

Annual Report



Highlights of 2011

OPERATING PROFIT

Operating profit amounted to SEK 5,994 million (5,408)

NET INTEREST INCOME

Net interest income was SEK 6,244 million (5,501)

EXPENSES

Expenses were SEK 269 million (242)

BRANCH IN FINLAND

Stadshypotek established a branch in Finland on 1 May

LENDING

Lending rose by 11 per cent to SEK 844 billion

PUBLICATION DATES FOR INTERIM REPORTS

| | |
|-------------------|-----------------|
| January–March | 26 April 2012 |
| January–June | 17 July 2012 |
| January–September | 22 October 2012 |

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The Chief Executive's comments

Mortgage lending continued to rise in 2011, albeit at a lower rate than in the previous year, and Stadshypotek maintained its strong position in the Swedish mortgage market. The introduction of a mortgage cap and amortisation requirements, coupled with uncertainty in the economy, has contributed to the lower rate of growth for mortgages. The activity on the property market in Sweden was high during the first six months of the year but subsequently tapered off during the second half of the year. Recoveries exceeded new loan losses for the thirteenth consecutive year.

THE PAST YEAR

There was continued turbulence on financial markets during 2011. The Riksbank raised its repo rate three times – by 0.25 percentage points on each occasion – during the first seven months of the year before cutting it by 0.25 percentage points towards the end of the year. The justifications given for the cut included low inflationary pressure and a slowing Swedish economy.

Mortgage lending continued to rise during the year, although the rate of increase was lower than in 2010. Lending to the private market increased by SEK 118 billion overall, compared with SEK 159 billion in the previous year. In 2011, single-family house prices fell by 4 per cent and housing co-operative apartment prices fell by 1 per cent.

STADSHYPOTEK IS GROWING

Stadshypotek's lending volume continued to grow during the year. At year-end, loans to the public were SEK 844 billion – an increase of SEK 85 billion. Our lending to the private market in Sweden increased during the year by SEK 26 billion to SEK 503 billion at year-end. Stadshypotek's share of the private market in Sweden was unchanged at around 25 per cent.

Our lending to the corporate market in Sweden increased by SEK 21 billion to SEK 248 billion at year-end. Stadshypotek retained its position as a leading player on the Swedish corporate market, with a market share of around 33 per cent.

At 31 December 2011, mortgage financing (i.e. loans for houses, co-operative apartments and to multi-family dwellings) accounted for 92 per cent of Stadshypotek's loan portfolio, while loans to office properties and commercial buildings accounted for 8 per cent.

FINANCIAL PERFORMANCE

Stadshypotek's operating profit rose by SEK 586 million to SEK 5,994 million (5,408). The higher profit can be attributed to an increase of SEK 743 million in net interest income to SEK 6,244 million. Of the net interest income, SEK 396 million (438) was attributable to the branch in Norway, SEK 89 million (24) to

the branch in Denmark and SEK 79 million (–) to the branch in Finland, which began operating on 1 May 2011. Thus, excluding the branches, net interest income rose by SEK 641 million, due to an increase in lending volumes and higher margins as the result of the company's good position on the funding market. Net interest income was affected negatively by SEK 119 million compared with the previous year, since from 1 January 2011, the fee to the Swedish Stabilisation Fund is no longer halved. Net gains/losses on financial items at fair value amounted to SEK 19 million (129).

RESPECT FOR CREDIT RISKS

Recoveries exceeded new loan losses for the thirteenth consecutive year, reflecting how we can achieve high standards of credit quality as a result of Handelsbanken's branch network being close to the customer and of the branch's knowledge of local market conditions. We have every respect for credit risks. This is why we and Handelsbanken attach great importance to our decentralised method of working. Handelsbanken branches know their customers well and the branches also monitor the price trends on their local housing market.

“It is gratifying that in 2011, for the eleventh successive year, we had the highest proportion of satisfied customers among the major bank-owned mortgage institutions.”

SATISFIED CUSTOMERS

It is gratifying that in 2011, for the eleventh successive year, we had the highest proportion of satisfied customers among the major bank-owned mortgage institutions. Moreover, the gap between us and the other institutions has widened since the previous survey. Our aim, now as in previous years, is to have more satisfied customers than our competitors. We strive to provide the best service on the mortgage market by always focusing on the customer's requirements, allowing all business decisions relating to individual customers to be taken at a local branch close to the customer.

STADSHYPOTEK IN DENMARK, NORWAY AND FINLAND

On 1 May 2011, Stadshypotek established a branch in Finland under the name Handelsbanken Asuntoluottopankki. The branch's operations are to provide mortgage loans to private customers through Handelsbanken's branch offices in Finland. On 1 August 2011, the branch acquired a portfolio of mortgage loans from Handelsbanken's branch in Finland. The volume of the loans acquired was around SEK 28 billion. The main purpose of the acquisition was to be able to use these loans as the

basis for covered bonds in Stadshypotek's name. At 31 December 2011, our loan volume in Finland amounted to SEK 28 billion. Since 1 May 2010, Stadshypotek also has a branch in Denmark (Handelsbanken Kredit) and since 1 August 2008 a branch in Norway (Handelsbanken Eiendomskreditt NUF). At 31 December 2011, our loan volume amounted to SEK 10 billion in Denmark and SEK 53 billion in Norway.

AND FINALLY

Thank you for the interest you have shown in our operations. To learn more about Stadshypotek

and our products, please visit one of Handelsbanken's branches or Stadshypotek's website, www.stadshypotek.se (in Swedish only).

Stockholm, February 2012
Per Beckman



Key figures and definitions

| Key figures | 2011 | 2010 | 2009 | 2008 | 2007 |
|----------------------------------|---------|---------|---------|---------|---------|
| Profit before loan losses, SEK m | 5,982 | 5,370 | 5,730 | 3,607 | 3,856 |
| Loan losses/recoveries, SEK m | 12 | 38 | 31 | 75 | 70 |
| Operating profit, SEK m | 5,994 | 5,408 | 5,761 | 3,682 | 3,926 |
| Total assets, SEK m | 880,027 | 796,681 | 722,790 | 659,498 | 540,900 |
| Equity, SEK m | 25,367 | 24,431 | 21,692 | 20,018 | 19,783 |
| Return on equity, % | 19.8 | 16.2 | 18.3 | 12.2 | 12.6 |
| C/I ratio before loan losses, % | 4.3 | 4.3 | 3.6 | 5.1 | 4.2 |
| C/I ratio after loan losses, % | 4.1 | 3.6 | 3.0 | 3.1 | 2.4 |
| Net interest margin, % | 0.75 | 0.72 | 0.88 | 0.66 | 0.72 |
| Loan loss ratio, % | -0.00 | -0.01 | -0.00 | -0.01 | -0.01 |
| Impaired loans reserve ratio, % | 39.8 | 38.4 | 47.3 | 37.8 | 28.7 |
| Proportion of impaired loans, % | 0.01 | 0.01 | 0.01 | 0.02 | 0.04 |
| Capital ratio, %* | 58.1 | 48.9 | 39.9 | 37.1 | 40.3 |
| Tier 1 ratio, %* | 40.5 | 36.8 | 28.4 | 25.9 | 28.5 |
| Return on total assets, % | 0.72 | 0.71 | 0.84 | 0.63 | 0.76 |
| Average number of employees | 41 | 40 | 37 | 37 | 34 |

* According to Basel II.

DEFINITIONS

Capital ratio

The capital ratio is the capital base in relation to risk-weighted assets. The capital ratio must be at least 8 per cent. See note 30, Capital adequacy analysis, on page 39.

C/I ratio

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

Impaired loan

A loan where payments will probably not be met according to the conditions of the contract. A loan is not an impaired loan if there is collateral which covers the principal amount, interest and penalties for late payments by a satisfactory margin.

Impaired loans reserve ratio

Provision for probable loan losses as a percentage of gross impaired loans.

Loan loss ratio

Loan losses and changes in value of repossessed property in relation to the opening balance for loans to the public, loans to credit institutions (excluding banks), repossessed property and credit guarantees.

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).

Restructured loan

A loan where some kind of concession has been made due to the borrower's inadequate payment capacity.

Return on equity

Earnings for the period after appropriations and tax in relation to average equity adjusted for rights issues and dividend and also including minority interests.

Return on total assets

Operating profit before tax in relation to average total assets.

Tier 1 ratio

Tier 1 capital in relation to risk-weighted assets. See note 30, Capital adequacy analysis, on page 39.

Organisation and personnel

Stadshypotek AB, corporate identity number 556459-6715, is a public credit market company authorised to conduct operations under the Swedish Banking and Financing Business Act. Its core business comprises the financing of residential property and also office and commercial buildings. Since 1997, the company has been a wholly owned subsidiary of Svenska Handelsbanken AB (publ), corporate identity number 502007-7862.

GROUP STRUCTURE

Stadshypotek AB is the parent company of a sub-group that is responsible for Handelsbanken's mortgage business in Sweden, Denmark, Finland and Norway. In Sweden, the business comprises the financing of residential property and also office and commercial buildings. The business operations of Stadshypotek's branches in Denmark, Finland and Norway focus primarily on the financing of residential property. The Stadshypotek Group consists of the parent company Stadshypotek AB, Stadshypotek Delaware, Inc. and the dormant company Svenska Intecknings Garanti AB Sigab. The subsidiary, Stadshypotek Delaware, Inc., has the task of issuing instruments for short-term funding in the US market.

Since 1 August 2008, Stadshypotek's operations have included a branch in Norway called Handelsbanken Eiendomskreditt NUF. This development was accompanied by the acquisition of a mortgage loan portfolio amounting to some NOK 40 billion from the parent company's branch in Norway. On 1 May 2010, Stadshypotek established a branch in Denmark under the name Handelsbanken Kredit and on 1 October a loan portfolio of around DKK 3 billion was acquired from the parent company's branch in Denmark. On 1 May 2011, a branch was established in Finland under the name Handelsbanken Asuntoluottopankki and on 1 August, a mortgage loan portfolio of around EUR 3 billion was acquired from the parent company's branch in Finland. These businesses were established to expand the Handelsbanken Group's collateral for covered bonds, thereby enabling increased funding via such bonds.

The administration report covers the Stadshypotek Group. However, as the information reported for the parent company is identical to that reported for the Group, no separate disclosures have been made in respect of the parent company.

INTEGRATION WITH HANDELSBANKEN

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 while the lending operations in Stadshypotek's branches in Denmark, Finland and Norway are run via Handelsbanken's branch operations in each of the respective countries. Stadshypotek's treasury function is integrated with Handelsbanken's Central Treasury. Functions necessary for management and control of the company remain within Stadshypotek. Those services which Handelsbanken performs on behalf of Stadshypotek are regulated in a collaboration agreement between the parties.

Stadshypotek's decentralised method of working has been successfully applied since Handelsbanken's acquisition of the company in 1997; this is the main reason for the strong market position of Stadshypotek.

ENVIRONMENTAL WORK

Work on environmental issues is now a well-established part of Stadshypotek's operations, in terms of internal work, granting credit and other operations. Environmental work is carried out in close co-operation with Handelsbanken and is thereby covered by the agreements and policy decisions that apply within the Handelsbanken Group.

Environmental issues associated with granting loans

Environmental aspects are observed in accordance with the Handelsbanken Group's credit policy, which states that, in its lending operations, the Bank must maintain sound ethical standards. When evaluating credit risk, any environmental risks are included in the assessment of repayment capacity. For property-related lending, it is important to take into account whether environmentally-harmful activities are or have been conducted in the property or whether the property itself has a harmful effect on the environment. Environmental factors in the vicinity of the property are also taken into consideration as much as possible.

The customer is always responsible for how operations are conducted, and compliance with the environmental requirements prescribed in laws and public authority directives. The Handelsbanken Group's assessment of credit

risk, and thus repayment capacity, is affected by the customer's willingness and ability to manage these risks.

EMPLOYEES

In 2011, the average number of employees at Stadshypotek was 41 (40). Of these, 56 per cent (52) were women and 44 per cent (48) were men. Stadshypotek's branches in Finland and Norway have no employees. They buy all services from Handelsbanken's branch in each of the respective countries. At Stadshypotek's branch in Denmark, two people are employed on an hourly basis and administrative services are purchased from Handelsbanken's branch in Denmark. The heads of Handelsbanken's regional banks in Denmark, Finland and Norway also represent Stadshypotek's branches in each of the respective countries.

Staff development

The decentralised way of working adopted by the parent company Handelsbanken also applies to the employees at Stadshypotek. The Handelsbanken Group's decentralised method of working and its idea of how to run a successful business is essentially based on trust in and respect for the individual. This way of working gives employees a considerable degree of freedom and creates a sense of involvement and the opportunity to make a difference.

All employees take part in their unit's business planning process, to create the conditions required to reach set targets. Guided by the business plan, employees meet their immediate superior for a planned and structured discussion that covers planning and personal development matters. This involves a discussion of the employee's contribution to operational goals and the conditions required to deal with specific tasks. The discussion is used to develop an individual action plan which is continuously followed up. This action plan later forms the basis of the salary dialogue review between manager and employee. Individual salary reviews are another expression of the aim to decentralise responsibility and authority within the Handelsbanken Group.

Stadshypotek is part of the Handelsbanken Group's internal labour market and its need for employees at various levels is met primarily through internal recruitment and promotion. Managers must be exemplary ambassadors for

the Bank's corporate culture, which explains why most managers are recruited internally.

Gender equality

The Handelsbanken Group has a gender equality policy, which states that equal conditions must apply to men and women regarding career development within the Group. Regardless of background, employees are individuals with their own characteristics and strengths and their own way of expressing themselves. No type of discrimination is allowed within the Handelsbanken Group. Gender equality work at the Handelsbanken Group is constantly in progress, and it is vital for the Group to be able to attract and retain competent employees. A prioritised element of the work related to equality is increasing awareness of how social and cultural norms affect us in our daily lives. As part of this process, Stadshypotek's management has attended courses on gender equality. In 2011 in Sweden, the Handelsbanken Group took a further step in its gender equality work by focusing on rectifying unjustified salary differences between men and women.

Working environment and health

The overall, long-term goal of working environment efforts is for the employees to enjoy good health, to develop on a personal level and to function in an optimal way. A work environment status report is carried out at least once a year by managers, together with work environment representatives and employees, and this covers

both the physical and the psycho-social working environment. The results of the report must be discussed as part of the unit's business planning.

OKTOGONEN – THE HANDELSBANKEN GROUP'S PROFIT-SHARING SCHEME

Stadshypotek's employees are covered by the Handelsbanken Group's profit-sharing scheme. Allocations to the profit-sharing scheme are subject to the Handelsbanken Group achieving its goal of higher return on equity than a weighted average of other comparable listed Nordic and British banks. One-third of the extra profit can be allocated to the employees. The amount is limited to 15 per cent of the dividends to shareholders. The funds allocated are managed by the Oktogonen Foundation. Each employee receives an equal part of the allocated amount. Payments can be made once an employee has reached the age of 60.

BOARD AND CHIEF EXECUTIVE

During the year, the Board convened 36 times, of which 32 times by correspondence.

At the annual general meeting on 21 March 2011, Håkan Sandberg, Yonnie Bergqvist and Olle Lindstrand were re-elected as members until the annual general meeting has been held in 2012. Two new members were elected to the Board: Rainer Lawniczak and Thommy Mossinger. At an extraordinary general meeting held on 10 November 2011, Per Beckman was elected as a new member of the Board.

In connection with this, Rainer Lawniczak's assignment as a member of the Board ended prematurely. A list of the members of the Board can be found on page 43.

Chief executive Lars Kahlund was appointed head of Handelsbanken's Central Credit Department and left his position as chief executive of Stadshypotek on 28 February 2011. Rainer Lawniczak was appointed as the new chief executive of Stadshypotek and took up this position on 1 March 2011. With effect from 1 December 2011, Rainer Lawniczak was appointed as head of the new business area Handelsbanken Forestry and Farming and in connection with this appointment left his position as chief executive of Stadshypotek. Per Beckman, formerly head of Handelsbanken Capital Markets, was appointed new chief executive with effect from 1 December. For information on certain terms of employment for senior management and on loans to Board members and senior management, see note 6 on pages 30 and 31.

AUDITORS

At the annual general meeting in 2008, KPMG AB were appointed auditors of Stadshypotek AB, with Stefan Holmström, authorised public accountant, as the auditor in charge until the annual general meeting in 2012.

Lending

STADSHYPOTEK'S ROLE IN HANDELSBANKEN

In the Handelsbanken Group's Swedish operations, mortgage finance is conducted principally via Stadshypotek. At Stadshypotek's branches in Denmark, Finland and Norway, business operations focus primarily on the financing of residential property. Lending takes place through Handelsbanken's branch network in the country concerned. As a result of the decentralised method of working within the Handelsbanken Group, the branches have been delegated responsibility for marketing, contact with customers, pricing and processing all mortgage loans. Handelsbanken thus acts as an agent for Stadshypotek, with responsibility for ensuring that credit assessment and collateral valuations are carried out in accordance with the guidelines approved by Stadshypotek's Board. The arrangement is regulated in a collaboration agreement between Handelsbanken and Stadshypotek.

The position of the Handelsbanken Group in the Swedish mortgage market has been secured by a customer-oriented range of products, a branch network that operates close to its customers and a high level of service.

THE MORTGAGE LOAN MARKET IN SWEDEN

During the year the Swedish mortgage market was characterised by a continued demand for mortgage loans, albeit not as high as in the previous year. According to statistics from the Swedish Bankers' Association, lending to the public for first mortgage loans rose by SEK 149 billion (211) during the year. Loans to the private market increased by SEK 118 billion (159), with loans for single-family houses accounting for SEK 77 billion (95) and loans for housing co-operative apartments accounting for SEK 41 billion (64). Loans for multi-family dwellings, commercial properties and office buildings, as well as loans against other collateral, went up by SEK 31 billion (51). At the year-end, lending to the public for first mortgage loans amounted to SEK 2,762 billion (2,613), with loans for single-family houses and housing co-operative apartments accounting for SEK 2,020 billion (1,902).

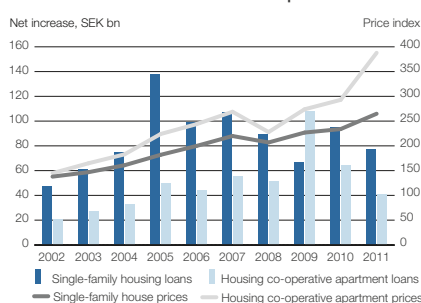
In 2011, prices of single-family houses decreased by an average of -4 per cent (3) for Sweden as a whole, according to Mäklarstatistik (estate agent statistics). As in previous years, there were considerable regional variations in

the changes in price. Continued migration to the metropolitan areas, with their limited supply of housing, also led to stable prices in these areas in 2011. Single-family house prices declined by -4 per cent (4) in the Gothenburg area and by -3 per cent (3) in the Stockholm area, while in the Malmö area, single-family house prices fell by -6 per cent (-1). In December 2011, the average price for a single-family house sold in Sweden was SEK 2,063,000 (2,130,000). Average house prices exceeded SEK 1 million in 18 of the country's 21 counties. The county of Stockholm had the highest average price, at just over SEK 4.0 million (3.9). In Halland, Skåne, and Uppsala, average single-family house prices were just over SEK 2 million.

According to Mäklarstatistik, the average prices of housing co-operative apartments for Sweden as a whole decreased by -1 per cent (7). The price of housing co-operative apartments dropped by -3 per cent (7) in the Greater Stockholm area, by -4 per cent (9) in the Gothenburg area, and by -8 per cent (2) in the Malmö area. In the more central districts of these cities, the price decrease was slightly greater. In December 2011, the average price throughout Sweden for such apartments was SEK 1,338,000 (1,451,000). The increase in prices during the first half of 2011 came to an end in the summer and autumn, and price levels at the end of 2011 were lower than at the beginning of the year. In areas where there is high demand for homes but a short supply, prices have decreased less than in areas with a plentiful supply of properties.

Housing prices are still at a high level in historical terms, due to low interest rates, increasing population and low levels of residential property

Private homes – net increase and price index



Source: Estate agent statistics, Sweden Bankers' Association and Swedish National Land Survey (LMV).

construction. Residential property prices are being affected by the global economic turmoil, and this is leading to uncertainty in the outlook for prices.

Market rents for offices rose slightly in 2011, and there was greater interest in investing in the commercial property market than in 2010. The vacancy ratio for offices has stabilised and is expected to remain at current levels. Modern office premises hold greater appeal as rental properties than less modern premises, and this is also reflected in the level of rents and vacancies. Prices of multi-family dwellings rose during the year, as did the number of sales.

THE MORTGAGE LOAN MARKET IN NORWAY

According to Statistics Norway, the Norwegian mortgage market continued to grow during the year, with mortgage lending to private customers rising by 8.2 per cent (6.5). Mortgage lending to private customers amounted to NOK 1,624 billion (1,502) at the year-end.

