in all, the transition to IFRS 9 will entail higher provisions for loan losses, which will then be adjusted against equity. The amount is deemed to be non-material. Stadshypotek will not apply the transitional regulations which have been

decided regarding capital adequacy. Instead, it will allow IFRS 9 to have full impact on its capital adequacy. The relevant capital ratios will not be negatively impacted by the transition.

IFRS 15 Revenue from Contracts with Customers has also been adopted for application by the EU. The standard is to 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

RISKS AND UNCERTAINTY FACTORS

Regulatory developments are continuing at a fast pace. Stadshypotek's 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 risks stem from price changes in the financial markets. The market risks affecting Stadshypotek are interest rate risk and exchange rate risk. At 31 December 2017, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -338m (-446m). Liquidity risk refers to 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. 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 means, among other things, 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. 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. 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 Group Risk Control. In addition, limit utilisation is reported regularly to Stadshypotek's Chief Executive and Board of Directors.

Stadshypotek is also covered by Group 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.

Group Risk Control is responsible for the independent reporting of risks for the banking group of which Stadshypotek is a part. Group 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. Stadshypotek is covered by an agreement regarding liquidity support within the Handelsbanken Group. According to the agreement, Handelsbanken holds a liquidity reserve for the Handelsbanken Group as a whole and is thus responsible for Stadshypotek fulfilling the liquidity reserve requirement as stipulated in the Swedish Financial Supervisory Authority's regulation FFFS 2010:7. The agreement also stipulates that the parties, in accordance with Article 8 of CRR and Chapter 6, Section 1 of FFFS 2014:12, are required to provide each other with liquidity support as necessary.

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. Group 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

During the first half of the year, the Swedish Financial Supervisory Authority approved the Handelsbanken Group's new PD models for corporate exposures as models for capital adequacy of sovereign exposures, as well as exposures to municipalities and central banks according to the IRB Approach.

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 2017	Jul-Dec 2016	Change %	Full year 2017	Full year 2016	Change %
Interest income						
Loans to the public	10,024	10,065	0	20,024	20,116	0
Loans to credit institutions	102	88	16	186	179	4
Total	10,126	10,153	0	20,210	20,295	0
Interest expense						
Due to credit institutions	-1,344	-1,196	12	-2,659	-2,241	19
Issued securities	-3,031	-3,981	-24	-6,608	-8,479	-22
Subordinated liabilities	121	-235	-151	0	-448	-100
Derivative instruments ¹	1,436	1,720	-17	3,071	3,503	-12
Fee to Resolution Fund	-329	-133	147	-658	-267	146
Other	1	0	-	1	-1	-200
Total	-3,146	-3,825	-18	-6,853	-7,933	-14
Net interest income	6,980	6,328	10	13,357	12,362	8

¹ 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 2017	Jul-Dec 2016	Change %	Full year 2017	Full year 2016	Change %
Hedge accounting	3	-4	-175	7	-8	-188
of which fair value hedges	3	-6	-	2	-11	-118
of which ineffective portion of cash flow hedges	0	2	-	5	3	67
Loans recognised at amortised cost	112	136	-18	209	272	-23
Financial liabilities recognised at amortised cost	-91	-112	-19	-215	-224	-4
Derivatives not recognised as hedges	0	-3	-	5	-4	-
Other	12	22	-44	36	46	-21
Total	36	39	-8	42	82	-49

The line item 'Fair value hedges' refers to 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 expenses relating to 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 line item 'ineffective portion of cash flow hedges'.