Residential property prices rose by 9.0 per cent (8.1) during 2011. Most of this increase occurred during the first six months of the year, after which the rate of price increases slowed. During the final quarter, prices fell by 0.7 per cent, according to Eiendomsverdi.

THE MORTGAGE LOAN MARKET IN DENMARK

According to the Association of Danish Mortgage Banks (Realkreditrådet), the Danish mortgage market grew by 1.8 per cent (3.2) during the year. At the end of the year, mortgage lending to private customers amounted to DKK 1,407 billion (1,382). Single-family house prices fell by -8.5 per cent during the period up to the end of November 2011 compared with the level at the end of November 2010, according to Realkreditrådet.

THE MORTGAGE LOAN MARKET IN FINLAND

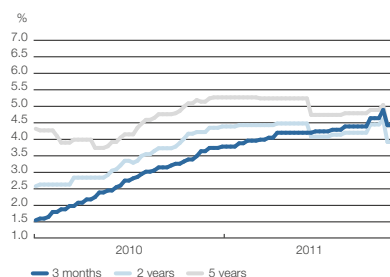
According to the Bank of Finland, the Finnish mortgage loan market grew by 6.6 per cent in 2011. At the end of the year, mortgage lending to households amounted to EUR 81.8 billion. Housing prices were up by 0.4 per cent from December 2010, according to Statistics Finland.

INTEREST RATE TRENDS IN THE SWEDISH MORTGAGE MARKET

During the year, the Riksbank raised its repo rate three times (a total of 0.75 percentage points) and cut the rate once (by -0.25 percentage points). This cut, which was decided at the Riksbank's monetary policy meeting on 21 December, meant that the repo rate at the year-end was 1.75 per cent.

At the beginning of the year, the interest rate for mortgages with a fixed interest period of three months was 3.15 per cent; by the end of the year this had risen to 4.43 per cent. The interest on a two-year mortgage was raised from 3.73 per cent to 3.92 per cent. The five-year lending rate began the year at 4.76 per cent, and by December it had decreased to 4.40 per cent.

Lending rate Stadshypotek



STADSHYPOTEK'S LENDING

Stadshypotek's loan volumes in Sweden rose by SEK 47.3 billion (67.7). Loans to the private market increased by SEK 26.5 billion (42.0), while loans to the corporate market grew by SEK 20.8 billion (25.7). Stadshypotek's loans to the public in Sweden were SEK 751.0 billion (703.7) at the end of the year. Stadshypotek's share of the mortgage loan market was 24.9 per cent (25.1) on the private side and 33.4 per cent (31.9) for the corporate side. Stadshypotek's market share as a lender to housing co-operative associations stood at 33.8 per cent (32.2) at the year-end. As at 31 December 2011, Stadshypotek's total share of the Swedish market for mortgage loans was 27.2 per cent (26.9).

At year-end, lending to the public by Stadshypotek's branch in Norway totalled NOK 46.5 billion (42.1), with the private market accounting for NOK 39.4 billion (35.6) and the corporate market accounting for NOK 7.1 billion (6.5). Lending to the public by Stadshypotek's branch in Denmark totalled DKK 8.3 billion at the year-

end (5.4), all of which related to loans to the private market. At year-end, lending to the public by Stadshypotek's branch in Finland totalled EUR 3.2 billion, with the private market accounting for EUR 2.5 billion and the corporate market accounting for EUR 0.7 billion.



Funding

The Treasury department of Stadshypotek is integrated with Handelsbanken's Treasury department. This organisational structure offers the best conditions for using the funding source as well as the instrument offering the lowest funding cost each time funding is carried out. An integrated Treasury department has also made it possible to efficiently use the Handelsbanken Group's liquidity.

FUNDING INSTRUMENTS

Stadshypotek raises funds mainly on the Swedish, European and US money and capital markets and through the parent company. The primary source of funding is bond loans in Sweden.

Bonds are issued in the company's own name and primarily within the framework of a benchmark loan system aimed at the Swedish institutional market. This means that only a small number of separate bond loans are issued, with respective final maturity dates set at intervals of about nine months. Concentrating large volumes into a small number of loans in this manner achieves good market liquidity.

As at year-end 2011, Stadshypotek has 10 outstanding benchmark loans which mature between 2012 and 2022. Stadshypotek's bond loans are arranged by six market makers.

In 2006, a Euro Medium Term Covered Note (EMTCN) programme was set up for international issues of covered bonds. The total facility amount of this programme is EUR 20 billion. Agreements have been signed with 19 banks which arrange issues under this programme. The EMTCN programme has received an Aaa rating from Moody's.

In autumn 2010, a US Medium Term Covered Bond programme was launched for issues in the US. The total facility amount of this programme is USD 15 billion. Stadshypotek has reached sales agreements with 11 banks as part of the programme.

In the second half of 2011, two new programmes were established: one within the EMTCN programme intended for issues in Australia, directed at Australian and Asian investors, and one programme primarily intended for issues in NOK directed at Norwegian investors. The latter programme is guaranteed by a separate pool of assets that consists entirely of Norwegian properties.

Stadshypotek has active commercial paper programmes in Sweden, the US and Europe. The ceiling for the Swedish commercial paper programme is SEK 90 billion. The ceilings for the US and European programmes are USD 5 billion and EUR 4 billion respectively.

BOND YIELD TRENDS

Stadshypotek's fixed-rate lending is mainly funded on the Swedish bond market. In 2011, long Swedish bond yields remained low in historical terms, just as they had done in 2010. Following an upward trend early in the year, long bond yields in Sweden decreased, just as they did in Germany and the US. This meant that the 2011 average level for long Swedish bond yields was the lowest ever. Despite the monetary policy differences between Sweden and neighbouring markets (e.g. the rest of Europe), the trend for short-term Swedish bond yields was similar to that for German bonds, for example. Essentially, the change in short-term bond yields was almost parallel to long yields, with an initial upswing that, towards the end of the year, switched to a downturn, with record low yields.

International bond yield trends

The international bond market was affected to a great extent by the European debt crisis. Bond yields that were deemed to be less secure (e.g. Greek bonds) increased markedly, which created large spreads compared with high value bonds (e.g. the Swedish). The globally fragile situation, with a weak economy and low growth, meant that negative information of various types regularly gave rise to serious doubts as to the strength of the global economy. For example, in the first half of the year, the market was affected by the natural disasters in Japan, as well as the turmoil in North Africa and the Middle East, which caused macroeconomic uncertainty and market turbulence. However, what was key throughout the year was the European debt crisis, in which market unrest increased significantly during the year. Appetite for risk steadily decreased, which meant that yields on bonds that were deemed secure were squeezed down. In 2011, the realisation that the imbalances in public finances also constituted a latent debt crisis for the banking system, particularly in Europe, affected the financial market as a whole. With growing uncertainty as regards

unity and the willingness to take political action in Europe, instability on the financial markets increased, which, among other things, hit global stock markets. However, despite the weakening confidence in the eurozone and the future of monetary union, the euro remained relatively strong, benefiting partly from the ECB's austere monetary policy. US monetary policy in 2011 was considerably more expansive, including a lower Fed funds rate throughout the year. Despite high unemployment, a weak recovery in historical terms and high public debt in the US, investors showed great confidence in the American economy, which contributed to the decrease in US bond yields. In summary, the international bond market was affected by the weak macroeconomic prospects and the constantly revised assessments of the implications of the debt crisis. Increases in yields during the first quarter of 2011 were followed by a sharp downward trend for both long- and short-term bonds, due partly to lowered forecasts for growth and inflation, and partly to increased risk aversion and higher demand for bonds.

International yields, 5-year government bonds

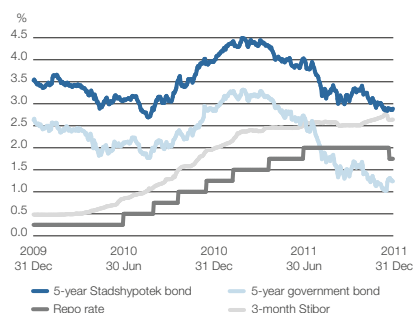


Interest rate and bond yield trends in Sweden

As the rapid recovery in the Swedish economy in 2010 continued in 2011, the Riksbank normalised the repo rate by making several hikes. However, a weaker outlook towards the end of the year caused forecasts to be revised and the repo rate to be cut. All told, short-term interest rates mostly increased over the course of the year. However, both short and long Swedish bond yields mainly correlated with attractive international bond yields, such as those from the US and Germany. It is worth noting that towards the end of the year, Swedish long yields

were lower than for the corresponding bonds from the US and Germany. The strong Swedish public finances had a particularly positive influence, and the rapid real economic recovery also had a positive effect. During the turbulence of 2011, the political stability, high credibility of economic policy and high competitiveness in Sweden were probably also contributory factors to the great interest shown by investors. Yields for mortgage bonds essentially tracked Swedish government bond yields, but the yield spreads between mortgage bonds and government bonds increased during the year; this has meant that yields for mortgage bonds have not decreased as much as those for government bonds.

Interest rate and bond yield trends in Sweden



COVERED BONDS

In spring 2006, Stadshypotek was granted permission by the Swedish Financial Supervisory Authority to issue covered bonds pursuant to the new law in Sweden on issuing covered bonds (2003:1223), which came into force in July 2004.

In September 2006, all outstanding bonds issued by Stadshypotek were converted to covered bonds. These bonds have been given the highest possible rating, Aaa, by Moody's.

Covered bonds are bonds with priority in those parts of the issuing institution's collateral approved by the legislation (known as the cover pool).

Of a total of SEK 745,503 million, some SEK 584,238 million (including 10 per cent

As at 31 December 2011, the cover pool assets, categorised by type of collateral, were as follows:

| Type of collateral | Sweden | Norway | Denmark | Finland | Total |
|---|----------------|---------------|--------------|---------------|----------------|
| Public | 19,086 | - | - | 2,597 | 21,683 |
| Single-family houses | 295,817 | 28,501 | 6,244 | 12,945 | 343,507 |
| Second homes | 22,070 | 2,059 | 684 | 822 | 25,635 |
| Rental property | 166,944 | 3,452 | 38 | 1 | 170,435 |
| Housing co-operative apartments, units | 115,943 | 3,171 | 5 | 20 | 119,139 |
| Housing co-operative apartments, shares | - | 332 | - | 5,730 | 6,062 |
| Single-family houses, shares | - | - | - | 4,341 | 4,341 |
| Commercial/Offices | 35,645 | 105 | 125 | 79 | 35,954 |
| Agricultural | 16,944 | 236 | 61 | 4 | 17,245 |
| Other | 631 | - | 871 | - | 1,502 |
| Total | 673,080 | 37,856 | 8,028 | 26,539 | 745,503 |

Over Collateral (OC), which is a safety buffer) was used in the cover pool as collateral for the debts. The remaining SEK 161,265 million provides an extra OC corresponding to around 32 per cent of nominal debts. As at 31 December 2011, the average loan-to-value (LTV) ratio for the assets in the cover pool was 48.5 per cent (48.9).

FUNDING

The co-ordination of Stadshypotek's and Handelsbanken's treasury departments is primarily effective in the funding of the lending at variable and short-term fixed rates in Stadshypotek. Handelsbanken has a liquidity surplus in Swedish kronor, part of which is transferred daily to Stadshypotek to finance some of its variable rate lending. Moreover, the lending at short-term fixed rates is also funded in Handelsbanken's name on



the international capital market and is then lent on to Stadshypotek.

As in previous years, Stadshypotek used commercial paper programmes in its own name in Sweden, the US and Europe to fund the lending with short-term rate fixing.

With the aim of reducing the liquidity risk, this financing is supplemented by long-term funding, which by means of swap agreements is adapted so that the interest fixing period matches the maturity of the lending. Thus Stadshypotek has good diversification of its short-term funding with respect to both geography and maturity. During the past few turbulent years, this diversification has helped ensure that the increase in the cost of Stadshypotek's funding has been relatively low.

Lending with long-term rate fixing has mainly been financed in Stadshypotek's own name in Sweden through the issue of mortgage bonds. In the international markets, the issues have been made in the name of Handelsbanken, and the parent company has subsequently lent the funds to Stadshypotek. Following the introduction of covered bonds and the setting-up of foreign programmes, Stadshypotek also has international long-term funding in its own name.

Stadshypotek uses swap agreements to reduce interest rate and currency risks in connection with funding. The use of derivatives increases flexibility in connection with the

financing. Thus, funding can be carried out when market conditions are favourable, without exposing the company to interest rate and currency risks. At the end of the year, swap agreements in which fixed interest is received totalled SEK 213.8 billion (218.7), while swap agreements paying fixed interest were SEK 102.8 billion (59.3). Sales of bonds from Stadshypotek's benchmark series during the year were SEK 126.4 billion (122.0). The carrying amount of the outstanding benchmark loans was SEK 408.4 billion (357.5) at the year-end.

Sales of bonds from the EMTCN programme totalled the equivalent of about EUR 4.1 billion (3.0), and the outstanding volume was about EUR 10.4 billion (7.3) at year-end.

No issues were made under the US programme during the year. The outstanding volume at year-end was unchanged compared to the previous year and amounted to USD 1.6 billion.

The outstanding volume under the Swedish commercial paper programme was SEK 2.0 billion (-). The outstanding volume in the European commercial paper programme was SEK 21.5 billion (8.1) at the end of the year.

New sales of retail bonds by Stadshypotek ceased in 2009. The carrying amount of Stadshypotek's retail bonds at year-end was SEK 0.4 billion (0.8).

Stadshypotek's total funding at year-end was SEK 830.2 billion (751.4), of which SEK 280.0 billion (303.2) came from Handelsbanken.

The breakdown of funding by instrument is shown in the table below.

RATINGS

The company's ratings remained unchanged in 2011, with a stable outlook.

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

| Stadshypotek's funding 31 December | 2011 | | 2010 | | Change |
|---|-----------------|--------------|-----------------|--------------|-------------|
| | Carrying amount | Share % | Carrying amount | Share % | |
| SEK bn | | | | | |
| Funding from the parent company | 280.0 | 33.7 | 303.2 | 40.4 | -23.2 |
| <i>of which subordinated loans</i> | 16.7 | - | 8.8 | - | 7.9 |
| Commercial paper | 2.0 | 0.2 | - | - | 2.0 |
| Bond loans, SEK | 446.2 | 53.7 | 377.0 | 50.2 | 69.2 |
| <i>of which repos</i> | 4.0 | - | 1.9 | - | 2.1 |
| Bond loans in foreign currency | 70.6 | 8.5 | 57.4 | 7.6 | 13.2 |
| Retail bonds | 0.4 | 0.1 | 0.8 | 0.1 | -0.4 |
| Commercial paper - US | - | - | - | - | - |
| Commercial paper - ECP | 21.5 | 2.6 | 8.1 | 1.1 | 13.4 |
| Valuation of bonds recognised as hedges | 9.5 | 1.2 | 4.9 | 0.6 | 4.6 |
| Total | 830.2 | 100.0 | 751.4 | 100.0 | 78.8 |

Performance and financial position

FINANCIAL PERFORMANCE

Stadshypotek's operating profit for the year was SEK 5,994 million (5,408), an increase of SEK 586 million, or 10.8 per cent, compared to the previous year. The higher operating profit can be attributed to an increase of SEK 743 million in net interest income.

OPERATING INCOME

Income totalled SEK 6,251 million (5,612), up 11.4 per cent on the figure for 2010. SEK 397 million of the income (439) was attributable to the branch in Norway, SEK 89 million (23) to the branch in Denmark and SEK 80 million (-) to the branch in Finland, which was established on 1 May 2011.

Net interest income increased by SEK 743 million, or 13.5 per cent, to SEK 6,244 million (5,501), of which SEK 396 million (438) was attributable to the branch in Norway, SEK 89 million (24) to the branch in Denmark and SEK 79 (-) million to the branch in Finland. Excluding the branches, net interest income thus rose by SEK 641 million, which was due to an increase in the lending volume and to improved margins due to the company's good

position in the funding market. However, net interest income was affected negatively by SEK 119 million compared with the previous year, since, from 1 January 2011, the fee to the Swedish Stabilisation Fund is no longer halved. Net gains/losses on financial items at fair value amounted to SEK 19 million (129).

EXPENSES AND LOAN LOSSES

Expenses amounted to SEK 269 million (242), of which SEK 43 million (41) was attributable to the branch in Norway, SEK 6 million (3) to the branch in Denmark and SEK 10 million (-) to the branch in Finland. Staff costs were unchanged compared to 2010. Other administrative expenses rose by SEK 20 million, chiefly due to an increase in the costs incurred for services purchased from the parent company and to IT costs related to the branch in Finland.

Recoveries exceeded new loan losses and the net amount recovered was SEK 12 million (38).

TAXES AND NET PROFIT FOR THE YEAR

The profit for the year after taxes of SEK 1,587 million (1,423) was SEK 4,407 million (3,985).

PROFITABILITY

The profit corresponded to a return on equity of 19.8 per cent (16.2). For a five-year overview of income statements and balance sheets, see page 46, and for key financial figures and ratios, see page 4.

TOTAL ASSETS AND EQUITY

As at 31 December 2011, Stadshypotek's total assets stood at SEK 880,027 million (796,681) and equity was SEK 25,367 million (24,431).

GROUP CONTRIBUTION

A Group contribution of SEK 4,700 million (1,628) has been provided to the parent company, Handelsbanken.

APPROPRIATION OF PROFITS

The Board proposes that all profits be carried forward to the next year. For a more detailed description of the appropriation of profits, refer to page 41.

| Summary of quarterly performance SEK m | 2011 | | | | 2010 |
|---|--------------|--------------|--------------|--------------|--------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 |
| Net interest income | 1,714 | 1,609 | 1,483 | 1,438 | 1,486 |
| Net gains/losses on financial items at fair value | 23 | -5 | -30 | 31 | 92 |
| Net fee and commission income | -2 | -4 | -2 | -4 | -5 |
| Total income | 1,735 | 1,600 | 1,451 | 1,465 | 1,573 |
| Expenses | -85 | -60 | -63 | -61 | -74 |
| Profit before loan losses | 1,650 | 1,540 | 1,388 | 1,404 | 1,499 |
| Loan losses | -9 | 0 | 11 | 10 | 8 |
| Operating profit | 1,641 | 1,540 | 1,399 | 1,414 | 1,507 |

Sensitivity analysis

The factors which have the greatest impact on Stadshypotek's operating profit are the lending margin, the lending volume, the investment yield on own funds, the loan loss ratio and changes in market interest rates. A calculation has been made of the impact of changes in each of these factors on the operating profit, on the assumption that everything else is unchanged. This is based on the balance sheet at the end of 2011.

LENDING MARGIN

In the case of an increase/decrease of the nominal lending margin by 0.01 percentage points, net interest income is positively/negatively affected by SEK 84 million (75). It should be noted that changes in interest rates only have a gradual impact on a portfolio of fixed-interest loans. If the lending margin changes, it will be a long time before the full impact is seen on

the average lending margin in the fixed-interest portfolio.

LENDING VOLUME

To calculate the impact of an increase/decrease in lending volume, an interval is specified, since loans which are added or deducted from the loan portfolio may have a different margin than the portfolio on average. The calculations comprise interest rate margins ranging from 0.5 per cent to 1.0 per cent. Based on these assumptions, an increase/decrease of the lending volume by one percentage point affects net interest income positively/negatively by SEK 42–84 million (38–75).

INVESTMENT YIELD ON OWN FUNDS

In the case of an increase/decrease in the investment yield on own funds of 0.10 percent-

age points, net interest income is positively/negatively affected by SEK 25 million (24).

MARKET RATE

The impact of net gains/losses on financial items at fair value in the case of changes in market interest rates is attributable to derivatives and lending and funding subject to hedge accounting. In the case of a parallel shift in the yield curve of +/- 0.10 percentage points, net gains/losses on financial items at fair value will increase/decrease by SEK 23 million (22).

LOAN LOSS RATIO

In the case of an increase/decrease of the loan loss ratio by 0.01 percentage points, loan losses are negatively/positively affected by SEK 76 million (68).



Income statement – Group

| Group SEK m | | 2011 | 2010 |
|--|--------------------|--------------|--------------|
| Interest income | | 29,869 | 20,353 |
| Interest expense | | -23,625 | -14,852 |
| Net interest income | <i>Note 3</i> | 6,244 | 5,501 |
| Net gains/losses on financial items at fair value | <i>Note 4</i> | 19 | 129 |
| Fee and commission income | | 12 | 10 |
| Fee and commission expense | | -24 | -28 |
| Net fee and commission income | <i>Note 5</i> | -12 | -18 |
| Other operating income | | 0 | 0 |
| Total operating income | | 6,251 | 5,612 |
| Staff costs | <i>Note 6</i> | -49 | -49 |
| Other administrative expenses | <i>Note 7</i> | -208 | -188 |
| Depreciation, amortisation and impairment of property, equipment and intangible assets | <i>Note 14, 15</i> | -12 | -5 |
| Total expenses before loan losses | | -269 | -242 |
| Profit before loan losses | | 5,982 | 5,370 |
| Net loan losses | <i>Note 8</i> | 12 | 38 |
| Operating profit | | 5,994 | 5,408 |
| Profit before tax | | 5,994 | 5,408 |
| Taxes | <i>Note 9</i> | -1,587 | -1,423 |
| Profit for the year | | 4,407 | 3,985 |
| Net earnings per share, before and after dilution, SEK | | 27,204 | 24,600 |

Statement of comprehensive income – Group

| Group SEK m | | 2011 | 2010 |
|--|--|--------------|--------------|
| Profit for the year | | 4,407 | 3,985 |
| Other comprehensive income (translation difference for the year) | | -7 | -47 |
| Total comprehensive income for the year | | 4,400 | 3,938 |

Balance sheet – Group

| Group | | | |
|---|---------|----------------|----------------|
| SEK m, 31 December | | 2011 | 2010 |
| Loans to credit institutions | Note 10 | 9,435 | 11,092 |
| Loans to the public | Note 11 | 843,929 | 758,855 |
| Value change of interest hedged item in portfolio hedge | | 4,490 | 4,744 |
| Derivative instruments | Note 13 | 18,211 | 17,348 |
| Intangible assets | Note 14 | 37 | 11 |
| Property and equipment | Note 15 | 0 | 0 |
| Other assets | Note 16 | 1,361 | 2,635 |
| Prepaid expenses and accrued income | Note 17 | 2,564 | 1,996 |
| Total assets | | 880,027 | 796,681 |
| <i>of which Group claims</i> | Note 25 | 27,520 | 28,036 |
| LIABILITIES, PROVISIONS AND EQUITY | | | |
| Due to credit institutions | Note 18 | 267,353 | 294,417 |
| Issued securities | Note 19 | 546,149 | 448,200 |
| Derivative instruments | Note 13 | 7,765 | 8,189 |
| Current tax liabilities | | 10 | 418 |
| Other liabilities | Note 20 | 4,744 | 1,650 |
| Accrued expenses and deferred income | Note 21 | 11,939 | 10,576 |
| Subordinated liabilities | Note 22 | 16,700 | 8,800 |
| Total liabilities and provisions | | 854,660 | 772,250 |
| Equity | Note 23 | | |
| Share capital | | 4,050 | 4,050 |
| Translation reserve | | -44 | -37 |
| Retained earnings | | 16,954 | 16,433 |
| Profit for the year | | 4,407 | 3,985 |
| Total equity | | 25,367 | 24,431 |
| Total liabilities, provisions and equity | | 880,027 | 796,681 |
| <i>of which Group liabilities</i> | Note 25 | 292,980 | 311,401 |

Statement of changes in equity

– Group

| Group SEK m | Share capital* | Translation reserve | Retained earnings | Total |
|--|-------------------|------------------------|----------------------|--------------|
| Equity 31 December 2009 | 4,050 | 10 | 17,632 | 21,692 |
| Profit for the year | | | 3,985 | 3,985 |
| Other comprehensive income | | -47 | | -47 |
| Total comprehensive income for the year | | -47 | 3,985 | 3,938 |
| Group contributions provided | | | -1,628 | -1,628 |
| Tax effect on group contributions | | | 429 | 429 |
| Equity 31 December 2010 | 4,050 | -37 | 20,418 | 24,431 |
| Profit for the year | | | 4,407 | 4,407 |
| Other comprehensive income | | -7 | | -7 |
| Total comprehensive income for the year | | -7 | 4,407 | 4,400 |
| Group contributions provided | | | -4,700 | -4,700 |
| Tax effect on group contributions | | | 1,236 | 1,236 |
| Equity 31 December 2011 | 4,050 | -44 | 21,361 | 25,367 |

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

Cash flow statement – Group

| Group SEK m | 2011 | 2010 |
|---|----------------|---------------|
| OPERATING ACTIVITIES | | |
| Operating profit | 5,994 | 5,408 |
| <i>of which paid-in interest</i> | 29,320 | 19,970 |
| <i>of which paid-out interest</i> | -21,556 | -14,578 |
| Adjustment for non-cash items in profit/loss: | | |
| Loan losses | 33 | 14 |
| Unrealised changes in value | -97 | -298 |
| Depreciation, amortisation and impairments | 12 | 5 |
| Paid income tax | -759 | -1,004 |
| Change in the assets and liabilities of operating activities: | | |
| Loans to the public | -57,271 | -69,850 |
| Due to credit institutions | -22,138 | 81,478 |
| Issued securities | 97,949 | -10,335 |
| Other assets | 107 | 847 |
| Other liabilities | 1,064 | 1,910 |
| Cash flow from operating activities | 24,894 | 8,175 |
| INVESTING ACTIVITIES | | |
| Acquisition of mortgage loans | -27,843 | -4,099 |
| Investment in tangible non-current assets | 0 | 0 |
| Disposal of tangible non-current assets | 0 | 0 |
| Investment in intangible non-current assets | -38 | - |
| Cash flow from investing activities | -27,881 | -4,099 |
| FINANCING ACTIVITIES | | |
| Issued subordinated loans | 7,900 | - |
| Issued securities | -4,926 | -44 |
| Payment relating to blocked funds | 4,926 | 44 |
| Group contribution paid-out | -1,628 | -3,500 |
| Cash flow from financing activities | 6,272 | -3,500 |
| CASH FLOW FOR THE YEAR | 3,285 | 576 |
| Liquid funds at beginning of year | 1,049 | 490 |
| Cash flow from operating activities | 24,894 | 8,175 |
| Cash flow from investing activities | -27,881 | -4,099 |
| Cash flow from financing activities | 6,272 | -3,500 |
| Exchange rate difference on liquid funds | -15 | -17 |
| Liquid funds at end of year | 4,319 | 1,049 |
| Liquid funds consist of funds available with banks and equivalent institutions, excluding funds in blocked account. | | |
| Liquid funds with banks and equivalent institutions | 4,319 | 1,049 |
| Funds in blocked account with banks relating to issuance of covered bonds | 5,116 | 10,043 |
| Loans to credit institutions | 9,435 | 11,092 |
| Acquisition of mortgage loans | | |
| On 1 August 2011, Stadshypotek's branch in Finland (Handelsbanken Asuntoluottopankki) acquired mortgage loans from Svenska Handelsbanken's branch in Finland. The acquired assets had the following carrying amounts: | | |
| Loans to the public | 27,843 | |
| Acquisition of mortgage loans | | |
| On 1 October 2010, Stadshypotek's branch in Denmark (Handelsbanken Kredit, branch of Stadshypotek AB, Sweden) acquired mortgage loans from Svenska Handelsbanken's branch in Denmark. The acquired assets had the following carrying amounts: | | |
| Loans to the public | - | 4,099 |

Income statement

– Parent company

| Parent company SEK m | | 2011 | 2010 |
|---|--------------------|--------------|--------------|
| Interest income | | 29,869 | 20,353 |
| Interest expense | | -23,625 | -14,852 |
| Net interest income | <i>Note 3</i> | 6,244 | 5,501 |
| Fee and commission income | | 12 | 10 |
| Fee and commission expense | | -24 | -28 |
| Net fee and commission income | <i>Note 5</i> | -12 | -18 |
| Net gains/losses on financial operations | <i>Note 4</i> | 19 | 129 |
| Other operating income | | 0 | 0 |
| Total operating income | | 6,251 | 5,612 |
| Staff costs | <i>Note 6</i> | -49 | -49 |
| Other administrative expenses | <i>Note 7</i> | -208 | -188 |
| Depreciation and amortisation of intangible assets and property and equipment | <i>Note 14, 15</i> | -12 | -5 |
| Total expenses before loan losses | | -269 | -242 |
| Profit before loan losses | | 5,982 | 5,370 |
| Net loan losses | <i>Note 8</i> | 12 | 38 |
| Operating profit | | 5,994 | 5,408 |
| Taxes | <i>Note 9</i> | -1,587 | -1,423 |
| Profit for the year | | 4,407 | 3,985 |

Statement of comprehensive income

– Parent company

| Parent company SEK m | | 2011 | 2010 |
|--|--|--------------|--------------|
| Profit for the year | | 4,407 | 3,985 |
| Other comprehensive income (translation difference for the year) | | -7 | -47 |
| Total comprehensive income for the year | | 4,400 | 3,938 |

Balance sheet – Parent company

| Parent company SEK m, 31 December | | 2011 | 2010 |
|---|---------|----------------|----------------|
| ASSETS | | | |
| Loans to credit institutions | Note 10 | 9,435 | 11,092 |
| Loans to the public | Note 11 | 843,929 | 758,855 |
| Value change of interest hedged item in portfolio hedge | | 4,490 | 4,744 |
| Shares and participating interests in Group companies | Note 12 | 0 | 0 |
| Derivative instruments | Note 13 | 18,211 | 17,348 |
| Intangible assets | Note 14 | 37 | 11 |
| Property and equipment | Note 15 | 0 | 0 |
| Other assets | Note 16 | 1,361 | 2,635 |
| Prepaid expenses and accrued income | Note 17 | 2,564 | 1,996 |
| Total assets | | 880,027 | 796,681 |
| <i>Of which Group claims</i> | Note 25 | 27,520 | 28,036 |
| LIABILITIES, PROVISIONS AND EQUITY | | | |
| Due to credit institutions | Note 18 | 267,353 | 294,417 |
| Issued securities | Note 19 | 546,149 | 448,200 |
| Derivative instruments | Note 13 | 7,765 | 8,189 |
| Current tax liabilities | | 10 | 418 |
| Other liabilities | Note 20 | 4,744 | 1,650 |
| Accrued expenses and deferred income | Note 21 | 11,939 | 10,576 |
| Subordinated liabilities | Note 22 | 16,700 | 8,800 |
| Total liabilities and provisions | | 854,660 | 772,250 |
| Equity | Note 23 | | |
| Share capital | | 4,050 | 4,050 |
| Other funds | | 8,106 | 8,106 |
| Retained earnings | | 8,804 | 8,290 |
| Profit for the year | | 4,407 | 3,985 |
| Total equity | | 25,367 | 24,431 |
| Total liabilities, provisions and equity | | 880,027 | 796,681 |
| <i>of which Group liabilities</i> | Note 25 | 292,980 | 311,401 |
| Memorandum items | | | |
| Collateral pledged for own debt* | | 594,238 | 498,884 |
| Other pledged assets | | None | None |
| Contingent liabilities | | None | None |
| Commitments | Note 24 | 4,077 | 4,419 |

* The collateral 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 per cent of the market value. It also comprises office and commercial buildings with a loan-to-value ratio of up to 60 per cent 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 total collateral 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.

Statement of changes in equity

– Parent company

| Parent company | Restricted equity | | Non-restricted equity | | Total |
|--|-------------------|-------------------|-----------------------|-------------------|--------|
| | Share capital | Statutory reserve | Translation reserve | Retained earnings | |
| SEK m | | | | | |
| Equity 31 December 2009 | 4,050 | 8,106 | 9 | 9,527 | 21,692 |
| Profit for the year | | | | 3,985 | 3,985 |
| Other comprehensive income | | | -47 | | -47 |
| Total comprehensive income for the year | | | -47 | 3,985 | 3,938 |
| Group contributions provided | | | | -1,628 | -1,628 |
| Tax effect on group contributions | | | | 429 | 429 |
| Equity 31 December 2010 | 4,050 | 8,106 | -38 | 12,313 | 24,431 |
| Profit for the year | | | | 4,407 | 4,407 |
| Other comprehensive income | | | -7 | | -7 |
| Total comprehensive income for the year | | | -7 | 4,407 | 4,400 |
| Group contributions provided | | | | -4,700 | -4,700 |
| Tax effect on group contributions | | | | 1,236 | 1,236 |
| Equity 31 December 2011 | 4,050 | 8,106 | -45 | 13,256 | 25,367 |

Cash flow statement

– Parent company

| Parent company SEK m | 2011 | 2010 |
|---|----------------|---------------|
| OPERATING ACTIVITIES | | |
| Operating profit | 5,994 | 5,408 |
| <i>of which paid-in interest</i> | 29,320 | 19,970 |
| <i>of which paid-out interest</i> | -21,556 | -14,578 |
| Adjustment for non-cash items in profit/loss: | | |
| Loan losses | 33 | 14 |
| Unrealised changes in value | -97 | -298 |
| Depreciation, amortisation and impairments | 12 | 5 |
| Paid income tax | -759 | -1,004 |
| Change in the assets and liabilities of operating activities: | | |
| Loans to the public | -57,271 | -69,850 |
| Due to credit institutions | -22,138 | 81,478 |
| Issued securities | 97,949 | -10,335 |
| Other assets | 107 | 847 |
| Other liabilities | 1,064 | 1,910 |
| Cash flow from operating activities | 24,894 | 8,175 |
| INVESTING ACTIVITIES | | |
| Acquisition of mortgage loans | -27,843 | -4,099 |
| Investment in tangible non-current assets | 0 | 0 |
| Disposal of tangible non-current assets | 0 | 0 |
| Investment in intangible non-current assets | -38 | - |
| Cash flow from investing activities | -27,881 | -4,099 |
| FINANCING ACTIVITIES | | |
| Issued subordinated loans | 7,900 | - |
| Issued securities | -4,926 | -44 |
| Payment relating to blocked funds | 4,926 | 44 |
| Group contribution paid-out | -1,628 | -3,500 |
| Cash flow from financing activities | 6,272 | -3,500 |
| CASH FLOW FOR THE YEAR | 3,285 | 576 |
| Liquid funds at beginning of year | 1,049 | 490 |
| Cash flow from operating activities | 24,894 | 8,175 |
| Cash flow from investing activities | -27,881 | -4,099 |
| Cash flow from financing activities | 6,272 | -3,500 |
| Exchange rate difference on liquid funds | -15 | -17 |
| Liquid funds at end of year | 4,319 | 1,049 |
| Liquid funds consist of funds available with banks and equivalent institutions, excluding funds in blocked account. | | |
| Liquid funds with banks and equivalent institutions | 4,319 | 1,049 |
| Funds in blocked account with banks relating to issuance of covered bonds | 5,116 | 10,043 |
| Loans to credit institutions | 9,435 | 11,092 |
| Acquisition of mortgage loans | | |
| On 1 August 2011, Stadshypotek's branch in Finland (Handelsbanken Asuntoluottopankki) acquired mortgage loans from Svenska Handelsbanken's branch in Finland. The acquired assets had the following carrying amounts. | | |
| Loans to the public | 27,843 | |
| Acquisition of mortgage loans | | |
| On 1 October 2010, Stadshypotek's branch in Denmark (Handelsbanken Kredit, branch of Stadshypotek AB, Sweden) acquired mortgage loans from Svenska Handelsbanken's branch in Denmark. The acquired assets had the following carrying amounts. | | |
| Loans to the public | - | 4,099 |

Notes

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

NOTE 1 Accounting policies

The consolidated accounts have been prepared in accordance with international financial reporting standards (IFRS) and interpretations of these standards as adopted by the EU. The accounting policies also follow the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), and the regulations and general guidelines issued by the Swedish Financial Supervisory Authority, FFFS 2008:25 Annual reports in credit institutions and securities companies. RFR 1 Supplementary accounting rules for groups as well as statements from the Swedish Financial Reporting Board are also applied in the consolidated accounts.

The parent company's annual report is prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), the regulations and general guidelines issued by the Swedish Financial Supervisory Authority, FFFS 2008:25 Annual reports in credit institutions and securities companies, the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for legal entities, and statements from the Swedish Financial Reporting Board. In accordance with the Financial Supervisory Authority's general advice, the parent company applies statutory IFRS. This means that the international accounting standards and interpretations of these standards as adopted by the EU have been applied to the extent that is possible within the framework of national laws and directives and the link between accounting and taxation.

As of 31 December, the presentation of the parent company's equity is divided into the separate components Share capital, Other funds and Retained earnings. The statutory reserve, which was previously reported separately, is included in Other funds.

In all other respects, the parent company's accounting policies are the same as those applied in the 2010 financial year.

For Stadshypotek, the above application means that the parent company's accounting policies comply in all material respects with the Group's accounting policies.

The parent company, Svenska Handelsbanken AB, prepares consolidated accounts which include Stadshypotek.

The presentation currency is Swedish kronor.

ISSUING AND ADOPTION OF ANNUAL REPORT AND CONSOLIDATED ACCOUNTS

The annual report and consolidated accounts were approved for issue by the Board on 14 February 2012 and will be presented for adoption by the AGM on 26 March 2012.

FUTURE AMENDMENTS TO REGULATIONS

None of the amendments to standards or interpretative communications adopted or expected to be adopted by the EU for application as of the 2013 financial year are deemed to affect the Group's financial reports to a material extent.

IASB is currently revising a number of existing standards. Of these revisions, IFRS 9 Financial Instruments, which is to replace IAS 39 Financial Instruments: Recognition and Measurement, is expected to have the greatest effect on Stadshypotek's financial reports. Since most of the revisions have not yet been completed, Stadshypotek is refraining from estimating how the financial reports will be affected or when the new regulations will be applied.

CONSOLIDATED ACCOUNTS

Subsidiaries are consolidated according to the acquisition method. This means that the acquisition of a subsidiary is regarded as a transaction where the Group acquires the company's identifiable assets and assumes its liabilities and obligations. The subsidiary's financial reports are included in the consolidated accounts starting on the acquisition date until the date on which control ceases. Intra-group transactions and balances are eliminated when preparing the Group's financial reports.

SHARES AND PARTICIPATING INTERESTS IN SUBSIDIARIES

Shares and participating interests in subsidiaries are measured at cost.

RECOGNITION OF LIABILITIES AND ASSETS IN FOREIGN CURRENCY

The Group's presentation currency is Swedish kronor. The functional currency for the Group's operations outside Sweden usually differs from the Group's presentation currency. The currency used in the economic environment where the operations are primarily conducted is regarded as the functional currency.

Transactions in foreign currency are translated to the functional currency on the transaction date. Monetary items and assets and liabilities at fair value are valued at the functional currency's spot price at the end of the balance sheet date. Exchange rate differences are recognised in the income statement.

Translation of foreign operations to the Group's presentation currency

When translating the foreign units' (including branches') balance sheets and income statements from the functional currency, the current method has been used. This means that assets and liabilities are translated at the closing day rate. Equity is translated at the rate applicable at the time of investment or earning. The income statement has been translated at the average annual rate. Translation differences are recognised as a component of Other comprehensive income and are included in the translation reserve in equity.

RECOGNITION OF ASSETS AND LIABILITIES IN THE BALANCE SHEET

An asset is defined as a resource over which there is control as a result of past events and that is expected to provide future economic benefit. Assets are recognised in the balance sheet when it is probable that the future economic benefits related to the asset will accrue to the Group and when the value or acquisition cost of the asset can be reliably measured.

Liabilities are the Group's existing obligations which as a result of past events are expected to lead to an outflow of resources from the Group. A liability is recognised in the balance sheet when, in order to fulfil an existing obligation, it is probable that the Group must surrender a resource with a value that can be reliably measured.

Financial assets are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Purchases and sales of money market and capital market instruments on the spot market are recognised on the trade date. The same applies to derivatives. Other financial assets and liabilities are normally recognised on the settlement date. Financial assets are removed from the balance sheet when the contractual rights to the cash flows originating from the asset expire or when all risks and rewards related to the asset are transferred to another party. A financial liability is removed from the balance sheet when the obligation ceases or is cancelled.

CLASSIFICATION AND RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

For the purposes of measurement, in compliance with IAS 39, all financial assets are placed in the following valuation categories:

1. loans and receivables
2. assets held to maturity
3. assets at fair value through profit or loss
 - held for trading
 - assets which upon initial recognition were designated at fair value through profit or loss
4. available-for-sale assets.

Financial liabilities are classified as follows:

1. liabilities at fair value through profit or loss
 - liabilities held for trading
 - liabilities which upon initial recognition were designated at fair value through profit or loss
2. other financial liabilities.

The classification in the balance sheet is independent of the measurement category. Thus, different measurement principles may be applied for assets and liabilities carried on the same line in the balance sheet. A classification into measurement categories of the financial assets and liabilities which are recognised on the balance sheet is shown in note 28.

The Stadshypotek Group's financial assets and liabilities are categorised in loans and receivables and other financial liabilities respectively. Derivatives that are not formal hedging instruments come under the held-for-trading category.

Upon initial recognition, all financial assets and liabilities are designated at fair value. For assets and liabilities at fair value through profit or loss, the transaction costs are recognised directly in profit or loss at the time of acquisition. For other financial instruments, the transaction costs are included in the acquisition value.