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

NOTE 5 Other administrative expenses

SEK m	Jul-Dec 2017	Jul-Dec 2016	Change %	Full year 2017	Full year 2016	Change %
Cost of premises	-4	-4	0	-8	-7	14
IT costs	-57	-56	2	-121	-114	6
Communication	-1	-1	0	-1	-1	0
Travel and marketing	-1	-1	0	-3	-3	0
Purchased services	-454	-407	12	-861	-802	7
Supplies	0	0	0	0	0	0
Other expenses	-2	-11	-82	-18	-20	-10
Total	-519	-480	8	-1,012	-947	7

NOTE 6 Loan losses

SEK m	Jul-Dec 2017	Jul-Dec 2016	Change %	Full year 2017	Full year 2016	Change %
Specific provision for individually assessed loans						
Provisions for the period	-5	-14	-64	-11	-15	-27
Reversal of previous provisions	3	3	0	4	5	-20
Total	-2	-11	-82	-7	-10	-30
Collective provision						
Collective provision for individually assessed loans	0	-1	-100	0	1	-
Write-offs						
Actual loan losses for the period	-8	-12	-33	-12	-24	-50
Utilised share of previous provisions	4	3	33	6	10	-40
Reversal of actual loan losses in previous years	14	14	0	23	21	10
Total	10	5	100	17	7	-72
Net loan losses	8	-7	-	10	-2	-

Impaired loans SEK m	31 Dec 2017	31 Dec 2016	31 Dec 2015
Impaired loans	135	103	109
Specific provision for individually assessed loans	-33	-32	-32
Collective provision for individually assessed loans	-4	-4	-5
Net impaired loans	98	67	72
Proportion of impaired loans, %	0.01	0.01	0.01
Impaired loans reserve ratio, %	24.3	31.2	29.6
Loan loss ratio, %	-0.00	0.00	-0.00
Non-performing loans which are not impaired loans	236	328	338

NOTE 7 Loans to the public

SEK m	31 Dec 2017			31 Dec 2016		
	Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses	Loans after provisions
Households	882,017	-20	881,997	830,089	-18	830,071
Public sector, municipal companies	19,682	-	19,682	24,701	-	24,701
Housing co-operative associations	177,964	-11	177,953	162,125	-12	162,113
Other legal entities	142,830	-2	142,828	133,732	-2	133,730
Total loans to the public, before collective provision	1,222,493	-33	1,222,460	1,150,647	-32	1,150,615
Collective provision		-4	-4		-4	-4
Total loans to the public	1,222,493	-37	1,222,456	1,150,647	-36	1,150,611
of which in operations outside Sweden						
Households	123,172	-3	123,169	120,154	-1	120,153
Public sector, municipal companies	8,345	-	8,345	10,383	-	10,383
Housing co-operative associations	32,141	-	32,141	30,067	-	30,067
Other legal entities	7,258	-	7,258	6,735	-	6,735
Total loans to the public in operations outside Sweden before collective provision	170,916	-3	170,913	167,339	-1	167,338
Collective provision		-1	-1		-1	-1
Total loans to the public in operations outside Sweden	170,916	-4	170,912	167,339	-2	167,337
Loans to the public, by type of collateral		31 Dec 2017			31 Dec 2016	
SEK m		Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses
Single-family housing		590,336	-18	590,318	564,661	-16
Housing co-operative apartments		233,160	-1	233,159	209,448	-2
Owner-occupied apartments		16,642	-	16,642	16,848	-
Private market	840,138	-19	840,119	790,957	-18	790,939
Multi-family dwellings		312,284	-12	312,272	293,904	-14
Offices and commercial buildings		70,071	-2	70,069	65,786	-
Corporate market	382,355	-14	382,341	359,690	-14	359,676
Total loans to the public, before collective provision	1,222,493	-33	1,222,460	1,150,647	-32	1,150,615
Collective provision		-4	-4		-4	-4
Total loans to the public	1,222,493	-37	1,222,456	1,150,647	-36	1,150,611
of which in operations outside Sweden						
Single-family housing		101,934	-3	101,931	98,165	-1
Housing co-operative apartments		4,910	-	4,910	5,251	-
Owner-occupied apartments		16,642	-	16,642	16,848	-
Private market	123,486	-3	123,483	120,264	-1	120,263
Multi-family dwellings		47,204	-	47,204	46,820	-
Offices and commercial buildings		226	-	226	255	-
Corporate market	47,430	-	47,430	47,075	-	47,075
Total loans to the public in operations outside Sweden before collective provision	170,916	-3	170,913	167,339	-1	167,338
Collective provision		-1	-1		-1	-1
Total loans to the public in operations outside Sweden	170,916	-4	170,912	167,339	-2	167,337

NOTE 7 Loans to the public, cont.