Loans and receivables

In the balance sheet, lending is reported, depending on the counterparty, as either Loans to the public or Loans to credit institutions. Assets in the category Loans and receivables are carried at amortised cost, i.e. the discounted present value of all future cash flows relating to the instrument where the discount rate is the asset's effective interest rate at the time of acquisition. Loans and receivables are subject to impairment testing when indications of an impairment loss are present. The impairment loss is recognised in the income statement. Thus, loans and receivables are recognised at their net amount, after deduction for probable and actual loan losses. Early redemption fees for loans and receivables which are repaid ahead of time are recognised immediately in the income statement under Net gains/losses on financial items at fair value.

Undrawn loans where the interest rate is fixed in advance are regarded as an off-balance-sheet commitment until the settlement date.

Derivatives

Derivative instruments consist of financial derivative contracts. All derivative contracts are carried at fair value. If the fair value is positive, it is reported on the balance sheet as an asset. If the fair value is negative, it is reported as a liability. Changes in fair value are recognised directly in the income statement under Net gains/losses on financial items at fair value.

Financial guarantees

Premiums for purchased financial guarantees are recognised in net interest income.

Other financial liabilities

In the balance sheet, Financial liabilities are recorded under the items Due to credit institutions, Issued securities, and Subordinated liabilities. Financial liabilities are carried at amortised cost, which is the discounted present value of all future cash flows relating to the instrument where the discount rate is the asset's effective interest rate at the time of issue.

For repurchased bonds, the realised price differences are recognised in the income statement in their entirety at the time of repurchase and are reported under Net gains/losses on financial items at fair value.

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Those financial assets and liabilities that are recognised at fair value are derivatives in the form of interest rate swaps, cross-currency interest rate swaps, currency swaps and interest rate options (caps), which are valued on the basis of yield curves and other market information. All valuation models that are applied are commonly used in the market and are based on all parameters that the market would take into account in the pricing. The input data in these models is always market information. The models are regularly reviewed in order to ensure their reliability.

HEDGE ACCOUNTING

Stadshypotek applies fair value hedges. Derivatives in the form of interest rate swaps, cross-currency interest rate swaps and interest rate options (caps) are used as hedge instruments. Fair value hedges are used to protect the Group against undesirable impact on profit/loss due to changes in the market prices of reported assets or liabilities. Hedged risks in hedging relationships at fair value comprise interest rate risk on lending and funding at fixed interest rates and currency risk on funding in foreign currency. The hedging instruments in these hedging relationships consist of interest rate swaps and cross-currency interest rate swaps. In the case of fair value hedges, the hedge instrument and hedged risk are both recognised at fair value. Changes in value are recognised directly in the income statement under Net gains/losses on financial items at fair value.

Fair value hedges are also applied for portfolios of financial instruments. The hedged risk in these portfolio hedges is the interest rate risk for lending where the original interest rate was fixed for three months and interest rate caps for lending with a fixed-interest period of three months. The hedging instruments in these portfolio hedges consist of interest rate swaps and interest rate options (caps). In portfolio hedges at fair value, the part of the portfolio's value that is exposed to the hedged risk is measured at market value. The value which is attributable to the hedged part of the portfolio is reported on a separate line in the balance sheet in conjunction with Loans to the public.

LOAN LOSSES

Loans and receivables recognised at amortised cost

All units with customer and credit responsibility in the Group regularly perform individual assessments of the need to recognise impairment losses for loans and receivables at amortised cost. Impairment testing is performed where there are objective circumstances indicating that the recoverable amount of the loan is less than its carrying amount. Objective evidence could, according to the circumstances, be late or non-payment, bankruptcy, changed credit rating, or a decline in the market value of the collateral.

When performing impairment testing, the recoverable amount of the loan is calculated by discounting the estimated future cash flows related to the loan and collateral (including any guarantees) by the effective interest rate of the loan. Collateral in the form of property mortgages is measured at fair value. An impairment loss is recognised if the estimated recoverable amount is less than the carrying amount and is recognised as a loan loss in the income statement. A reported loan loss reduces the carrying amount of the loan in the balance sheet, either directly (actual loss) or by a provision account for loan losses (probable loss).

In addition to this individual assessment of loans, a collective assessment is made of individually measured loans with the purpose of identifying the need to recognise an impairment loss that cannot yet be allocated to individual loans. The analysis is based on a distribution of individually valued loans in terms of the risk class. An impairment loss is recognised if this is justifiable taking into account changes in the risk classification and expected loss. Impairment losses which have been recognised for a group of loans are transferred to impairment losses for individual loans as soon as there is available information about the impairment in value at an individual level.

Loan losses for the period comprise actual losses and probable losses on credits granted, minus recoveries and reversals of previous impairment losses recognised for probable loan losses. Actual loan losses may refer to entire loans or parts of loans and are recognised when there is no realistic possibility of recovery. This is the case, for example, when a trustee in bankruptcy has estimated bankruptcy dividends, when a scheme of arrangement has been accepted, or when the loan has been reduced in some other way. An amount forgiven in connection with reconstruction of a loan or group of loans is always classified as an actual loss. If the customer is following a payment plan for a loan which was previously classified as an actual loan loss, the amount of the loss is subject to new testing. Recoveries comprise reversed amounts on loan losses previously reported as actual losses. Information about probable and actual losses is presented in note 8.

In certain cases, interest effects can arise because the recoverable amount increases when the time to payment becomes shorter. Reversals

of previously provisioned amounts are recognised as interest income in accordance with the effective interest method.

Information concerning impaired loans

Information concerning impaired loans is provided gross, before a provision for probable loan losses, and net, after a provision for probable loan losses. Loans are defined as impaired if all contracted cash flows will probably not be fulfilled. The full amount of all loans which have been classified as impaired are carried as impaired loans even if parts of the loan are covered by collateral. Loans which have been written off as actual loan losses are not included in impaired loans.

INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary asset without physical form. An intangible asset is only recognised in the balance sheet if the probable future economic benefits attributable to the asset will flow to the Group and the cost can be reliably measured. This means that internally generated values in the form of goodwill, trademarks, customer databases and similar are not recognised as assets in the balance sheet.

Investments in software developed by the Bank are carried as an expense on a current basis to the extent that the expenditure refers to maintenance of existing business operations or previously capitalised software. In the case of development of new software, or new business operations for existing software, the expenditure incurred is capitalised from the time when it is probable that economic benefit that can be reliably measured will arise.

Stadshypotek's intangible assets consist of intangible assets for which it is possible to establish an estimated useful life, thus enabling them to be amortised. The amortisation is on a straight-line basis over the useful life of the asset. The amortisation period is tested on an individual basis at the time of new acquisition and also on a continuous basis if there are indications that the useful life may have changed.

Intangible assets with a finite useful life are tested for impairment when there is an indication that the asset may be impaired. Impairment testing is performed by calculating the recoverable amount of the assets, in other words, the higher of the value in use and the fair value less costs to sell. As long as the recoverable amount exceeds the carrying amount, no impairment loss needs to be recognised. Impairment losses are recognised directly in the income statement.

EQUIPMENT

The Group's tangible non-current assets consist of equipment that is recorded at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is based on the estimated useful lives of the assets. A linear depreciation plan is usually applied. The estimated useful lives are tested annually. Personal computers and other IT equipment are usually depreciated over three years, while other equipment is normally depreciated over five years.

Impairment testing of equipment is carried out when there is an indication that the value of the asset has decreased. Impairment loss is recognised in cases where the recoverable amount is less than the carrying amount. Any impairment losses are recognised immediately in the income statement.

EQUITY

Equity comprises share capital, provisions and retained earnings.

Retained earnings

Retained earnings comprise the profits generated from the current and previous financial years.

Translation reserve

The translation reserve comprises unrealised foreign exchange effects arising due to translation of foreign units to the currency of the consolidated accounts.

GROUP CONTRIBUTION

Group contributions are recognised in accordance with the economic substance of the contribution. Group contributions provided by Stadshypotek

to the parent company are treated as dividends and recognised as a reduction of retained earnings.

INCOME

Income is recognised in the income statement when it is probable that future economic benefits will be gained and these benefits can be reliably measured. The following general principles apply to recognition of income for various types of fees and charges:

- Fees that constitute part of the effective interest of a financial instrument that is valued at amortised cost are accrued in accordance with the effective interest method.
- Fees attributable to a specific service or action are recognised as income at the time the service is performed. This income includes reminder and demand fees.

Net interest income

Interest income and interest expense are recognised as Net interest income in the income statement. Net interest income also includes interest deriving from derivative instruments that hedge items whose interest flows are recognised in Net interest income. In addition to interest income and interest expense, net interest income includes the fee to the Swedish Stabilisation Fund and a premium for the guarantee facility relating to mortgages for housing co-operative apartments.

Net fee and commission income

Income and expense for various kinds of services are recognised in the income statement under Fee and commission income and Fee and commission expense, respectively. Among other things, this means that reminder and demand fees are recognised as commission income and also that fees to market makers are recognised as commission expenses. Fees comparable to interest that constitute integrated components of financial instruments and are therefore included when calculating the effective interest are recognised as interest income and not commission.

Net gains/losses on financial items at fair value

Net gains/losses on financial items at fair value include all items with an impact on profit or loss which arise when measuring financial assets and liabilities at fair value in the income statement and when financial assets and liabilities are realised. Specifically, the following items are reported here:

- Capital gains or losses from the disposal and settlement of financial assets and liabilities.
- Unrealised changes in fair value on assets and liabilities which are hedged items in fair value hedges.
- Unrealised value changes on derivatives which comprise hedging instruments in fair value hedges.
- Realised and unrealised changes in value on financial assets and liabilities classified as held for trading.

EMPLOYEE BENEFITS

Staff costs consist of salaries, pension costs and other forms of direct staff costs including social security costs, special payroll tax on pension costs and other forms of payroll overheads.

Pension costs consist of premiums for contractually agreed pension insurance paid to SHB Pensionskassa Försäkringsförening. Pension costs also include payroll tax paid on pension premiums paid.

TAXES

The tax expense for the period consists of current tax and deferred tax. Current tax refers to taxes relating to the period's taxable result. Deferred tax is tax referring to temporary differences between the carrying amount of an asset or liability and its taxable value. Deferred taxes are valued at the tax rate which is deemed to be applicable when the item is realised.

Tax is either recognised in the income statement, or in other comprehensive income, or directly in equity, depending on where the underlying transaction is reported. The impact of changed tax rates is recognised in the income statement.

MATERIAL ASSESSMENTS AND ASSUMPTIONS CONCERNING THE FUTURE

In certain cases, the application of the Group's accounting policies means that assessments must be made that have a material impact on amounts reported. The amounts reported are also affected in a number of cases by assumptions about the future. Such assumptions always imply a risk of adjustment of the carrying amount of assets and liabilities. The assessment and assumptions applied always reflect management's best and fairest assessments and are continually subject to examination and validation.

Those assessments and assumptions that have had a material impact on the financial reports concern the need for recognising impairment losses for loans. The value of the Group's loans is tested regularly and individually for each receivable. If necessary, the loan is written down to the assessed recoverable amount. The estimated recoverable amount is based on an assessment of the counterparty's financial repayment capacity and assumptions regarding the realisable value of the collateral. The final outcome may deviate from the original provisions for loan losses. The assessments and assumptions used are subject to regular checks by the internal credit organisation. See also note 2 for a more detailed description of internal risk control and how Stadshypotek manages credit risk.

SEGMENT REPORTING

The segment reporting presents income and expenses split into business segments. A business segment is a part of the Group that runs operations which generate external or internal income and expenses and of which the profit/loss is regularly assessed and followed up by the company management as part of corporate governance. As part of segment reporting, income and expenses are also stated per geographical area in which the Group operates.

NOTE 2 Risks and 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 that an individual borrower cannot fulfil his or her commitments. 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. Liquidity risk is the risk that Stadshypotek will not be able to meet its payment obligations when they fall due. 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 policy documents and instructions describing how various risks should be managed and reported. These policy documents and instructions have been based on the policy documents that the Handelsbanken Board 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 the Board.

Stadshypotek's lending operations and treasury function are integrated with those of Handelsbanken, which means that Stadshypotek's lending is carried out via the Bank's branch network. A collaboration agreement regulates the overall relationship between the parties and specifies 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 centred around the principle of delegating responsibility to the employees who make business decisions. The person who is most familiar with the customer and the market conditions is also the best person to assess the risk. In Handelsbanken's decentralised organisation, the positive and negative outcomes of each branch are evaluated, which provides a natural risk limitation and caution in 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. There are also procedures to limit market risk and liquidity risk at Stadshypotek. Here, the company's Board establishes limits. However, the limits set by the Board of Stadshypotek may not exceed the limits for market risks and liquidity risks assigned by Handelsbanken to Stadshypotek. There is also risk control independent of the treasury function at Stadshypotek, which reports directly to the company's chief executive. This function is responsible for the regular follow-up and monitoring of market risks, liquidity risks and counterparty risks and also conducts daily measurements and checks to ensure that risk exposure remains within set limits. Limit utilisation is reported internally within the company, and to the parent company's central risk control function. In addition, the operation's risks are reported regularly to the chief executive and Board of Stadshypotek as well as to the group chief executive, CFO and Board of Handelsbanken.

Stadshypotek is also covered by the central risk control at Handelsbanken, which is designed to identify the Handelsbanken Group's risks, gauge them, and ensure that management of these risks complies with the Group's low risk tolerance.

Moreover, Stadshypotek 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, notwithstanding the measures taken to manage the risks. The method for calculating economic capital ensures that all risks are considered in a uniform manner when the need for capital is assessed.

CREDIT RISK

Credit risk is defined as the risk of Stadshypotek facing economic loss because its counterparties cannot fulfil their contractual commitments.

Rules for lending at Stadshypotek

Lending is to be carried out in accordance with 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 business consists of property financing – primarily residential properties. The normal limit for satisfactory mortgage collateral is 75 per cent of the market value of the property. This also applies to the lending portfolio at Stadshypotek's branches in Norway and Finland. For particularly attractive locations in Sweden, subject to a decision by Stadshypotek's credit committee, a loan-to-value ratio of 85 per cent may be applied for single-family houses. At the Danish branch, the loan amount may not exceed 80 per cent of the property's market value, which is the customary loan-to-value ratio for mortgage loans in Denmark. However, Handelsbanken Denmark issues an internal credit guarantee for amounts exceeding 75 per cent of the market value.

For office and commercial properties, which are only mortgaged in the Swedish market, 60 per cent of the market value applies. Industrial and warehouse properties are not financed by Stadshypotek.

Principles for managing credit risk

In accordance with a collaboration agreement between Handelsbanken and Stadshypotek, all Stadshypotek's lending is conducted through Handelsbanken's branch office network. Lending operations are based on the same fundamental principles that apply at the Bank, but also take into account other special instructions and regulations regarding the granting of credit, such as specified by Stadshypotek. In the Bank's decentralised organisation, the branch responsible for the customer has total credit responsibility. The branches are responsible for credit decisions, but credit limits are reviewed at different decision-making levels depending on the size of the credit. The Bank is selective in choosing customers, and borrowers must be of high quality. The quality requirement is never neglected in favour of higher loan volumes or to achieve higher returns. Some 98 per cent (98) of the overall volume for Stadshypotek's credit exposures was to customers with a repayment capacity assessed as normal or better than normal, i.e. with a rating grade between one and five on the Bank's ten-point rating scale.

The Bank aims to be a relationship bank and the branches maintain ongoing contact with the customer, which gives them an in-depth understanding of each individual customer and a continually updated picture of the private customer or company. This contact also enables the branch to quickly identify any problems and take action. In many cases, this means that the Bank can take action more rapidly – before problems have escalated – than would have been possible with a more centralised management of problem loans. The branch also has full financial responsibility for granting credits. This means that the branch handles any problems that arise when a customer's repayment capacity is impaired. If necessary, the branch obtains support from the regional head office and Stadshypotek's credit department. Handelsbanken's working methods mean that all employees whose work involves transactions linked to credit risk acquire a well-established approach to such risks and this constitutes an important part of the Bank's culture.

According to the Handelsbanken Group's credit policy, weak repayment capacity can never be accepted on the grounds that good collateral has been offered to the Bank. Collateral may, however, substantially reduce Stadshypotek's loss if the borrower cannot fulfil his commitments towards Stadshypotek. Credits in Stadshypotek must therefore always be satisfactorily secured by mortgages in property or a co-operative apartment. Unsecured loans are only granted to governments or municipalities or in cases where such bodies assume responsibility for the loan.

In addition to the advance examination conducted in accordance with Guidelines for the granting of credit, Stadshypotek's credit department also carries out a supplementary check of loans that have been disbursed. This examination covers loans selected according to pre-determined criteria and looks at many aspects, for example, ensuring that the credit decision has been made in the formally correct manner, that the loan-to-value ratio complies with the regulations, and that the valuation has been correctly carried out. In addition, the credit department conducts regular checks of Stadshypotek's entire loan portfolio, to ensure that property values and loan-to-value ratios relating to new loans as well as total volumes are constantly at a satisfactory level and comply well with Stadshypotek's Guidelines for the granting of credit.

Loan-to-value

Loan-to-value (LTV) is lending as a proportion of the market value of the collateral. The most recent valuation in Handelsbanken's internal valuation system is used as the market value provided it is no older than 24 months for single-family houses and second homes, 60 months for commercial and office property and 99 months for multi-family housing. If the valuations are older, the property type is revalued using current P/T ratios (purchase price/tax assessment value) by municipality, based on a weighting of district court and estate agent statistics. Due to continued uncertainty regarding the prices of commercial and office property, market values before 16 December 2008 have been lowered by 20 per cent.

| Loan-to-value analysis, Stadshypotek Sweden 31 December | 2011 | | | 2010 | | |
|--|----------------|------------------|-------|----------------|------------------|-------|
| | Private market | Corporate market | Total | Private market | Corporate market | Total |
| Loan-to-value | | | | | | |
| 0–60% | 86.6 | 96.5 | 89.9 | 87.2 | 95.3 | 89.8 |
| 61–75% | 9.8 | 3.1 | 7.6 | 9.7 | 4.0 | 7.9 |
| >75% | 3.6 | 0.4 | 2.5 | 3.1 | 0.7 | 2.3 |

Loans to the public, by borrower category and by type of collateral

| Loans to the public by borrower category | | | |
|---|----------------|----------------|---------------|
| 31 December, SEK m | 2011 | 2010 | Change |
| Households | 604,972 | 547,952 | 57,020 |
| Public sector, municipal companies | 25,706 | 21,208 | 4,498 |
| Housing co-operative associations | 110,515 | 97,793 | 12,722 |
| Other legal entities | 102,742 | 91,908 | 10,834 |
| Total loans to the public, before collective provision | 843,935 | 758,861 | 85,074 |
| Collective provision | -6 | -6 | 0 |
| Total loans to the public | 843,929 | 758,855 | 85,074 |

| Of which in operations outside Sweden | 2011 | 2010 | Change |
|---|---------------|---------------|---------------|
| Households | 76,266 | 47,641 | 28,625 |
| Public sector, municipal companies | 1,482 | - | 1,482 |
| Housing co-operative associations | 10,065 | 5,756 | 4,309 |
| Other legal entities | 3,858 | 1,724 | 2,134 |
| Total loans to the public in operations outside Sweden | 91,671 | 55,121 | 36,550 |

| Loans to the public, by type of collateral | | | |
|---|----------------|----------------|---------------|
| 31 December, SEK m | 2011 | 2010 | Change |
| Single-family housing | 439,358 | 402,377 | 36,981 |
| Housing co-operative apartments | 130,982 | 121,709 | 9,273 |
| Owner-occupied apartments* | 11,325 | 429 | 10,896 |
| Private market | 581,665 | 524,515 | 57,150 |
| Multi-family housing | 203,788 | 185,423 | 18,365 |
| Offices and commercial buildings | 58,482 | 48,923 | 9,559 |
| Corporate market | 262,270 | 234,346 | 27,924 |
| Total loans to the public, before collective provision | 843,935 | 758,861 | 85,074 |
| Collective provision | -6 | -6 | 0 |
| Total loans to the public | 843,929 | 758,855 | 85,074 |

| Of which in operations outside Sweden | 2011 | 2010 | Change |
|---|---------------|---------------|---------------|
| Single-family housing | 61,915 | 43,325 | 18,590 |
| Housing co-operative apartments | 4,335 | 3,896 | 439 |
| Owner-occupied apartments* | 11,325 | 429 | 10,896 |
| Private market | 77,575 | 47,650 | 29,925 |
| Multi-family housing | 13,665 | 6,998 | 6,667 |
| Offices and commercial buildings | 431 | 473 | -42 |
| Corporate market | 14,096 | 7,471 | 6,625 |
| Total loans to the public in operations outside Sweden | 91,671 | 55,121 | 36,550 |

* Owner-occupied apartments entail individual ownership of an apartment in a multi-family dwelling and a share in an association for joint management of the property.

Lending in Sweden, which accounts for 89 per cent (93) of Stadshypotek's total lending, extends to all parts of Sweden, with a concentration in urban areas. Categories of borrowers vary from individual households to large property companies. At the year-end, single-family houses and housing co-operative apartments accounted for 68.9 per cent (69.1) of the loan portfolio, with multi-family housing accounting for 24.2 per cent (24.4), and offices and commercial property accounting for 6.9 per cent (6.5). Lending to the largest customer category corresponded to 0.60 per cent (0.53) of the entire portfolio. There were 13 (10) customers or customer categories with loans of SEK 1 billion or more.

Geographical breakdown of lending in Sweden

| 31 December | Stockholm | | Västra Götaland | | Skåne | | Other counties | |
|----------------------------------|-------------|-------------|-----------------|-------------|-------------|-------------|----------------|-------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Proportion of lending, % | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Single-family housing | 30.4 | 30.4 | 14.3 | 14.3 | 13.3 | 13.1 | 42.0 | 42.2 |
| Housing co-operative apartments | 69.4 | 70.1 | 9.6 | 9.6 | 8.7 | 8.6 | 12.3 | 11.7 |
| Private market | 40.2 | 40.2 | 13.1 | 13.2 | 12.2 | 11.9 | 34.5 | 34.7 |
| Multi-family housing | 31.5 | 30.2 | 17.0 | 18.0 | 10.5 | 10.5 | 41.0 | 41.3 |
| Offices and commercial buildings | 34.2 | 31.6 | 15.9 | 16.3 | 11.1 | 10.2 | 38.8 | 41.9 |
| Corporate market | 32.1 | 30.5 | 16.8 | 17.6 | 10.7 | 10.4 | 40.4 | 41.5 |
| Total | 37.5 | 37.1 | 14.3 | 14.6 | 11.7 | 11.4 | 36.5 | 36.9 |

The maturity structure for loans that have become due for repayment on the balance sheet date, but which are not classified as impaired loans, is given below. In this case, becoming due for payment is defined as loans that have not been paid five days after the due date.

| Maturity structure for loans which are not impaired loans 31 December SEK m | 2011 | | | 2010 | | |
|---|--------------|------------|------------------------------------|--------------|------------|------------------------------------|
| | Households | Corporate | Public sector, municipal companies | Households | Corporate | Public sector, municipal companies |
| Number of days overdue | | | | | | |
| –30 | 2,516 | 569 | – | 1,863 | 275 | – |
| 31–60 | 300 | 47 | – | 366 | 41 | – |
| 61–90 | 250 | 26 | – | 50 | 5 | – |
| 91–360 | 414 | 100 | – | 298 | 15 | – |
| >360 | 106 | 10 | – | 105 | 5 | – |
| Total | 3,586 | 752 | – | 2,682 | 341 | – |

Risk classification

The Handelsbanken Group's internal risk classification system, which is also used for credits in Stadshypotek, is applied to measure the credit risk of all operations in a reliable and consistent manner. The risk classification is based on the Bank's internal rating system, which is based on the branch's assessment of each counterparty's repayment capacity. The rating is determined by the risk of financial strain and resistance to such strain. The methods and classification are based on the rating model that the Handelsbanken Group has applied for many years. The internal rating is the most important component of the Handelsbanken Group's model for calculating capital adequacy under the Basel II rules (IRB approach). The rating is dynamic; it is reassessed if there are signs that the counterparty's repayment capacity has changed. The rating is also reviewed periodically as stipulated in the regulations. The rating is primarily assigned by the person responsible for granting the credit. Handelsbanken's Central Risk Control performs a more extensive evaluation of the system annually, which also includes Stadshypotek, and the result is reported to the Board.

Risk classification methods

To quantify its credit risks, the Handelsbanken Group, which thus also includes Stadshypotek, calculates the probability of its customers defaulting (probability of default, PD), the Handelsbanken Group's exposure at default (EAD), and the proportion of the loan that the Handelsbanken Group would lose in the case of default (loss given default, LGD). Default is defined as a counterparty being more than 90 days late with a payment, or an assessment having been made prior to this that the counterparty will be unable to pay according to the contract.

The PD value is expressed as a percentage where a PD value of 0.5 per cent statistically means that 1 borrower out of 200 is expected to default within one year. In reality, however, not as many of the defaults cause losses for Stadshypotek, since there is always satisfactory collateral for the exposure. Furthermore, a default does not necessarily preclude payment by the counterparty at a later date. At Stadshypotek, unsecured loans are only granted to governments or municipalities or in cases where such bodies assume responsibility for the loan.

For corporate exposures, the internal rating set for each counterparty is directly converted into a rating grade on a scale between one and ten. A certain average probability of default (PD) is calculated for each risk class. For exposures to large companies, standardised values prescribed by the regulatory code are applied to loss given default (LGD). The standardised value that may be used is determined by the collateral provided for each exposure.

For retail exposures, the risk class is also based on the internal rating assigned to all credit customers. The rating is not directly translated into a risk grade as it is for corporate exposures; instead, the various exposures are sorted into a number of smaller groups, depending on certain factors such as the type of credit, non-payment records, number of borrowers, etc. An average probability of default has been calculated for each of the smaller groups, and on the basis of this, the groups are sorted into one of the ten rating grades. Different models are used for exposures to private individuals and small businesses, but the principle is the same.

For retail exposures and, from 31 December 2010, exposures to medium-sized companies, property companies and housing co-operative associations, the loss given default (LGD) is determined by the Handelsbanken Group's own loss history. Different values are applied to property

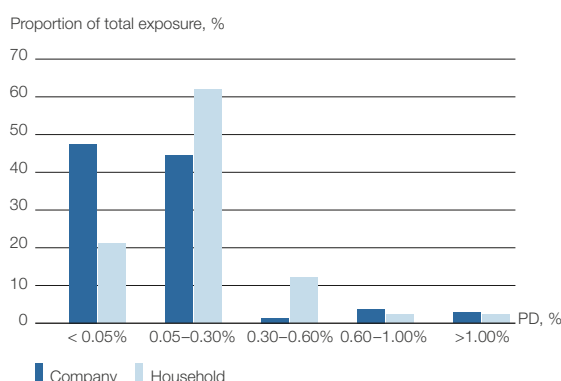
exposures for medium-sized companies, property companies and housing co-operative associations and for retail exposures in Sweden, depending on the loan-to-value ratio of the exposure.

For all exposure classes, a certain probability of default (PD) is calculated for each of the rating grades. Probability of default is based on calculations of the historical percentage of defaults for different types of exposure. The average probability of default is then adjusted by a safety margin and a business cycle adjustment factor. The safety margin is intended to ensure that the probability of default is not underestimated. The business cycle adjustment factor takes into account the fact that the actual probability of default per rating grade can be expected to vary due to the business cycle. The probability of default used for risk weighting therefore needs to be adjusted in relation to where in the business cycle the Handelsbanken Group's borrowers were during the period on which the calculations are based. The business cycle adjustments are based on the Handelsbanken Group's internal history from 1985 to 2009. The Handelsbanken Group's method for business cycle adjustment is intended to even out business cycle fluctuations in probability of default for each risk grade.

In addition to the capital adequacy calculation, measures of risk (PD, EAD, LGD) are used to price risk in each individual transaction and to calculate economic capital (EC). New credits that are assessed to involve higher than normal risk are refused, regardless of the price and regardless of the collateral available. The method used means that the Handelsbanken Group's historical losses have a direct impact on risk calculations and capital requirements, which contributes to the positive outcome for the Handelsbanken Group of the Basel II regulations.

The diagram shows a breakdown of Stadshypotek's lending to the public, excluding credits in default, with the different PD intervals for each of the counterparty categories, i.e. retail and corporate.

PD interval and proportion of exposure by type of exposure, corporate and retail, excluding credits in default



Loan losses

The above-mentioned factors in the sections on rules and principles for managing credit risk played a very important role in ensuring that recoveries exceeded new loan losses for the thirteenth consecutive year. Net loan losses thus had a positive impact on the results of SEK 12 million (38), which corresponds to a loan loss ratio of -0.00 per cent (-0.01) of total lending. The largest loan loss attributable to a single customer or customer category was SEK 3.0 million (1.7). The ten largest loan losses totalled SEK 14 million (8).

Loan losses are reported in note 8 on page 31.

Impaired loans

As at 31 December 2011, Stadshypotek's impaired loans before deduction of the provision for probable loan losses amounted to SEK 110 million (108). These impaired loans included non-performing loans of SEK 57 million (49) and SEK 53 million (59) in loans on which the borrowers pay interest and amortisation, but which are nevertheless considered impaired due to uncertainty regarding the borrowers' repayment capacity and the value of the collateral. There were also non-performing loans of SEK 906 million (509) that are not classed as being impaired loans. After deductions for specific provisions totalling SEK -44 million (-41) and collective provisions for individually assessed loans of SEK -6 million (-6) for probable loan losses, impaired loans totalled SEK 60 million (61).

| Non-performing loans by borrower category 31 December | 2011 | | 2010 | |
|--|---|---|---|---|
| | Non-performing loans which are not included in impaired loans | Non-performing loans which are included in impaired loans | Non-performing loans which are not included in impaired loans | Non-performing loans which are included in impaired loans |
| SEK m | | | | |
| Households | 770 | 48 | 486 | 40 |
| Public sector, municipal companies | - | - | - | - |
| Housing co-operative associations | 5 | - | 1 | 2 |
| Other legal entities | 131 | 9 | 22 | 7 |
| Total | 906 | 57 | 509 | 49 |

Of which in operations outside Sweden

| | | | | |
|--|-----------|----------|-----------|----------|
| Households | 99 | - | 78 | - |
| Public sector, municipal companies | - | - | - | - |
| Housing co-operative associations | - | - | - | - |
| Other legal entities | - | - | - | - |
| Total non-performing loans in operations outside Sweden | 99 | - | 78 | - |

| Non-performing loans by type of collateral 31 December | 2011 | | 2010 | |
|---|---|---|---|---|
| | Non-performing loans which are not included in impaired loans | Non-performing loans which are included in impaired loans | Non-performing loans which are not included in impaired loans | Non-performing loans which are included in impaired loans |
| SEK m | | | | |
| Single-family housing | 629 | 34 | 418 | 25 |
| Housing co-operative apartments | 118 | 2 | 63 | 3 |
| Owner-occupied apartments* | 20 | - | - | - |
| Private market | 767 | 36 | 481 | 28 |
| Multi-family housing | 120 | 14 | 26 | 19 |
| Offices and commercial buildings | 19 | 7 | 2 | 2 |
| Corporate market | 139 | 21 | 28 | 21 |
| Total | 906 | 57 | 509 | 49 |

Of which in operations outside Sweden

| | | | | |
|--|-----------|----------|-----------|----------|
| Single-family housing | 72 | - | 75 | - |
| Housing co-operative apartments | 7 | - | 3 | - |
| Owner-occupied apartments* | 20 | - | - | - |
| Private market | 99 | - | 78 | - |
| Multi-family housing | - | - | - | - |
| Offices and commercial buildings | - | - | - | - |
| Corporate market | - | - | - | - |
| Total non-performing loans in operations outside Sweden | 99 | - | 78 | - |

| Impaired loans by borrower category 31 December | 2011 | | | 2010 | | |
|--|----------------|-------------------------------|--------------------|----------------|-------------------------------|--------------------|
| | Impaired loans | Provision for probable losses | Net impaired loans | Impaired loans | Provision for probable losses | Net impaired loans |
| SEK m | | | | | | |
| Households | 63 | -22 | 41 | 54 | -17 | 37 |
| Public sector, municipal companies | - | - | - | - | - | - |
| Housing co-operative associations | 35 | -14 | 21 | 40 | -15 | 25 |
| Other legal entities | 12 | -8 | 4 | 14 | -9 | 5 |
| Total | 110 | -44 | 66 | 108 | -41 | 67 |

| Impaired loans by type of collateral 31 December | 2011 | | | 2010 | | |
|---|----------------|-------------------------------|--------------------|----------------|-------------------------------|--------------------|
| | Impaired loans | Provision for probable losses | Net impaired loans | Impaired loans | Provision for probable losses | Net impaired loans |
| SEK m | | | | | | |
| Single-family housing | 44 | -14 | 30 | 39 | -11 | 28 |
| Housing co-operative apartments | 6 | -1 | 5 | 5 | -1 | 4 |
| Owner-occupied apartments* | - | - | - | - | - | - |
| Private market | 50 | -15 | 35 | 44 | -12 | 32 |
| Multi-family housing | 53 | -27 | 26 | 60 | -26 | 34 |
| Offices and commercial buildings | 7 | -2 | 5 | 4 | -3 | 1 |
| Corporate market | 60 | -29 | 31 | 64 | -29 | 35 |
| Total | 110 | -44 | 66 | 108 | -41 | 67 |

* For definitions, see page 26.

Impaired loans relate in their entirety to the Swedish market. The reserved amount for probable losses in the tables showing impaired loans consists of a specific provision for individually assessed loans.

Impaired loans are also reported in note 11 on page 32. For a definition of impaired loans, etc., see the definitions on page 4.

Reposessed property

As at 31 December 2011, there was no reposessed property.

Counterparty risk

Counterparty risks can be divided into value change risk and payment risk. Value change risk arises when Stadshypotek has entered into derivative agreements, such as forward rate contracts or swaps, with a counterparty and there is a risk that this counterparty will not be able to meet its obligations. If such a situation arises, a new equivalent contract must be acquired in the market to replace the old one, which may imply an expense depending on the price developments in the market in question. Most of Stadshypotek's derivative agreements are entered into with Handelsbanken as the counterparty, which means that it is the parent company which bears this type of credit risk. Some of the credit limits available in the parent company are intended to cover any counterparty risks arising from Stadshypotek's trading in derivatives. In the few cases where Stadshypotek enters into derivative agreements with an external counterparty, these are restricted by means of credit limits established in the standard credit process at Handelsbanken. These limits are assigned to Stadshypotek. Payment risks arise in transactions where Stadshypotek has fulfilled its commitments in the form of foreign exchange conversion or payments but cannot check at that same moment whether the counterparty has fulfilled its commitments to Stadshypotek. The risk amount equals the amount of the payment transaction. Payment risk at Stadshypotek arises in connection with derivative agreements. As stated above, most of Stadshypotek's derivative agreements are signed with Handelsbanken as the counterparty, which means that Stadshypotek's payment risk is limited. The limits for payment risk are established and delegated to Stadshypotek for the external counterparties with which Stadshypotek enters into derivative agreements.

MARKET RISK

Market risks originate from price changes on the financial markets and are divided into interest rate risks, equity price risks, exchange rate risks and commodity price risks. The market risks affecting Stadshypotek are interest rate risk and currency risk. Stadshypotek's Board decides on limits for interest rate risk and currency risk.

Interest rate risk

Interest rate risks arise when the rate adjustment periods for financial assets and liabilities or derivatives do not coincide. At Stadshypotek, interest rate risk is defined as the difference that arises in the present value of future cash flows if the yield curve simultaneously moves upwards by one percentage point.

Due to the concentration of the benchmark loans to a small number of final maturity dates, it is not possible to match maturities in a traditional manner. Instead, the general method for achieving risk-neutral matching is based on the use of two different bond loans to finance one lending transaction. Since one of the bond loans has a somewhat shorter maturity than the lending and the other a somewhat longer maturity, interest rate risks which can balance each other are achieved so that the borrowing is risk-neutral with respect to the lending.

Stadshypotek uses interest rate swaps to hedge against risks on its own balance sheet. Long-term funding may be shortened using interest rate swaps, so that the interest rate adjustment period matches the short-term lending at fixed and variable rates.

Stadshypotek's capped rate loan offers borrowers insurance against future interest rate increases. This is a five-year loan where the interest rate on the loan goes down when short-term interest rates fall. If the short-term rate of interest increases, the customer never has to pay more than a pre-determined maximum rate of interest. This commitment is hedged with interest rate caps on terms corresponding to this lending.

The equity capital is placed in lending with an average rate adjustment period of 1.5 (1.5) years. The daily interest rate risk on equity capital must not deviate from a risk limit specified by the Board. At 31 December 2011, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -129 million (-123), which was well within the limit set by the Board.

The table below shows the interest rate adjustment periods for assets and liabilities.

Interest rate adjustment periods for Stadshypotek's assets and liabilities, 31 December 2011

| SEK m | -3 mths | 3-6 mths | 6-12 mths | 1-5 yrs | 5 yrs- | Total |
|---|----------------|---------------|---------------|----------------|---------------|----------------|
| ASSETS | | | | | | |
| Loans to credit institutions | 9,435 | - | - | - | - | 9,435 |
| Loans to the public | 470,906 | 43,332 | 57,009 | 252,572 | 20,110 | 843,929 |
| Total assets | 480,341 | 43,332 | 57,009 | 252,572 | 20,110 | 853,364 |
| LIABILITIES | | | | | | |
| Due to credit institutions | 218,056 | 33,634 | 10,406 | 4,792 | 465 | 267,353 |
| Issued securities | 101,325 | 2,932 | 69,367 | 354,937 | 17,588 | 546,149 |
| Subordinated liabilities | 16,700 | - | - | - | - | 16,700 |
| Total liabilities | 336,081 | 36,566 | 79,773 | 359,729 | 18,053 | 830,202 |
| Off-balance-sheet items | -121,426 | -6,710 | -2,320 | 121,211 | 1,081 | -8,164 |
| Difference between assets and liabilities including off-balance-sheet items | 22,834 | 56 | -25,084 | 14,054 | 3,138 | 14,998 |

Interest rate adjustment periods for Stadshypotek's assets and liabilities, 31 December 2010

| SEK m | -3 mths | 3-6 mths | 6-12 mths | 1-5 yrs | 5 yrs- | Total |
|---|----------------|---------------|---------------|----------------|---------------|----------------|
| ASSETS | | | | | | |
| Loans to credit institutions | 11,092 | - | - | - | - | 11,092 |
| Loans to the public | 472,245 | 23,263 | 54,083 | 190,376 | 18,888 | 758,855 |
| Total assets | 483,337 | 23,263 | 54,083 | 190,376 | 18,888 | 769,947 |
| LIABILITIES | | | | | | |
| Due to credit institutions | 292,296 | 0 | 7 | 2,114 | - | 294,417 |
| Issued securities | 32,255 | 39,491 | 2,145 | 353,980 | 20,329 | 448,200 |
| Subordinated liabilities | 8,800 | - | - | - | - | 8,800 |
| Total liabilities | 333,351 | 39,491 | 2,152 | 356,094 | 20,329 | 751,417 |
| Off-balance-sheet items | -151,795 | -2,599 | -1,547 | 136,699 | 3,634 | -15,608 |
| Difference between assets and liabilities including off-balance-sheet items | -1,809 | -18,827 | 50,384 | -29,019 | 2,193 | 2,922 |

Exchange rate risk

Stadshypotek has active commercial paper programmes in the US and Europe. Issues have been made in USD, CHF, GBP and EUR as part of these programmes. Stadshypotek also has access to a certain amount of internal short-term funding in USD from Handelsbanken. The exchange rate risk in connection with all short-term funding in foreign currencies is eliminated by matching currency swaps. Stadshypotek has also issued bonds in EUR and CHF under the EMTCN programme, and in USD under the US Medium Term Covered Bond Programme, and these were converted into SEK through cross-currency interest rate swaps.

All other refinancing in the foreign markets is raised through Handelsbanken and is subsequently transferred to Stadshypotek in Swedish kronor.

LIQUIDITY RISK

Liquidity risk is the risk that Stadshypotek will not be able to meet its payment obligations when they fall due, but will be affected by unacceptable costs or losses. Stadshypotek's Board decides on the limits for liquidity risk. Liquidity risk is measured and limited by carrying out a gap analysis of cash flows for various maturities and all currencies, and a gap analysis of groups of currencies. The liquidity deficit consists of the amount by which estimated out-payments exceed estimated in-payments, and is restricted by limits.