Non-performing loans by borrower category	31 Dec 2017		31 Dec 2016	
	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	215	50	308	35
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	-	-	-	-
Other legal entities	21	8	20	6
Total	236	58	328	41
of which in operations outside Sweden				
Households	47	10	68	4
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	-	-	-	-
Other legal entities	-	-	3	0
Total non-performing loans in operations outside Sweden	47	10	71	4
Non-performing loans by type of collateral	31 Dec 2017		31 Dec 2016	
	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	187	31	237	33
Housing co-operative apartments	22	6	39	7
Owner-occupied apartments	8	3	22	0
Private market	217	40	298	40
Multi-family dwellings	5	0	1	1
Offices and commercial buildings	14	18	29	-
Corporate market	19	18	30	1
Total	236	58	328	41
of which in operations outside Sweden				
Single-family housing	38	7	49	4
Housing co-operative apartments	1	-	-	-
Owner-occupied apartments	8	3	22	0
Private market	47	10	71	4
Multi-family dwellings	-	-	-	-
Offices and commercial buildings	-	-	-	-
Corporate market	-	-	-	-
Total non-performing loans in operations outside Sweden	47	10	71	4

NOTE 7 Loans to the public, cont.

Impaired loans by borrower category SEK m	31 Dec 2017			31 Dec 2016		
	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans
Households	100	-20	80	69	-18	51
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	27	-11	16	27	-12	15
Other legal entities	8	-2	6	7	-2	5
Total	135	-33	102	103	-32	71
of which in operations outside Sweden						
Households	24	-2	22	8	-1	7
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-
Other legal entities	-	-	0	0	0	0
Total impaired loans in operations outside Sweden	24	-2	22	8	-1	7
Impaired loans by type of collateral SEK m	31 Dec 2017			31 Dec 2016		
	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans
Single-family housing	79	-16	63	65	-16	49
Housing co-operative apartments	8	-2	6	8	-2	6
Owner-occupied apartments	3	-2	1	0	0	0
Private market	90	-20	70	73	-18	55
Multi-family dwellings	28	-11	17	30	-14	16
Offices and commercial buildings	17	-2	15	0	0	0
Corporate market	45	-13	17	30	-14	16
Total	135	-33	102	103	-32	71
of which in operations outside Sweden						
Single-family housing	22	0	22	8	-1	7
Housing co-operative apartments	-	-	-	-	-	-
Owner-occupied apartments	2	-2	0	0	0	0
Private market	24	-2	22	8	-1	7
Multi-family dwellings	-	-	-	-	-	-
Offices and commercial buildings	-	-	-	-	-	-
Corporate market	-	-	-	-	-	-
Total impaired loans in operations outside Sweden	24	-2	22	8	-1	7

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

NOTE 8 Derivative instruments

Market value SEK m	31 Dec 2017	31 Dec 2016
Positive values		
Interest rate instruments	6,456	8,708
Currency instruments	10,439	14,038
Total	16,895	22,746
Negative values		
Interest rate instruments	1,506	1,388
Currency instruments	2,191	3,041
Total	3,697	4,429
Net	13,198	18,317

NOTE 9 Issued securities

SEK m	31 Dec 2017	31 Dec 2016
Issued securities at beginning of year	612,787	568,416
Issued	145,646	155,758
Repurchased	-51,300	-41,932
Matured	-76,208	-68,170
Price differences, exchange rate effects, etc.	-8,967	-1,285
Issued securities at end of year	621,958	612,787