Maturities for assets and liabilities, 31 December 2011

| SEK m | -3 mths | 3-12 mths | 1-5 yrs | 5 yrs- | Total |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| Loans to credit institutions | 9,435 | - | - | - | 9,435 |
| Loans to the public | 10,392 | 13,944 | 43,242 | 812,415 | 879,993 |
| Total assets | 19,827 | 13,944 | 43,242 | 812,415 | 889,428 |
| Due to credit institutions | 136,128 | 106,995 | 21,957 | 5,377 | 270,457 |
| Issued securities | 70,599 | 98,655 | 397,624 | 18,486 | 585,364 |
| Subordinated liabilities | 200 | - | 4,800 | 11,900 | 16,900 |
| Total liabilities | 206,927 | 205,650 | 424,381 | 35,763 | 872,721 |

Derivatives, 31 December 2011

| SEK m | -3 mths | 3-12 mths | 1-5 yrs | 5 yrs- | Total |
|---------------------------|------------|--------------|---------------|------------|---------------|
| Total derivatives inflow | 24,476 | 13,460 | 92,291 | 1,377 | 131,604 |
| Total derivatives outflow | 23,864 | 8,229 | 78,085 | 513 | 110,691 |
| Net | 612 | 5,231 | 14,206 | 864 | 20,913 |

Maturities for assets and liabilities, 31 December 2010

| SEK m | -3 mths | 3-12 mths | 1-5 yrs | 5 yrs- | Total |
|------------------------------|----------------|---------------|----------------|----------------|----------------|
| Loans to credit institutions | 11,092 | - | - | - | 11,092 |
| Loans to the public | 5,035 | 10,374 | 34,424 | 740,563 | 790,396 |
| Total assets | 16,127 | 10,374 | 34,424 | 740,563 | 801,488 |
| Due to credit institutions | 161,630 | 33,106 | 94,997 | 4,786 | 294,519 |
| Issued securities | 14,303 | 61,878 | 395,854 | 21,008 | 493,043 |
| Subordinated liabilities | 43 | - | 4,800 | 4,000 | 8,843 |
| Total liabilities | 175,976 | 94,984 | 495,651 | 29,794 | 796,405 |

Derivatives, 31 December 2010

| SEK m | -3 mths | 3-12 mths | 1-5 yrs | 5 yrs- | Total |
|---------------------------|-------------|--------------|---------------|------------|---------------|
| Total derivatives inflow | 41,437 | 12,643 | 75,441 | 2,853 | 132,374 |
| Total derivatives outflow | 41,820 | 7,058 | 53,813 | 2,199 | 104,890 |
| Total | -383 | 5,585 | 21,628 | 654 | 27,484 |

To an increasing extent, loans with a short interest fixing period and variable rate loans have long-term funding in order to minimise the liquidity risk. However, some of this lending is still funded by issues in short-term instruments. The maturity structure of the funding is well-diversified and adapted so that Handelsbanken's liquidity at Group level is in balance. The co-ordination with Handelsbanken's Treasury department has also given Stadshypotek access to Handelsbanken's liquidity reserves.

A maturity analysis for contracted payment commitments regarding assets, liabilities and derivatives is specified in the tables on the previous page. The maturity analysis shows undiscounted cash flows for the contracted payment commitments including interest flows. Liquid funds are recorded as an inflow in the range 0–3 months. In other respects, cash flows from liabilities and derivatives are reported as maturing in the time intervals that correspond to the contractual due date. Loans to the public are reported as maturing in the time interval over five years. Amortisation according to plan during the current interest rate adjustment period and fixed interest flows are reported on their respective maturity dates.

OPERATIONAL RISK

Operational risk is defined as the risk of loss due to deficient or erroneous procedures and systems, human error by employees or external events. Stadshypotek follows the same policy and guidelines as the Handelsbanken Group in its management of operational risks.

Most of Stadshypotek's business is conducted within the framework of a collaboration agreement that the company has with Handelsbanken. Responsibility for the identification, management and control of operational risk in the Handelsbanken Group is an integrated part of managerial responsibility. In all areas where the Bank issues instructions, special attention is always paid to how internal control is organised. It is the duty of managers responsible for specific functions to ensure that appropriate instructions and procedures are drawn up for their business area. In accordance with the Handelsbanken Group's guidelines, an annual evaluation of operational risk is carried out for the purposes of identifying operational risks and quantifying the losses that may arise. In addition, the chief executive of Stadshypotek carries out an overall review of the company's operational risks twice a year. The results of these reviews are reported to the Group function responsible for operational risk.

NOTE 3 Net interest income

| SEK m | 2011 | 2010 |
|--|----------------|----------------|
| Interest income | | |
| Loans to the public | 29,516 | 20,149 |
| Loans to credit institutions | 353 | 204 |
| Total | 29,869 | 20,353 |
| Interest expense | | |
| Due to credit institutions | | |
| Other short-term borrowing | -5,340 | -2,704 |
| Promissory notes and other long-term borrowings | -2,041 | -715 |
| Issued securities | | |
| Commercial paper and other short-term borrowings | -202 | -220 |
| Bonds and other long-term borrowings | -16,058 | -15,024 |
| Subordinated loans | -333 | -66 |
| Other | | |
| Derivatives* | 572 | 3,992 |
| Fee to the Swedish Stabilisation Fund | -202 | -83 |
| Other interest expense | -21 | -32 |
| Total | -23,625 | -14,852 |
| Net interest income | 6,244 | 5,501 |

* Net interest income from derivative instruments. These instruments are recognised at fair value and derive from Stadshypotek's funding and can have both a positive and a negative impact on interest expense for derivatives.

During the year, the average interest rate on loans to the public was 3.7 per cent (2.8). During the year, the average funding rate (due to credit institutions, issued securities and subordinated loans) was 3.0 per cent (2.6). SEK 3 million (3) of the interest income related to impaired loans.

The interest income is entirely attributable to assets recognised at amortised cost. Total interest income on liabilities recognised at amortised cost during 2011 was SEK 23,974 million (18,729).

NOTE 4 Net gains/losses on financial items at fair value

| SEK m | 2011 | 2010 |
|---------------------------------------|-----------|------------|
| Hedge accounting, fair value hedges | -69 | 118 |
| of which hedged items | -3,604 | 1,967 |
| of which hedging | 3,535 | -1,849 |
| Loans, valued at cost | 174 | 327 |
| Financial liabilities, valued at cost | -41 | -260 |
| Derivatives not recognised as hedges | -45 | -56 |
| Total | 19 | 129 |

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 hedge accounting. Interest income and interest expenses for these instruments are recognised under net interest income. Derivatives not recognised as hedges are included in the held-for-trading category.

NOTE 5 Net fee and commission income

| SEK m | 2011 | 2010 |
|--------------------------------------|------------|------------|
| Fee and commission income | | |
| Lending commissions | 12 | 10 |
| Other commissions | 0 | 0 |
| Total | 12 | 10 |
| Fee and commission expense | | |
| Commission on payments | 0 | 0 |
| Commission on securities | -21 | -25 |
| Other commissions | -3 | -3 |
| Total | -24 | -28 |
| Net fee and commission income | -12 | -18 |

NOTE 6 Staff costs

| SEK m | 2011 | 2010 |
|--|------------|------------|
| Salaries and other compensation | -26 | -24 |
| Social security costs | -8 | -8 |
| of which special payroll tax | -2 | -2 |
| Pension premiums paid | -9 | -10 |
| Provision to profit-sharing foundation | -4 | -5 |
| Other staff costs | -2 | -2 |
| Total | -49 | -49 |

The average number of employees in the company during the year was 41 (40), of whom 56 per cent (52) were women and 44 per cent (48) men.

Pension premiums paid refer to premiums paid to the SHB Pension Fund for contractual pension insurance. Pensions paid to employees are defined benefit plans, but the company has no commitments as premiums are paid to the pension fund, which in turn has a guarantee from Handelsbanken. The company's pension plan is therefore reported as a defined contribution plan.

COMPENSATION POLICY

The Board of Stadshypotek has adopted a policy for compensation at Stadshypotek AB. Compensation for work performed is set individually for each employee, and is paid in the form of a fixed salary, customary salary benefits and a pension provision. There are no exceptions from the principle of fixed salary at Stadshypotek.

PRINCIPLES FOR COMPENSATION TO SENIOR MANAGEMENT

The compensation level for senior management is revised annually according to the decision-making process that applies throughout the Handelsbanken Group. One main principle in the process is that compensation may only be issued in the form of salary and customary employee benefits. Variable compensation benefits such as bonuses and percentage of profits are not paid.

TERMS AND COMPENSATION FOR SENIOR MANAGEMENT

For the chief executive, compensation is paid in the form of fixed salary, customary salary benefits and a pension provision. Decisions regarding the compensation paid to the chief executive and other senior management staff who report directly to the Board or chief executive are made by Stadshypotek's Board.

Stadshypotek has no agreements on severance pay. The chief executive, Per Beckman, has a retirement age of 60. Between the ages of 60 and 64, the pension is 65 per cent of the salary immediately before retirement. From the age of 65, the pension is 10 per cent of the annual salary up to 7.5 income base amounts. A pension under the general national insurance scheme is also paid. A retirement pension of 65 per cent is paid on the portion of the salary in excess of 7.5 income base amounts.

Salary and compensation to the chief executive amounted to SEK 3.6 million (4.3), including benefits of SEK 206 thousand (244). The present chief executive took up his position on 1 December 2011 and salary and remuneration for December 2011 were SEK 0.4 million, including benefits of SEK 2 thousand. The previous chief executive took up his position on 1 March 2011 and salary and remuneration for the period 1 March to 30 November 2011 were SEK 2.6 million, including benefits of SEK 171 thousand. Salary and remuneration for the previous chief executive for the period 1 January to 28 February 2011 were SEK 0.6 million, including benefits of SEK 32 thousand. No fees have been paid to members of the Board. Pension premiums paid for the chief executives totalled SEK 3.9 million (5.1). The pension premium paid for the present chief executive for December 2011 was SEK 0.3 million. For the previous chief executives, pension premiums for the period 1 March to 30 November 2011 were SEK 2.5 million and for the period 1 January to 28 February, they were SEK 1.1 million.

At the end of 2011, the following loans were outstanding at Stadshypotek with respect to senior management of the company:

| SEK m | 2011 | 2010 |
|---|------|------|
| Chief executives in the parent company and subsidiaries | 3 | 3 |
| Other Board members in the parent company and subsidiaries | 7 | 6 |
| Chief executives or executive vice presidents at other companies in the Handelsbanken Group | 55 | 54 |

The current loans in question are distributed among 18 (24) individuals and are all secured by pledged collateral.

| Gender distribution, number | 2011 | | 2010 | |
|-----------------------------|------|-------|------|-------|
| | Men | Women | Men | Women |
| Board | 5 | 1 | 4 | 1 |

Compensation to other members of the company's senior management totalled SEK 5.2 million (4.8), all of which was fixed compensation. During the period January-November, the number of other senior executives in the company's management team totalled five people, before sub-

sequently decreasing to four people (4). There are no other company officers who can influence the company's level of risk, such as described in the definition in the Swedish Financial Supervisory Authority's regulations governing remuneration systems policies in credit institutions, investment firms and fund management companies.

NOTE 7 Other administrative expenses

| SEK m | 2011 | 2010 |
|-------------------------------|-------------|-------------|
| IT costs | -94 | -86 |
| Cost of premises | -4 | -4 |
| Purchased services | -86 | -77 |
| Other administrative expenses | -24 | -21 |
| Total | -208 | -188 |

| Audit costs | 2011 | 2010 |
|--|------|------|
| External auditing: | | |
| KPMG AB, audit assignments | -0.3 | -0.3 |
| KPMG AB, auditing activities in addition to audit assignments* | - | -3.5 |
| Internal audit | -0.8 | -0.6 |

| Operating lease contracts | 2011 | 2010 |
|-------------------------------|------|------|
| Lease payments for the period | -4 | -4 |

Lease fees mainly refer to rents.

* For issue prospectus and interim report audits.

NOTE 8 Loan losses

| SEK m | 2011 | 2010 |
|---|-----------|-----------|
| Specific provision for individually assessed loans | | |
| The year's provision | -16 | -12 |
| Reversal of previous provisions | 7 | 13 |
| Total | -9 | 1 |
| Collective provision | | |
| Collective provision for individually assessed loans | 0 | 5 |
| Write-offs | | |
| Actual loan losses for the year | -31 | -30 |
| Utilised share of previous provisions | 7 | 10 |
| Reversal of actual loan losses in previous years | 45 | 52 |
| Total | 21 | 32 |
| Net loan losses | 12 | 38 |

Both actual and probable loan losses reduce the corresponding receivable amount on the assets side of the balance sheet.

All written-down and recovered losses refer to loans to the public.

Loans which after individual assessment are deemed to have been reported at the correct value must also be assessed to establish whether a collective provision for probable loan losses might nevertheless be necessary. In connection with this SEK 6 million (6) was reserved as at 31 December 2011.

NOTE 9 Taxes

| SEK m | 2011 | 2010 |
|--|---------------|---------------|
| Current tax | | |
| Tax cost for the period | -1,577 | -1,422 |
| Adjustment of tax attributable to previous years | -10 | -1 |
| Total | -1,587 | -1,423 |
| Nominal tax rate in Sweden | 26.3 | 26.3 |
| Deviations | | |
| Adjustment of tax attributable to previous years | 0.2 | 0 |
| Effective tax rate | 26.5 | 26.3 |

NOTE 10 Loans to credit institutions

| SEK m | 2011 | 2010 |
|--|--------------|---------------|
| Loans in Swedish kronor | | |
| Banks | 9,435 | 11,092 |
| Loans in foreign currency | | |
| Banks | 0 | 0 |
| Total | 9,435 | 11,092 |
| Information concerning maturities | | |
| Payable on demand | 9,435 | 11,092 |
| Remaining maturity: maximum three months | - | - |
| Remaining maturity: over three months but maximum one year | - | - |
| Remaining maturity: between one and five years | - | - |
| Remaining maturity: over five years | - | - |
| Total | 9,435 | 11,092 |
| Average balance, loans to credit institutions | 7,176 | 9,484 |

NOTE 11 Loans to the public

| SEK m | 2011 | 2010 |
|--|----------------|----------------|
| Loans in Swedish kronor | | |
| Loans at cost value | 751,123 | 703,855 |
| Specific provision for individually assessed loans | -44 | -41 |
| Collective provision for individually assessed loans | -6 | -6 |
| Valuation of loans subject to hedge accounting | 1,185 | -74 |
| Total | 752,258 | 703,734 |
| Loans in foreign currency | | |
| Loans at cost value | 91,671 | 55,121 |
| Total | 91,671 | 55,121 |
| Carrying amount | 843,929 | 758,855 |
| Information concerning maturities | | |
| Payable on demand | - | - |
| Remaining maturity: maximum three months | 322,854 | 352,580 |
| Remaining maturity: over three months but maximum one year | 133,411 | 107,708 |
| Remaining maturity: between one and five years | 292,876 | 224,783 |
| Remaining maturity: over five years | 94,788 | 73,784 |
| Total | 843,929 | 758,855 |
| Average balance, loans to the public | 823,355 | 721,737 |

| Non-performing loans, etc. | 2011 | 2010 |
|---|-----------|-----------|
| Impaired loans | 110 | 108 |
| Specific provision for individually assessed loans | -44 | -41 |
| Collective provision for individually assessed loans | -6 | -6 |
| Net impaired loans | 60 | 61 |
| Reserve ratio for impaired loans, % | 39.8 | 38.4 |
| Proportion of impaired loans, % | 0.01 | 0.01 |
| Non-performing loans for which interest is accrued | 906 | 509 |
| Book value during the year of loan receivables | | |
| – before restructuring | 16 | 1 |
| – after restructuring | 13 | 0 |
| Impaired loans reclassified as normal loans during the year | 2 | 12 |

NOTE 12 Shares and participating interests in Group companies

| Amounts refer to the parent company | 2011 | 2010 |
|-------------------------------------|------|------|
| SEK m | | |
| Shares in Group companies | 0 | 0 |

| Name | Domicile | Corporate identity number | Number of shares | Nominal value, SEK '000 | Proportion of share capital, % | Carrying amount, SEK '000 |
|--------------------------------------|-----------|---------------------------|------------------|-------------------------|--------------------------------|---------------------------|
| Stadshypotek Delaware, Inc. | Delaware | 98-0342158 | 100 | 0 | 100 | 0 |
| Svenska Intecknings Garanti AB Sigab | Stockholm | 556432-7285 | 1,000 | 100 | 100 | 100 |

The holdings consist exclusively of unlisted shares.

NOTE 13 Derivative instruments

| SEK m | Nominal amount/maturity | | | Total 2011 | Total 2010 | Positive market values 2011 | Positive market values 2010 | Negative market values 2011 | Negative market values 2010 |
|-------------------------------------|-------------------------|-----------------------|------------|------------|------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | up to 1 yr | over 1 yr up to 5 yrs | over 5 yrs | | | | | | |
| DERIVATIVES FOR FAIR VALUE HEDGES | | | | | | | | | |
| Interest rate-related contracts | | | | | | | | | |
| Options | 1,270 | 12,023 | - | 13,293 | 12,043 | 62 | 164 | - | - |
| Interest rate swaps | 50,193 | 238,175 | 13,483 | 301,851 | 271,149 | 17,286 | 16,089 | 2,216 | 1,187 |
| Currency-related contracts | | | | | | | | | |
| Cross-currency interest rate swaps | 976 | 66,516 | - | 67,492 | 55,322 | 593 | 532 | 4,406 | 6,238 |
| OTHER DERIVATIVES | | | | | | | | | |
| Interest rate-related contracts | | | | | | | | | |
| Options | - | 831 | - | 831 | - | 11 | - | - | - |
| Interest rate swaps | 10,424 | 3,911 | 464 | 14,799 | 21,806 | 40 | 110 | 399 | 187 |
| Other interest-related derivatives | 688 | - | - | 688 | 17,684 | - | - | - | - |
| Currency-related contracts | | | | | | | | | |
| Currency swaps | 25,504 | - | - | 25,504 | 31,924 | 219 | 453 | 454 | 356 |
| Cross-currency interest rate swaps | - | 5,950 | - | 5,950 | 5,976 | - | - | 290 | 221 |
| Total | 89,055 | 327,406 | 13,947 | 430,408 | 415,904 | 18,211 | 17,348 | 7,765 | 8,189 |
| Currency breakdown of market values | | | | | | | | | |
| SEK | | | | | | 5,269 | -10,842 | 94,827 | 21,065 |
| USD | | | | | | 3,807 | 23,822 | -11,200 | -11,017 |
| EUR | | | | | | 1,733 | 336 | -75,330 | 2,655 |
| GBP | | | | | | 3,247 | 0 | -532 | -4,514 |
| CHF | | | | | | 4,144 | 4,016 | - | - |
| DKK | | | | | | 11 | 16 | - | - |

HEDGE ACCOUNTING

Stadshypotek uses fair value hedges to protect the Group against undesirable impact on profit/loss due to changes in the market prices of reported assets or liabilities. Hedged risks in hedging packages at fair value comprise interest rate risk on lending and funding at fixed interest rates and currency risk on funding in foreign currency. The hedging instruments in these hedging packages consist of interest rate swaps and cross-currency interest rate swaps. Fair value hedges are also applied for portfolios of financial instruments. The hedged risk in these portfolio hedges is the interest rate risk for lending where the original interest rate was fixed for three months and interest rate caps for lending with a fixed-interest period of three months. The hedging instruments in these portfolio hedges consist of interest rate swaps and interest rate options (caps). Interest rate swaps and currency swaps are also used as hedges for changes in market value without hedge accounting being applied.

In fair value hedges for portfolios of assets, the part of the portfolio's value that is exposed to the hedged risk is measured at market value.

At the end of the year, SEK 214 billion (220) for loans to the public where the original interest fixing period was three months and interest rate caps for lending corresponding to some SEK 13 billion (12) were subject to fair value portfolio hedges. The value which is attributable to the hedged part of the portfolio is reported on a separate line in the balance sheet in conjunction with loans to the public. At the end of the financial year, this item was SEK 4,490 million (4,744).

As at 31 December 2011, derivatives have been used as fair value hedges for a nominal amount of SEK 382 billion (388). The fair value of these derivatives was SEK 17,941 million (16,785) in positive market values and SEK 6,622 million (7,425) in negative market values. The value change for the year for these derivatives is SEK 3,535 million (-1,849) and this is reported under Net gains/losses on financial items at fair value. The change in fair value for the hedged items relating to hedged risk was SEK -3,604 million (1,967). Thus, the company's fair value hedges had an impact of SEK -69 million (118) on the year's profits.

NOTE 14 Intangible assets

| Internally developed software SEK m | 2011 | 2010 |
|---|------------|------------|
| Cost of acquisition at beginning of year | 22 | 22 |
| Cost of acquisition of additional intangible assets | 38 | - |
| Cost of acquisition at end of year | 60 | 22 |
| Opening accumulated depreciation | -11 | -7 |
| Depreciation for the year | -12 | -4 |
| Accumulated depreciation at end of year | -23 | -11 |
| Closing residual value | 37 | 11 |

NOTE 15 Property and equipment

| SEK m | 2011 | 2010 |
|---|-----------|-----------|
| Cost of acquisition at beginning of year | 3 | 3 |
| Cost of acquisition of new assets | 0 | 0 |
| Cost of acquisition of assets sold during the year | 0 | 0 |
| Total | 3 | 3 |
| Accumulated depreciation according to plan, opening balance | -3 | -2 |
| Depreciation for the year | 0 | -1 |
| Accumulated depreciation of assets sold during the year | 0 | 0 |
| Total | -3 | -3 |
| Residual value according to plan | 0 | 0 |

NOTE 16 Other assets

| SEK m | 2011 | 2010 |
|--|--------------|--------------|
| Settlement claims in respect of own securities | 1,261 | 2,625 |
| Other | 100 | 10 |
| Total | 1,361 | 2,635 |

NOTE 17 Prepaid expenses and accrued income

| SEK m | 2011 | 2010 |
|----------------------|--------------|--------------|
| Accrued interest | 2,489 | 1,940 |
| Other accrued income | 72 | 51 |
| Prepaid expenses | 3 | 5 |
| Total | 2,564 | 1,996 |

NOTE 18 Due to credit institutions

| SEK m | 2011 | 2010 |
|--|----------------|----------------|
| Due in Swedish kronor | | |
| Banks | 171,795 | 216,360 |
| Due in foreign currency | | |
| Banks | 95,558 | 78,057 |
| Total | 267,353 | 294,417 |
| Information concerning maturities | | |
| Payable on demand | - | - |
| Remaining maturity: maximum three months | 123,325 | 208,638 |
| Remaining maturity: over three months but maximum one year | 117,775 | 49,791 |
| Remaining maturity: over one year but maximum five years | 20,952 | 30,951 |
| Remaining maturity: over five years | 5,301 | 5,037 |
| Total | 267,353 | 294,417 |
| Average balance due to credit institutions | 298,400 | 237,295 |

NOTE 19 Issued securities

| SEK m | 2011 | 2010 |
|--|----------------|----------------|
| Certificates ¹⁾ | 23,546 | 8,116 |
| Bonds ²⁾ | 522,603 | 440,084 |
| Total issued securities | 546,149 | 448,200 |
| 1) Certificates | | |
| Certificates in Swedish kronor | 2,021 | - |
| Certificates in foreign currency | 21,525 | 8,116 |
| Carrying amount | 23,546 | 8,116 |
| <i>of which at amortised cost</i> | <i>23,546</i> | <i>8,116</i> |
| 2) Bonds | | |
| Bonds in Swedish kronor | 422,072 | 355,970 |
| Bonds in foreign currency | 70,789 | 57,574 |
| Retail bonds in Swedish kronor | 435 | 811 |
| Total nominal amount | 493,296 | 414,355 |
| <i>of which at amortised cost</i> | <i>493,296</i> | <i>414,355</i> |
| Price differences | 19,842 | 20,856 |
| Valuation of bonds recognised as hedges | 9,465 | 4,873 |
| Carrying amount | 522,603 | 440,084 |
| Information concerning maturities | | |
| Payable on demand | - | - |
| Remaining maturity: maximum three months | 66,383 | 10,150 |
| Remaining maturity: over three months but maximum one year | 82,806 | 47,370 |
| Remaining maturity: over one year but maximum five years | 379,517 | 371,966 |
| Remaining maturity: over five years | 17,443 | 18,714 |
| Total | 546,149 | 448,200 |
| Average balance issued securities in SEK | 406,982 | 386,334 |
| Average balance issued securities in foreign currency | 80,516 | 76,480 |

See page 44 for a list of bonds.

NOTE 20 Other liabilities

| SEK m | 2011 | 2010 |
|--|--------------|--------------|
| Settlement liabilities in respect of own securities issued | 2 | - |
| Group contributions provided | 4,700 | 1,628 |
| Other liabilities | 42 | 22 |
| Total | 4,744 | 1,650 |

NOTE 21 Accrued expenses and deferred income

| SEK m | 2011 | 2010 |
|------------------------|---------------|---------------|
| Accrued interest | 11,516 | 10,382 |
| Other accrued expenses | 227 | 92 |
| Deferred income | 196 | 102 |
| Total | 11,939 | 10,576 |

NOTE 22 Subordinated liabilities

Stadshypotek has two dated subordinated loans of SEK 3,500 million and SEK 4,900 million respectively and two perpetual loans of SEK 4,800 million and SEK 500 million respectively. The loans have a 3-month variable coupon linked to Stibor. The dated loans fall due for payment on 1 January 2015 and 30 June 2026. For the perpetual loans, given the approval of the Swedish Financial Supervisory Authority, Stadshypotek has the right of repayment at the earliest on 26 March 2012 and 29 December 2013 respectively, and subsequently on each interest due date. If there are special circumstances, Stadshypotek has the right to repay the perpetual loan before five years has elapsed if the Supervisory Authority consents to the repayment.

Stadshypotek has also raised a perpetual Tier 1 capital contribution from the parent company for SEK 3,000 million. The Tier 1 capital loan has a 3-month variable coupon linked to Stibor. Given the approval of the Swedish Financial Supervisory Authority, Stadshypotek has the right to repay the loan to Handelsbanken. The loan can be repaid at the earliest from 29 December 2016, and subsequently on each interest due date.

NOTE 23 Equity 2011

At the balance sheet date, the share capital comprised 162,000 class A shares with a nominal value of SEK 25,000 each. There have been no changes during the year.

Restricted and unrestricted equity in the Group are the same as restricted and unrestricted equity in the parent company and are stated under Changes in equity.

The translation reserve consists entirely of translation differences arising from conversion of the income statements and balance sheets of foreign branches and subsidiaries.

NOTE 24 Other commitments

| SEK m | 2011 | 2010 |
|--|--------------|--------------|
| Loans with contracted future interest rate | 4,076 | 4,419 |
| Other commitments | 1 | - |
| Total | 4,077 | 4,419 |

| Contracted future operating lease charges distributed by the years they fall due for payment | | |
|--|-------------|------------|
| 2011 | | 3.7 |
| 2012 | 3.6 | 2.3 |
| 2013 | 3.2 | 0.1 |
| 2014 | 2.9 | - |
| 2015 | 1.9 | - |
| Total | 11.6 | 6.1 |

NOTE 25 Disclosure of related-party transactions

| SEK m | 2011 | 2010 |
|--------------------------------------|----------------|----------------|
| BALANCE SHEET | | |
| Group claims | | |
| Loans to credit institutions | 9,435 | 11,092 |
| Derivative instruments | 18,030 | 16,895 |
| Other assets | 9 | 7 |
| Prepaid expenses and accrued income | 46 | 42 |
| Total | 27,520 | 28,036 |
| Group liabilities | | |
| Due to credit institutions | 263,341 | 292,559 |
| Derivative instruments | 7,403 | 8,008 |
| Other liabilities | 4,708 | 1,631 |
| Accrued expenses and deferred income | 828 | 403 |
| Subordinated loans | 16,700 | 8,800 |
| Total | 292,980 | 311,401 |
| INCOME STATEMENT | | |
| Interest income | 294 | 204 |
| Interest expense | -6,990 | -3,429 |
| Fee and commission expense | -9 | -12 |
| Other administrative expenses | -180 | -154 |
| Total | -6,885 | -3,391 |

Stadshypotek's lending operations are run via Handelsbanken's Swedish branch operations, while the lending operations in Stadshypotek's branches in Denmark, Finland and Norway are run via Handelsbanken's branch operations in Denmark, Finland and Norway. Stadshypotek's treasury function is also integrated with Handelsbanken's Treasury department. Functions necessary for management and control of the company remain within Stadshypotek. The services which Handelsbanken performs on behalf of Stadshypotek are regulated in a collaboration agreement between the parties.

The services that Stadshypotek purchases from the parent company, which are included in other administrative expenses, consist primarily of IT services and the treasury function. Intra-group prices are set within the framework for the work in the planning committees in the Handelsbanken Group and are based on the cost price principle. Borrowing from the parent company, derivative transactions and lending to the parent company are carried out at market rates and terms.

As in previous years, no payments have been made to the parent company in Sweden in respect of the services performed by the latter in relation to the sale and administration of mortgage loans. However, at Stadshypotek's branches in Denmark, Finland and Norway, payments in line with market levels have been made to Handelsbanken's branches in Denmark, Finland and Norway in respect of services performed on behalf of Stadshypotek's branches for the sale and administration of mortgage loans.

The item Other assets referred to above includes a claim of SEK 4 million (6) on fellow subsidiaries. Included in accrued expenses and deferred income is an item of SEK 0 million (2) relating to dealings with fellow subsidiaries. Commission expenses include SEK 3 million (3) attributable to fellow subsidiaries. Other intra-group dealings refer to transactions with the parent company.

NOTE 26 Segment reporting

| Income statement | 2011 | | | 2010 | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| | Private | Corporate | Group | Private | Corporate | Group |
| SEK m | | | | | | |
| Net interest income | 4,607 | 1,637 | 6,244 | 3,836 | 1,665 | 5,501 |
| Net gains/losses on financial items at fair value | 14 | 5 | 19 | 88 | 41 | 129 |
| Net fee and commission income | -9 | -3 | -12 | -12 | -6 | -18 |
| Total operating income | 4,612 | 1,639 | 6,251 | 3,912 | 1,700 | 5,612 |
| Expenses | -202 | -67 | -269 | -173 | -69 | -242 |
| Profit before loan losses | 4,410 | 1,572 | 5,982 | 3,739 | 1,631 | 5,370 |
| Net loan losses | 9 | 3 | 12 | 21 | 17 | 38 |
| Operating profit | 4,419 | 1,575 | 5,994 | 3,760 | 1,648 | 5,408 |
| Balance sheet | | | | | | |
| 31 December | | | | | | |
| SEK m | | | | | | |
| Assets | | | | | | |
| Loans to credit institutions | 6,831 | 2,604 | 9,435 | 7,515 | 3,577 | 11,092 |
| Loans to the public | 581,665 | 262,264 | 843,929 | 524,515 | 234,340 | 758,855 |
| Other assets | 18,769 | 7,894 | 26,663 | 18,136 | 8,598 | 26,734 |
| Total assets | 607,265 | 272,762 | 880,027 | 550,166 | 246,515 | 796,681 |
| Liabilities, provisions and equity | | | | | | |
| Due to credit institutions | 199,772 | 67,581 | 267,353 | 209,605 | 84,812 | 294,417 |
| Issued securities | 383,910 | 162,239 | 546,149 | 303,663 | 144,537 | 448,200 |
| Other liabilities | 17,257 | 7,201 | 24,458 | 14,155 | 6,678 | 20,833 |
| Subordinated liabilities | 11,739 | 4,961 | 16,700 | 5,962 | 2,838 | 8,800 |
| Total liabilities and provisions | 612,678 | 241,982 | 854,660 | 533,385 | 238,865 | 772,250 |
| Equity | | | 25,367 | | | 24,431 |
| Total liabilities, provisions and equity | | | 880,027 | | | 796,681 |

Private market is defined as lending secured by mortgages in single-family or two-family houses, second homes, housing co-operative 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 | 2011 | | | | | 2010 | | | | |
|---|----------------|---------------|---------------|---------------|----------------|----------------|---------------|--------------|---------|----------------|
| | Sweden | Norway | Denmark | Finland | Group | Sweden | Norway | Denmark | Finland | Group |
| SEK m | | | | | | | | | | |
| Income | 5,685 | 397 | 89 | 80 | 6,251 | 5,151 | 439 | 22 | | 5,612 |
| Intangible assets | 37 | - | - | - | 37 | 11 | - | - | | 11 |
| Property and equipment | 0 | - | - | - | 0 | 0 | - | - | | 0 |
| Total assets | 786,604 | 54,466 | 10,005 | 28,952 | 880,027 | 741,436 | 48,676 | 6,569 | | 796,681 |

NOTE 27 Assets and liabilities in foreign currencies

The total value in SEK of Group assets and liabilities in foreign currencies is specified in the following table.

| 31 December 2011 SEK m | USD | EUR | CHF | GBP | NOK | DKK | Total |
|--------------------------------------|----------|-----------|----------|----------|--------------|-----------|--------------|
| Assets | | | | | | | |
| Loans to credit institutions | - | 509 | - | - | 1,030 | - | 1,539 |
| Loans to the public | - | 28,373 | - | - | 53,314 | 9,984 | 91,671 |
| Accrued income and prepaid expenses | - | 70 | - | - | 121 | 1 | 192 |
| Liabilities | | | | | | | |
| Due to credit institutions | 3,797 | 28,787 | - | - | 53,095 | 9,879 | 95,558 |
| Issued securities | 11,166 | 76,432 | 4,126 | 3,779 | - | - | 95,503 |
| Other liabilities | - | 7 | - | - | 98 | 27 | 132 |
| Accrued income and prepaid expenses | 29 | 726 | 18 | - | 259 | 14 | 1,046 |
| Derivative positions | 14,994 | 77,063 | 4,144 | 3,779 | - | 11 | 99,991 |
| Net foreign currency position | 2 | 63 | 0 | 0 | 1,013 | 76 | 1,154 |

| 31 December 2010 SEK m | USD | EUR | CHF | GBP | NOK | DKK | Total |
|--------------------------------------|-----------|------------|----------|----------|------------|-----------|------------|
| Assets | | | | | | | |
| Loans to the public | - | - | - | - | 48,568 | 6,553 | 55,121 |
| Other assets | - | - | - | - | 0 | 0 | 0 |
| Accrued income and prepaid expenses | - | - | - | - | 108 | 2 | 110 |
| Liabilities | | | | | | | |
| Due to credit institutions | 23,811 | - | - | - | 47,719 | 6,526 | 78,056 |
| Issued securities | 10,993 | 47,975 | 3,997 | 4,515 | - | - | 67,480 |
| Accrued expenses and deferred income | 37 | 359 | 19 | - | 190 | 11 | 616 |
| Derivative positions | 34,840 | 48,254 | 4,016 | 4,515 | - | - | 91,625 |
| Net foreign currency position | -1 | -80 | 0 | 0 | 767 | 18 | 704 |

NOTE 28 Classification of financial assets and liabilities

| 31 December 2011 SEK m | Loans and receivables | Derivatives that do not constitute formal hedges | Derivatives designated as hedging instruments | Financial liabilities valued at amortised cost | Non-financial assets/liabilities | Total | Fair value |
|--|--------------------------|---|--|---|-------------------------------------|----------------|----------------|
| Assets | | | | | | | |
| Loans to credit institutions | 9,435 | | | | | 9,435 | 9,435 |
| Loans to the public | 843,929 | | | | | 843,929 | 851,267 |
| Value change of interest hedged item in portfolio hedge | 4,490 | | | | | 4,490 | |
| Derivative instruments | | 270 | 17,941 | | | 18,211 | 18,211 |
| Intangible assets | | | | | 37 | 37 | 37 |
| Property and equipment | | | | | 0 | 0 | 0 |
| Other assets | 1,361 | | | | | 1,361 | 1,361 |
| Prepaid expenses and accrued income | 2,564 | | | | | 2,564 | 2,564 |
| Total assets | 861,779 | 270 | 17,941 | | 37 | 880,027 | 882,875 |
| Liabilities | | | | | | | |
| Due to credit institutions | | | | 267,353 | | 267,353 | 267,760 |
| Issued securities | | | | 546,149 | | 546,149 | 548,155 |
| Derivative instruments | | 1,143 | 6,622 | | | 7,765 | 7,765 |
| Current tax liabilities | | | | | 10 | 10 | 10 |
| Other liabilities | | | | 4,929 | | 4,929 | 4,929 |
| Accrued expenses and deferred income | | | | 11,754 | | 11,754 | 11,754 |
| Subordinated liabilities | | | | 16,700 | | 16,700 | 18,334 |
| Total liabilities | | 1,143 | 6,622 | 846,885 | 10 | 854,660 | 858,707 |

| 31 December 2010 SEK m | Loans and receivables | Derivatives that do not constitute formal hedges | Derivatives designated as hedging instruments | Financial liabilities valued at amortised cost | Non-financial assets/liabilities | Total | Fair value |
|--|--------------------------|---|--|---|-------------------------------------|----------------|----------------|
| Assets | | | | | | | |
| Loans to credit institutions | 11,092 | | | | | 11,092 | 11,092 |
| Loans to the public | 758,855 | | | | | 758,855 | 763,740 |
| Value change of interest hedged item in portfolio hedge | 4,744 | | | | | 4,744 | |
| Derivative instruments | | 563 | 16,785 | | | 17,348 | 17,348 |
| Intangible assets | | | | | 11 | 11 | 11 |
| Property and equipment | | | | | 0 | 0 | 0 |
| Other assets | 2,635 | | | | | 2,635 | 2,635 |
| Prepaid expenses and accrued income | 1,996 | | | | | 1,996 | 1,996 |
| Total assets | 779,322 | 563 | 16,785 | | 11 | 796,681 | 796,822 |
| Liabilities | | | | | | | |
| Due to credit institutions | | | | 294,417 | | 294,417 | 294,960 |
| Issued securities | | | | 448,200 | | 448,200 | 445,608 |
| Derivative instruments | | 764 | 7,425 | | | 8,189 | 8,189 |
| Current tax liabilities | | | | | 418 | 418 | 418 |
| Other liabilities | | | | 1,745 | | 1,745 | 1,745 |
| Accrued expenses and deferred income | | | | 10,481 | | 10,481 | 10,481 |
| Subordinated liabilities | | | | 8,800 | | 8,800 | 8,802 |
| Total liabilities | | 764 | 7,425 | 763,643 | 418 | 772,250 | 770,203 |

In accordance with IFRS 7, a comparison is to be made between fair value and carrying amount for all assets and liabilities in the balance sheet. The directives allow scope for choice of method and assumptions.

Thus, the methods applied and the assumptions made may vary among credit institutions. Information concerning fair value is not a corporate valuation and therefore cannot constitute the basis of a comparison between credit institutions.

Principles for valuation of financial instruments at fair value on the balance sheet are described in the accounting policies in note 1. The right-hand column in the table above provides information concerning fair value for financial instruments that have been reported on the balance

sheet at amortised cost or in a different way. Information concerning fair value for these instruments has been produced according to the principles presented below:

Financial instruments for which the carrying amount is a reasonable approximation of fair value

For means of payment, receivables and liabilities with a variable interest rate, and short-term receivables and liabilities, the fair value is considered to be the same as the carrying amount. Receivables and liabilities with the maturity date or the date for next interest rate fixing falling within 30 days are defined as short-term.

Lending

Fixed-rate lending has been valued using the current market rate for the equivalent maturity with an adjustment for credit and liquidity risk. The credit and liquidity risk premium by which the market rate has been adjusted is assumed to be the same as the average margin for new lending at the time of the measurement.

Funding and issued securities

Issued securities listed on an active market have been valued at their market price. Unlisted issued securities and other funding have been valued at the Group's current funding interest rate.

NOTE 29 Fair value measurement of financial assets and liabilities

| 31 December 2011 SEK m | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|----------------|----------------|--------------|
| Assets | | | | |
| Derivative instruments | - | 18,211 | - | 18,211 |
| Total financial assets at fair value | - | 18,211 | - | 18,211 |
| Liabilities | | | | |
| Derivative instruments | - | 7,765 | - | 7,765 |
| Total financial liabilities at fair value | - | 7,765 | - | 7,765 |
| 31 December 2010 SEK m | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Derivative instruments | - | 17,348 | - | 17,348 |
| Total financial assets at fair value | - | 17,348 | - | 17,348 |
| Liabilities | | | | |
| Derivative instruments | - | 8,189 | - | 8,189 |
| Total financial liabilities at fair value | - | 8,189 | - | 8,189 |

The above tables provide a breakdown of the financial assets and liabilities that are recognised at fair value in the balance sheet.

Level 1 comprises instruments for which there are listed prices on an active market.

Level 2 comprises instruments which directly or by means of a valuation model are valued using information obtained from the market, such as listed interest rates.

Level 3 comprises instruments valued using a model where some of the input data which has had a material effect on the valuation relies on an assumption.

All financial assets and liabilities that are recognised at fair value are included in Level 2 and consist of interest rate swaps and currency-related derivatives.

NOTE 30 Capital adequacy analysis

Capital policy

Stadshypotek aims to maintain a satisfactory capital level which reflects the risk inherent in the company's operations and which exceeds the minimum statutory requirements. A healthy capital level is needed to manage situations of financial strain and also for other events such as acquisitions and major growth in volumes.

Legal capital requirement

According to the capital adequacy regulations, Basel II, which were introduced in Sweden on 1 February 2007 through the Act (2006:1371) on Capital Adequacy and Large Exposures of Credit Institutions and Investment Firms, Stadshypotek must maintain a capital base at least corresponding to the sum of the capital requirements for credit risks, market risks and operational risks. In addition to maintaining capital according to the minimum requirement, Stadshypotek must make an internal capital adequacy assessment. Stadshypotek's capital policy – most recently adopted by the Board in 2011 – states the guidelines for the internal capital adequacy assessment. During 2011, Stadshypotek met the statutory minimum level for its capital base.

Description of the capital base

The capital base consists of Tier 1 capital and Tier 2 capital. Tier 1 capital comprises equity and has been affected by the Board's proposal for appropriation of profits, and for Tier 1 capital contributions from the parent company. The Tier 1 capital contribution comprises a perpetual Tier 1 capital loan from the parent company for SEK 3,000 million. There are no incentives in the Tier 1 capital loan for redemption and it can be used to cover losses and enable recapitalisation of Stadshypotek when the Tier 1 ratio for Stadshypotek falls below 6.0 per cent according to the current transitional rules. If Stadshypotek does not fulfil the capital requirements in the Capital Adequacy Act, the loan is to be utilised. The loan is utilised by recognising an impairment loss. The loan conditions also contain a viability clause meaning that the loan can be written down permanently following a decision by the authorities under certain conditions. The Tier 1 capital loan is of the type where it can comprise at most 35 per cent of total Tier 1 capital. Deductions for intangible assets are made from the Tier 1 capital. Tier 2 capital consists mainly of perpetual and fixed-term subordinated loans.