NOTE 10 Classification of financial assets and liabilities

31 Dec 2017 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives designated as hedging instruments	Financial liabilities at amortised cost	Non-financial assets/liabilities	Total	Fair value
Assets							
Loans to credit institutions	12,565					12,565	12,565
Loans to the public	1,222,456					1,222,456	1,227,923
Value change of interest-hedged item in portfolio hedge	36					36	
Derivative instruments			16,895			16,895	16,895
Other assets	4,490				9	4,499	4,499
Total assets	1,239,547	-	16,895		9	1,256,451	1,261,882
Liabilities							
Due to credit institutions				557,742		557,742	562,418
Issued securities				621,958		621,958	629,457
Derivative instruments			3,697			3,697	3,697
Other liabilities				18,226	760	18,986	18,986
Subordinated liabilities						-	-
Total liabilities	-	-	3,697	1,197,926	760	1,202,383	1,214,558

31 Dec 2016 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives designated as hedging instruments	Financial liabilities at amortised cost	Non-financial assets/liabilities	Total	Fair value
Assets							
Loans to credit institutions	12,027					12,027	12,027
Loans to the public	1,150,611					1,150,611	1,161,681
Value change of interest-hedged item in portfolio hedge	35					35	
Derivative instruments			-	22,746		22,746	22,746
Other assets	2,094				12	2,106	2,106
Total assets	1,164,767	-	22,746		12	1,187,525	1,198,560
Liabilities							
Due to credit institutions				497,110		497,110	501,783
Issued securities				612,787		612,787	623,522
Derivative instruments		1	4,428			4,429	4,429
Other liabilities				17,558	923	18,481	18,481
Subordinated liabilities				21,700		21,700	23,350
Total liabilities		1	4,428	1,149,155	923	1,154,507	1,171,565

NOTE 11 Fair value measurement of financial instruments

31 December 2017 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Derivative instruments	-	16,895	-	16,895
Total financial assets at fair value	-	16,895	-	16,895
Liabilities				
Derivative instruments	-	3,697	-	3,697
Total financial liabilities at fair value	-	3,697	-	3,697
 31 December 2016 SEK m				
Level 1	Level 2	Level 3	Total	
Assets				
Derivative instruments	-	22,746	-	22,746
Total financial assets at fair value	-	22,746	-	22,746
Liabilities				
Derivative instruments	-	4,429	-	4,429
Total financial liabilities at fair value	-	4,429	-	4,429

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 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.

PRINCIPLES FOR FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a

liability in an orderly transaction between independent 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, and where the price information received can be 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 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 below. 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. 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

NOTE 11 Fair value measurement of financial instruments, cont.

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. 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.

Financial instruments at cost or amortised cost				
31 December 2017				
SEK m				
	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public	-	-	1,227,923	1,227,923
Total	-	-	1,227,923	1,227,923
Liabilities				
Due to credit institutions	-	562,418	-	562,418
Issued securities	569,011	60,446	-	629,457
Subordinated liabilities	-	-	-	-
Total	569,011	622,864	-	1,191,875

Financial instruments at cost or amortised cost				
31 December 2016				
SEK m				
	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public	-	-	1,161,681	1,161,681
Total	-	-	1,161,681	1,161,681
Liabilities				
Due to credit institutions	-	501,783	-	501,783
Issued securities	552,897	70,625	-	623,522
Subordinated liabilities	-	23,350	-	23,350
Total	552,897	595,758	-	1,148,655

NOTE 12 Pledged assets and contingent liabilities

SEK m	31 Dec 2017	31 Dec 2016
Assets pledged for own debt ¹	665,805	667,920
Pledged assets	665,805	667,920
Commitments	1,615	1,592
Contingent liabilities	1,615	1,592

¹ The cover pool comprises loans against mortgages in single-family housing, 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 buildings with a loan-to-value ratio of up to 60% of the market value plus additional collateral in the form of cash funds on a blocked account. A separate specification is kept of the assets and the covered bonds, and also derivatives relating to these. In the event of the company's insolvency, pursuant to the Swedish Right of Priority Act, the holders of Stadshypotek's covered bonds have prior rights to the assets registered as collateral. If, at the time of a bankruptcy decision, the assets in the cover pool fulfil the terms of the Act, these must instead be kept separate from the bankruptcy estate's other assets and liabilities. In this event, the holders of the bonds must receive contractual payments under the terms of the bond for the period until maturity.

NOTE 13 Segment information

Income statement	Full year 2017			Full year 2016		
	Private	Corporate	Total	Private	Corporate	Total
SEK m						
Net interest income	10,036	3,321	13,357	9,229	3,133	12,362
Net fee and commission income	-19	-7	-26	-22	-7	-29
Net gains/losses on financial transactions	32	10	42	62	20	82
Total income	10,049	3,324	13,373	9,269	3,146	12,415
Expenses	-852	-282	-1,134	-784	-263	-1,047
Profit before loan losses	9,197	3,042	12,239	8,485	2,883	11,368
Net loan losses	9	1	10	-1	-1	-2
Operating profit	9,206	3,043	12,249	8,484	2,882	11,366
Loans to the public	840,119	382,337	1,222,456	790,939	359,672	1,150,611

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	Full year 2017		Full year 2016	
	Income	Total assets	Income	Total assets
SEK m				
Sweden	11,678	1,079,229	11,087	1,015,817
Norway	896	79,832	598	80,881
Denmark	422	44,781	345	39,676
Finland	377	52,609	385	51,151
Total	13,373	1,256,451	12,415	1,187,525

NOTE 14 Related-party transactions

Group claims/Group liabilities	31 Dec 2017	31 Dec 2016
BALANCE SHEET		
Group claims		
Loans to credit institutions	12,565	12,027
Derivative instruments	16,895	22,746
Other assets	55	76
Total	29,515	34,849
Group liabilities		
Due to credit institutions	557,742	497,110
Derivative instruments	3,697	4,429
Other liabilities	10,858	10,657
Subordinated liabilities	-	21,700
Total	572,297	533,896
INCOME STATEMENT		
Interest income	188	180
Interest expense ¹	397	809
Fee and commission expense	-6	-7
Other administrative expenses	-958	-908
Total	-379	74

¹ Interest expense includes interest from derivative instruments which may have both a positive and a negative impact on interest expenses.

The business operations of Stadshypotek are highly decentralised. The basic principle is that the organisation and working practices are centred around the Handelsbanken Group's branch offices, 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

each of the respective countries. Lending is to be carried out to the extent and on the terms stated in Stadshypotek's Credit Policy and Credit Instructions, established annually by the Board of Stadshypotek. The Credit Instructions include the maximum permitted loan-to-value

NOTE 14 Related-party transactions, cont.

ratio for various property types, as well as the decision levels applying to Stadshypotek's lending via the Bank's branches. The Credit Instructions also state that for loan amounts in excess of a certain limit, an advance examination of the case and an approval of the property is to be provided by Stadshypotek's credit committee before the loan is 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 in other

administrative expenses, consist primarily of compensation to Handelsbanken's branch operations relating to the administration, management and sale of mortgage loans, and to 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.

NOTE 15 Capital adequacy

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 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 2017	31 Dec 2016
Equity	54,068	33,018
Deduction for profit for the year	-1,509	-
Deduction for puttable financial instruments classified as equity	-21,700	-
Deduction for intangible assets	-6	-12
Price adjustments (fair value)	-1	0
Adjustment for cash flow hedges	-741	-2,607
Special deduction for IRB institutions	-418	-236
Common equity tier 1 capital	29,693	30,163
Additional tier 1 capital	-	-
Tier 1 capital	29,693	30,163
Perpetual subordinated loans	-	5,300
Dated subordinated loans	-	16,400
Puttable financial instruments classified as equity	21,700	-
Tier 2 capital	21,700	21,700
Own funds	51,393	51,863
Capital requirement		
SEK m	31 Dec 2017	31 Dec 2016
Credit risk according to standardised approach	14	18
Credit risk according to IRB Approach	6,239	4,782
Operational risk	1,484	1,360
Total capital requirement	7,737	6,160
Adjustment according to Basel I floor	40,730	39,017
Capital requirement, Basel I floor	48,467	45,177
Total own funds, Basel I floor	51,812	52,099
Capital adequacy analysis		
31 Dec 2017	31 Dec 2016	
Common equity tier 1 ratio, CRD IV	30.7%	39.2%
Tier 1 ratio, CRD IV	30.7%	39.2%
Total capital ratio, CRD IV	53.1%	67.4%
Risk exposure amount CRD IV, SEK m	96,697	76,997
Own funds in relation to capital requirement according to Basel I floor	107%	115%
Institution-specific buffer requirement	4.2%	3.8%
<i>of which capital conservation buffer requirement</i>	2.5%	2.5%
<i>of which countercyclical capital buffer requirement</i>	1.7%	1.3%
Common equity tier 1 capital available for use as a buffer	26.2%	34.7%