Institutions with permission to use internal ratings-based models (IRB institutions) must make a deduction for the difference between expected loan losses under the IRB method and the provisions recognised in the accounts for probable loan losses where the expected loan losses exceed the provisions made. Half of the deduction is made from the Tier 1 capital and half from the Tier 2 capital.

Description of the capital requirement

Credit risks – Since Stadshypotek's lending takes place via Handelsbanken's branch network, Handelsbanken's IRB approach is also applied for Stadshypotek's risk classification and for calculating the credit risk for Stadshypotek's credits. The Swedish Financial Supervisory Authority has approved the Handelsbanken Group's IRB method.

There are two different IRB approaches, a foundation approach and an advanced approach. In the foundation approach, the Bank uses its own method to determine the probability of the customer defaulting within one year (PD), while the other parameters are set by the Financial Supervisory Authority. In the advanced approach, the Bank uses its own methods to calculate the loss in the case of default (LGD) and the exposure at default (EAD). Stadshypotek applies the foundation IRB approach for exposures to large companies. The advanced IRB approach has been applied for retail exposures (households and small companies) since 2007. Following approval from the Swedish Financial Supervisory Authority, the advanced IRB approach is applied for medium-sized companies, housing co-operative associations and property companies with effect from 31 December 2010.

Operational risks - Stadshypotek, like its parent company, uses the standardised approach, which means that the capital requirement for operational risks is based on the income.

Market risks – Stadshypotek has no market risks that are reported according to the capital adequacy rules for market risks. For a description of risk management, see Note 2, Risks and risk control, on page 25.

Basel II guarantee

At the start of the transition to Basel II, to speed up the transition, Stadshypotek entered into a guarantee facility relating to mortgages for housing co-operative apartments. In June 2008, Stadshypotek utilised the guarantee, which had a 0.15 percentage point effect on the Tier 1 ratio as at 31 December 2011. This transaction affects only capital adequacy in accordance with the transitional rules.

| Capital base 31 December SEK m | 2011 | 2010 |
|--|---------------|---------------|
| Equity | 25,367 | 24,431 |
| Tier 1 capital contribution | 3,000 | - |
| Deduction for intangible assets | -37 | -11 |
| Special deduction for IRB institutions | -11 | -119 |
| Tier 1 capital | 28,319 | 24,301 |
| Perpetual subordinated loans | 5,300 | 5,300 |
| Dated subordinated loans | 7,000 | 2,800 |
| Special deduction for IRB institutions | -11 | -119 |
| Tier 2 capital | 12,289 | 7,981 |
| Capital base | 40,608 | 32,282 |

The terms for outstanding subordinated loans are described in note 22, Subordinated liabilities.

| Capital requirement 31 December SEK m | 2011 | 2010 |
|--|---------------|---------------|
| Credit risk according to standardised approach | 20 | 22 |
| Credit risk according to IRB approach | 4,918 | 4,669 |
| Operational risk | 655 | 595 |
| Total capital requirement according to Basel II | 5,593 | 5,286 |
| Adjustment according to transitional rules | 26,894 | 23,227 |
| Capital requirement according to Basel II, transitional rules | 32,487 | 28,513 |
| Risk-weighted assets in accordance with transitional rules | 406,091 | 356,413 |
| Risk-weighted assets according to Basel II (capital requirement/8%) | 69,913 | 66,075 |

| Capital adequacy analysis 31 December Per cent | 2011 | 2010 |
|--|------|------|
| Capital requirement in Basel II compared with transitional rules | 17 | 19 |
| Capital ratio according to Basel II | 58.1 | 48.9 |
| Capital ratio according to transitional rules | 10.0 | 9.1 |
| Tier 1 ratio according to Basel II | 40.5 | 36.8 |
| Tier 1 ratio according to transitional rules | 7.0 | 6.8 |
| Capital base in relation to capital requirement Basel II | 726 | 611 |
| Capital base in relation to capital requirement according to transitional rules | 125 | 113 |

Figures reported in this section refer to the minimum capital requirements under Pillar 1 of the capital adequacy rules, Basel II. In the table, "According to Basel II" means that the figures are based on the minimum capital requirements after the transitional rules have ceased to apply.

Since 1 January 2007, Stadshypotek has applied the advanced IRB approach for retail exposures (households and small companies) and the foundation approach for corporate exposures. Following approval from the Swedish Financial Supervisory Authority, the advanced IRB approach is applied for medium-sized companies, housing co-operative associations and property companies with effect from 31 December 2010.

Stadshypotek is part of the banking group led by Handelsbanken and the requirement for information according to Pillar 3 in Basel II is fulfilled by Handelsbanken's information according to Pillar 3, which is available on the website www.handelsbanken.com.

| Credit risks IRB 31 December 2011 | Standardised approach | IRB approach | | |
|---|--------------------------|--|------------------------|------------------------|
| SEK m | Capital requirement | Exposure after credit risk protec- tion (EAD) | Average risk weight | Capital requirement |
| Institutions | 7 | - | - | - |
| Corporate | - | 226,311 | 13.1% | 2,373 |
| <i>of which advanced approach</i> | | 225,251 | 13.0% | 2,344 |
| <i>of which foundation approach</i> | | 1,060 | 17.9% | 29 |
| Retail | 10 | 586,238 | 5.4% | 2,545 |
| Other | 3 | - | - | - |
| Total | 20 | 812,549 | 7.6% | 4,918 |

| Credit risks IRB 31 December 2010 | Standardised approach | IRB approach | | |
|---|--------------------------|--|------------------------|------------------------|
| SEK m | Capital requirement | Exposure after credit risk protec- tion (EAD) | Average risk weight | Capital requirement |
| Institutions | 12 | - | - | - |
| Corporate | - | 207,785 | 16.1% | 2,671 |
| <i>of which advanced approach</i> | | 205,227 | 16.0% | 2,635 |
| <i>of which foundation approach</i> | | 2,558 | 17.9% | 36 |
| Retail | 9 | 529,466 | 4.7% | 1,998 |
| Other | 1 | - | - | - |
| Total | 22 | 737,251 | 7.9% | 4,669 |

Recommended appropriation of profits and statement from the Board

In accordance with the balance sheet for Stadshypotek AB, the following profits after deduction for a paid Group contribution of SEK 3,464 million are at the disposal of the annual general meeting:

| | |
|---------------------|--------------------|
| Retained earnings | SEK 8,804 million |
| Profit for the year | SEK 4,407 million |
| Total | SEK 13,211 million |

The Board proposes that the profits be carried forward to the next year.

When assessing the amount of the company's paid Group contribution, account has been taken of the nature of operations, their scope, consolidation requirements and risk-taking.

Our assessment is that the above distribution of profits is prudent and well-adapted to the operations as a going concern.

Unrealised changes in value of assets and liabilities at fair value have had a net impact of SEK -691 million on equity.

The capital base of the financial corporate group and parent company exceeded the statutory capital requirement by SEK 8,121 million at year-end.

We hereby declare that the consolidated accounts were prepared in accordance with international financial reporting standards as referred to in the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, that the parent company's annual accounts were prepared in accordance with sound accounting practices for credit market companies, that the annual accounts and consolidated accounts give a fair presentation of the Group's and the parent company's financial position and performance, and that the statutory administration report provides a fair view of the parent company's and Group's operations, financial position and performance and describes material risks and uncertainties to which the parent company and other companies in the Group are exposed.

Stockholm, 27 February 2012

Tommy Mossinger

Håkan Sandberg
Chairman of the Board

Olle Lindstrand

Yonnie Bergqvist

Per Beckman
Chief Executive

Camilla Persson
Employee representative

Auditor's report

To the annual general meeting of the shareholders of Stadshypotek AB (publ)
Corporate identity number 556459-6715

REPORT ON THE ANNUAL ACCOUNTS AND THE CONSOLIDATED ACCOUNTS

We have audited the annual accounts and the consolidated accounts of Stadshypotek AB (publ) for the year 2011.

Responsibilities of the Board of Directors and the Chief Executive for the annual accounts and the consolidated accounts

The Board of Directors and the Chief Executive are responsible for the preparation and fair presentation of the annual accounts in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and for the fair presentation of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies, and for such internal control as the Board of Directors and the Chief Executive deem necessary to be able to prepare annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

The responsibility of the auditors

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the annual accounts and the consolidated accounts are free from material misstatements. During the year, the internal auditing department of Handelsbanken has continuously examined the internal controls and accounts. We have received the reports that have been prepared. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and the consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Chief Executive, as well as evaluating the overall presentation of the annual accounts and the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the parent company as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the Group as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. The Administration Report is consistent with the other parts of the annual accounts and the consolidated accounts.

We therefore recommend that the annual general meeting of shareholders adopt the income statement and balance sheet of the parent company and the Group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and the consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Chief Executive of Stadshypotek AB (publ) for the year 2011.

Responsibilities of the Board of Directors and the Chief Executive

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the

Chief Executive are responsible for administration under the Companies Act and the Banking and Financing Business Act.

The responsibility of the auditors

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and the consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Chief Executive has any financial liabilities towards the company. We also examined whether any member of the Board of Directors or the Chief Executive has, in any other way, acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual general meeting of shareholders that the profit be appropriated in accordance with the proposal in the Administration Report and that the members of the Board of Directors and the Chief Executive be discharged from liability for the financial year.

Stockholm, 29 February 2012

KPMG AB

Stefan Holmström
Authorised Public Accountant

Board, auditors and senior management

BOARD OF STADSHYPOTEK AB

Members

Håkan Sandberg

Executive Vice President of Handelsbanken
Chairman of the Board since 2006
Board member since 2002

Per Beckman

Chief Executive since 2011
Board member since 2011

Yonnie Bergqvist

Executive Vice President of Handelsbanken
Board member since 2006

Olle Lindstrand

Senior Vice President of Handelsbanken
Board member since 2006

Thommy Mossinger

Executive Vice President of Handelsbanken
Board member since 2011

Camilla Persson

Employee representative
Board member since 2011

AUDITORS OF STADSHYPOTEK AB KPMG AB

Chief auditor: Stefan Holmström,
Authorised Public Accountant, Stockholm.
Auditor of the company since the 2008 annual
general meeting.

SENIOR MANAGEMENT

Per Beckman

Chief Executive
Employed since 2011

Heléne Boström

Head of Accounting and Control
Employed since 2006

Bo Engström

Head of Regional bank operations
Employed since 2008

Christer Ericsson

Head of Systems and Processes
Employed since 2006

Magnus Karlsmyr

Head of Treasury
Employed at Handelsbanken

Yvonne Orre

Head of Credits
Employed since 2007

Lolou Sörenson

Head of Personnel
Employed at Handelsbanken

Stadshypotek's bond tables

| Covered bonds, SEK Loan no. | Interest rate, % | Loan date | Interest due dates | Maturity date | Outstanding amount, SEK '000 |
|--------------------------------|------------------|-----------|----------------------------|---------------|---------------------------------|
| 1572 | 6.00% | 050321 | 03-21 | 120321 | 44,329,000 |
| 1573 | 6.00% | 041219 | 12-19 | 121219 | 66,710,000 |
| 1574 | 6.00% | 040918 | 09-18 | 130918 | 80,613,000 |
| 1575 | 6.00% | 040618 | 06-18 | 140618 | 75,062,000 |
| 1576 | 6.00% | 050318 | 03-18 | 150318 | 64,690,000 |
| 1577 | 6.00% | 041216 | 12-16 | 151216 | 26,264,000 |
| 1578 | 6.00% | 040921 | 09-21 | 160921 | 16,405,000 |
| 1579 | 6.00% | 040621 | 06-21 | 170621 | 9,191,000 |
| 1583 | 4.25% | 090617 | 06-17 | 200617 | 3,792,000 |
| 1586 | 4.50% | 090921 | 09-21 | 220921 | 1,306,000 |
| EMTN CB | 3M Stibor+0.23% | 110210 | 05-03, 08-03, 11-03 | 120803 | 550,000 |
| EMTN CB | 3M Stibor+0.21% | 110308 | 05-03, 08-03, 11-04 | 120803 | 8,000,000 |
| EMTN CB | 3M Stibor+0.30% | 091221 | 03-21, 06-21, 09-21, 12-21 | 121221 | 500,000 |
| EMTN CB | 3M Stibor+0.43% | 100615 | 02-01, 05-03, 08-01, 11-01 | 130201 | 1,310,000 |
| EMTN CB | 3M Stibor+0.30% | 101229 | 02-01, 05-03, 08-01, 11-02 | 130201 | 3,800,000 |
| EMTN CB | 3M Stibor+0.40% | 100211 | 02-11, 05-11, 08-11, 11-11 | 130211 | 2,800,000 |
| EMTN CB | 3M Stibor+0.49% | 100609 | 01-04, 04-01, 07-01, 10-03 | 130401 | 1,300,000 |
| EMTN CB | 3M Stibor+0.44% | 100416 | 01-04, 04-04, 07-04, 10-03 | 130402 | 1,000,000 |
| EMTN CB | 3M Stibor+0.13% | 111006 | - | 130403 | 2,400,000 |
| EMTN CB | 3M Stibor+0.46% | 100617 | 02-03, 05-03, 08-03, 11-03 | 130503 | 1,000,000 |
| EMTN CB | 3M Stibor+0.21% | 110421 | 06-03, 09-05, 12-05 | 130603 | 1,000,000 |
| EMTN CB | 3M Stibor+0.11% | 111201 | - | 130603 | 800,000 |
| EMTN CB | 3M Stibor+0.20% | 110908 | 12-05 | 130903 | 2,800,000 |
| EMTN CB | 3M Stibor+0.21% | 111019 | - | 131003 | 700,000 |
| EMTN CB | 3M Stibor+0.19% | 111125 | - | 131101 | 500,000 |
| EMTN CB | 3M Stibor+0.25% | 111013 | 11-01 | 131101 | 500,000 |
| EMTN CB | 3M Stibor+0.21% | 111201 | - | 131203 | 1,250,000 |
| EMTN CB | 3M Stibor+0.34% | 110720 | 09-02, 12-02 | 140602 | 1,500,000 |
| EMTN CB | 3.25% | 111108 | - | 261103 | 2,000,000 |
| Total | | | | | 422,072,000 |

| Covered bonds, foreign currency Currency | Amount | Interest rate, % | Loan date | Interest due dates | Maturity date | Outstanding amount, SEK '000 |
|---|---------------|------------------|-----------|--------------------|---------------|---------------------------------|
| CHF | 150,000,000 | 3.01% | 071217 | 12-17 | 121217 | 1,101,668 |
| CHF | 80,000,000 | 1.68% | 090902 | 07-02 | 140702 | 587,556 |
| CHF | 80,000,000 | 1.83% | 090902 | 03-02 | 150302 | 587,556 |
| CHF | 225,000,000 | 2.01% | 100324 | 12-01 | 161201 | 1,652,501 |
| EUR | 2,000,000,000 | 3.75% | 061212 | 12-12 | 131212 | 17,861,000 |
| EUR | 1,500,000,000 | 3.00% | 091001 | 10-01 | 141001 | 13,395,750 |
| EUR | 1,250,000,000 | 2.75% | 100414 | 04-30 | 150430 | 11,163,125 |
| EUR | 1,500,000,000 | 3.38% | 110511 | - | 160511 | 13,395,750 |
| USD | 1,000,000,000 | 1.45% | 100930 | 03-30, 09-30 | 130930 | 6,902,750 |
| USD | 600,000,000 | 3M Libor+0.55% | 100930 | 12-30 | 130930 | 4,141,650 |
| Total | | | | | | 70,789,306 |

Stadshypotek's bond tables, cont.

| Retail bonds* Loan no. | Interest rate, % | Loan date | Interest due dates | Interest adjustment date | Maturity date | Outstanding amount SEK '000 |
|---------------------------|------------------|-----------|--------------------|--------------------------|---------------|--------------------------------|
| 5027 | Zero coupon | - | - | - | 120301 | 31,674 |
| 5028 | Zero coupon | - | - | - | 120903 | 37,618 |
| 5029 | Zero coupon | - | - | - | 130301 | 46,399 |
| 5030 | Zero coupon | - | - | - | 130902 | 23,265 |
| 5031 | Zero coupon | - | - | - | 140303 | 7,895 |
| 5527 | 4.00% | 070301 | 03-01 | - | 120301 | 52,357 |
| 5528 | 4.25% | 070903 | 09-03 | - | 120903 | 55,423 |
| 5529 | 5.00% | 080301 | 03-01 | - | 130301 | 69,337 |
| 5530 | 5.00% | 080901 | 09-01 | - | 130902 | 48,639 |
| 5531 | 6.25% | 090303 | 03-03 | - | 140303 | 62,781 |
| Total | | | | | | 435,388 |

* Holders of Stadshypotek's retail bonds can sell them back to Stadshypotek during the life of the bond. Stadshypotek quotes the current repurchase prices on a daily basis. Stadshypotek's retail bonds are secured.

| Total covered bonds SEK thousand | Change during 2011 | Outstanding amount |
|-------------------------------------|-----------------------|-----------------------|
| Covered bonds, SEK | 66,102,000 | 422,072,000 |
| Covered bonds, foreign currency | 13,215,739 | 70,789,306 |
| Retail bonds | -375,127 | 435,388 |
| Total | 78,942,612 | 493,296,694 |

Five-year overview

| Income statement SEK m | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|----------------|----------------|----------------|----------------|----------------|
| Interest income | 29,869 | 20,353 | 21,944 | 29,006 | 21,787 |
| Interest expense | -23,625 | -14,852 | -15,877 | -25,106 | -18,084 |
| Net interest income | 6,244 | 5,501 | 6,067 | 3,900 | 3,703 |
| Net gains/losses on financial items at fair value | 19 | 129 | -101 | -71 | 360 |
| Other operating income | -12 | -18 | -24 | -31 | -39 |
| Total income | 6,251 | 5,612 | 5,942 | 3,798 | 4,024 |
| Expenses | -269 | -242 | -212 | -191 | -168 |
| Profit before loan losses | 5,982 | 5,370 | 5,730 | 3,607 | 3,856 |
| Loan losses | 12 | 38 | 31 | 75 | 70 |
| Operating profit | 5,994 | 5,408 | 5,761 | 3,682 | 3,926 |
| Tax | -1,587 | -1,423 | -1,521 | -1,027 | -1,100 |
| Profit for the year | 4,407 | 3,985 | 4,240 | 2,655 | 2,826 |
| Balance sheet SEK m 31 December | 2011 | 2010 | 2009 | 2008 | 2007 |
| Assets | | | | | |
| Loans to credit institutions | 9,435 | 11,092 | 10,578 | 26,887 | 5,600 |
| Loans to the public | 843,929 | 758,855 | 684,920 | 615,263 | 523,758 |
| Value change of interest hedged item in portfolio hedge | 4,490 | 4,744 | 2,979 | 144 | - |
| Derivative instruments | 18,211 | 17,348 | 17,416 | 13,374 | 3,270 |
| Other assets | 3,962 | 4,642 | 6,897 | 3,830 | 8,272 |
| Total assets | 880,027 | 796,681 | 722,790 | 659,498 | 540,900 |
| Liabilities, provisions and equity | | | | | |
| Due to credit institutions | 267,353 | 294,417 | 212,983 | 182,602 | 103,638 |
| Issued securities | 546,149 | 448,200 | 458,535 | 430,404 | 392,807 |
| Derivative instruments | 7,765 | 8,189 | 3,433 | 3,231 | 3,606 |
| Other liabilities | 16,693 | 12,644 | 17,347 | 14,443 | 12,676 |
| Subordinated liabilities | 16,700 | 8,800 | 8,800 | 8,800 | 8,300 |
| Equity | 25,367 | 24,431 | 21,692 | 20,018 | 19,873 |
| Total liabilities, provisions and equity | 880,027 | 796,681 | 722,790 | 659,498 | 540,900 |

Facts about the company

Registered name: Stadshypotek AB (publ).

Corporate identity no: 556459-6715.

Date of registration: 23 December 1992.

Registered office: Stockholm.

Share capital: SEK 4,050,000,000 registered on 22 December 1997. The lowest and highest permissible share capital according to the Articles of Association is SEK 2,000,000,000 and SEK 8,000,000,000 respectively.

Number of shares: 162,000 shares with a quotient value of SEK 25,000 per share.

Number of votes per share: Each share carries one vote.

Convertible debt, etc.: The company has not issued any debt instruments which can be converted into or exchanged for shares or which entail the right to subscribe for new shares.

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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