NOTE 15 Capital adequacy, cont.

Credit risks IRB 31 December SEK m	Exposure amount		Average risk weight, %		Capital requirement	
	2017	2016	2017	2016	2017	2016
Sovereign, municipalities and central banks ¹	26,920	-	7.8	-	169	-
Corporate exposures	337,246	311,382	9.9	6.6	2,683	1,640
of which other lending, foundation approach	-	5	-	49.1	-	0
of which other lending, advanced approach	337,246	311,377	9.9	6.6	2,683	1,640
- Large corporates	250	164	36.3	31.8	7	4
- Medium-sized companies	12,689	10,723	24.1	19.8	244	170
- Property companies	153,464	145,265	16.3	10.0	2,000	1,159
- Housing co-operative associations	170,843	155,225	3.2	2.5	432	307
Retail exposures	856,150	805,338	4.9	4.9	3,387	3,142
of which private individuals	850,021	798,588	4.9	4.8	3,304	3,053
of which small companies	6,129	6,750	17.0	16.5	83	89
Total IRB	1,220,316	1,116,720	6.4	5.4	6,239	4,782

Capital requirement credit risks, standardised approach ² 31 December SEK m	2017			2016		
	Exposure value	Average risk weight, %	Capital requirement	Exposure value	Average risk weight, %	Capital requirement
Sovereign and central banks ¹	-	-	-	3,397	0.0	0
Municipalities	-	-	-	27,277	0.0	0
Institutions	41,885	0.0	0	46,895	0.0	0
Corporate	57	100.0	5	8	100.0	1
Retail	108	100.0	9	-	-	-
Other items	2	100.0	0	211	100.0	17
Total	42,052	0.3	14	77,788	0.3	18

¹ During the year, Stadshypotek received permission to calculate its sovereign exposures and exposures to municipalities and central banks in accordance with the IRB Approach.

² Details of capital requirement for exposure classes where there are exposures.

Leverage ratio

As of 2015, a disclosure requirement applies under CRD IV regarding a non-risk-based leverage ratio. No legally binding requirement has yet been decided, but on 23 November 2016, the EU Commission published its proposal that 3% be applied.

31 December SEK m	2017	2016
Balance sheet according to the reporting regulations	1,256,451	1,187,525
Adjustment for differences between the carrying amount and leverage exposure – derivatives	7,310	7,823
Assets recognised off the balance sheet, gross (before adjustment of the credit conversion factor)	93	422
Deduction from assets off the balance sheet after applying the credit conversion factor	-47	-211
Assets reported off the balance sheet net	47	211
Further adjustments according to CRR, Article 429.4	-1,167	-2,855
Deductions for exposures to Group companies as referred to in CRR Article 429.7	-36,843	-
Assets on which the leverage ratio is calculated	1,225,798	1,192,704
Capital on which the leverage ratio can be calculated		
Tier 1 capital	29,693	30,163
Leverage ratio	2.42%	2.53%
Leverage ratio calculated using tier 1 capital		

NOTE 16 Material events after balance sheet date

As of 15 February 2018, Stadshypotek has a new Chief Executive, Maria Lidström Andersson.

Calculation of key figures

For definitions, see page 22.

Return on equity SEK m	Jul-Dec 2017	Jul-Dec 2016	Full year 2017	Full year 2016
Equity at 31 December	32,368	33,018	32,368	33,018
Adjustment hedge reserve	-741	-2,607	-741	-2,607
Paid Group contribution reversed	8,034	7,878	8,034	7,878
Total adjusted equity at 31 December	39,661	38,289	39,661	38,289
Adjusted equity average¹	37,232	35,980	37,924	36,368
Profit for the period	5,037	4,528	9,543	8,857
Return on equity	27.1%	25.2%	25.2%	24.4%

¹ An average of the closing balance for the past three and five quarters respectively.

Definitions

ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures (APMs) are financial measures of historical and future performance, financial position or cash flow that are defined neither in IFRS nor the capital requirement regulations. Stadshypotek uses APMs to describe the performance of the operations and to increase comparability between periods. These need not be comparable with similar key figures (performance measures) presented by other companies.

C/I ratio

Total expenses in relation to total income. The C/I ratio is calculated before and after loan losses, including changes in value of repossessed property.

Impaired loan

Loans are classified as impaired loans if contracted cash flows are not likely to be fulfilled. The full amount of all claims which give rise to a specific provision are included in impaired loans even if parts are covered by collateral.

Impaired loans reserve ratio excluding collective provisions

Total provisions excluding collective provisions in relation to gross impaired loans.

Loan loss ratio

Loan losses in relation to loans to the public at the beginning of the year.

Net interest margin

Net interest income in relation to average total assets.

Non-performing loan

A loan where interest, repayments or overdrafts have been due for payment for more than 60 days.

Proportion of impaired loans

Net impaired loans in relation to total loans to the public and credit institutions (excluding banks).

Return on equity

Profit for the year in relation to average equity adjusted for rights issues, dividends and changes in the value of derivatives in cash flow hedges.

KEY FIGURES DEFINED IN THE CAPITAL REQUIREMENT REGULATIONS

Additional tier 1 capital

Additional tier 1 capital comprises perpetual subordinated loans which meet the requirements stated in Regulation (EU) No 575/2013 and can therefore be included in the tier 1 capital.

Common equity tier 1 capital

Common equity tier 1 capital is one of the components of own funds and mainly comprises equity. Deductions are made for dividends generated, goodwill, and other intangible assets as well as the difference between an expected loss and provisions made for probable loan losses.

Common equity tier 1 ratio

Common equity tier 1 capital in relation to risk-weighted assets.

Common equity tier 1 ratio available for use as a buffer

The common equity tier 1 ratio after a deduction for the part of common equity tier 1 capital required to comply with all formal capital requirements.

Leverage ratio

Tier 1 capital in relation to total assets, including certain off-balance-sheet items recalculated with conversion factors defined in the standard approach and regulatory adjustments from own funds.

Own funds/Total capital

Own funds are the sum of tier 1 and tier 2 capital.

Risk-weighted assets

Total risk exposure amounts. The statutory capital requirement is based on this.

Tier 1 capital

Common equity tier 1 capital including additional tier 1 capital.

Tier 1 ratio

Tier 1 capital in relation to risk-weighted assets.

Tier 2 capital

Tier 2 capital is a sub-component of the capital base and comprises subordinated loans which meet the requirements stated in Regulation (EU) No 575/2013 and can therefore be included in the tier 2 capital.

Total capital ratio

Total own funds for capital adequacy purposes in relation to risk-weighted assets.

Submission of report

I hereby submit this report.
Stockholm, 7 February 2018

Ulrica Stolt Kirkegaard
Chief Executive

The Annual Report for 2017 will be published during the week starting 26 February and will then be available at www.stadshypotek.se.

Next report: to be published on 18 July 2018

Facts about the company

Registered name: Stadshypotek AB (publ).

Corporate identity number: 556459-6715.

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

ADDRESS

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