Annual Report 2021

Stadshypotek
– ett Handelsbanksföretag

Highlights of the year

January-December 2021 compared with January-December 2020

Income increased by SEK 329 million to SEK 15,010 million (14,681).

Expenses before credit losses increased by SEK 106 million to SEK -1,937 million (-1,831).

Net credit losses totalled SEK 4 million (-9).

Operating profit increased by SEK 236 million to SEK 13,077 million (12,841).

Profit after tax increased by SEK 275 million to SEK 10,355 million (10,080).

Loans to the public grew by 6 per cent, or SEK 87 billion, to SEK 1,526 billion (1,439).

FINANCIAL CALENDAR 2022

15 July	Interim report January – June 2022

This report is also available in Swedish. In the event of discrepancies, the Swedish original will supersede the English version.

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The pages in the Annual Report which are part of the Administration Report are marked separately.

Stadshypotek AB (publ)
Corporate identity number: 556459-6715
Registered office: Stockholm
stadshypotek.se

This report is also available in Swedish.

A review of the year

We have to go back to 2017 to find as much growth in the Swedish mortgage market as we saw in 2021. Stadshypotek has the ambition to increase its share of the mortgage market, and in 2021 we maintained our position as the second largest player on the mortgage market in Sweden, with a market share of just over 21 per cent. We also retained our position as the largest player within housing co-operative apartments. Stadshypotek is the largest operator in terms of corporate lending, with a stable market share of around 22 per cent. We aspire to give both new and existing customers the best offering available in the market. Several updates and improvements were launched towards the end of the year, allowing us to provide even faster responses to customers, and our focus in 2022 will remain on generating more customer value. One area where we are constantly concentrating our development efforts is more digital tools, giving the customer a greater range of straightforward ways to manage their loans.

The recovery of the Swedish housing market in 2020 has continued at an even more robust rate in 2021. The activity levels in the market were high, and sales of single-family homes reached a record high, with over 59,000 properties sold. Sales of housing co-operative apartments rose too; an increase of 11,000 took the total to 132,000. For housing co-operative apartments, prices rose by 7 per cent, and for single-family homes by 13 per cent during the year. Since 2019 and the outbreak of the pandemic, prices have risen nationwide. The most desirable properties, and those that have driven up prices, have been at the larger end of the scale – no doubt due to the higher number of people working from home. People want to own the property they live in, and the housing demand often outstrips supply. This simple fact will provide a solid foundation for the stable development of the housing market over the next few years, as regards both the turnover of existing properties and new construction. However, it would be valid to ask whether the rate of price rises we saw during the pandemic in 2020–2021 can be sustained. Growing inflation signals, potentially lower increases to real salary levels and climbing market interest rates could all contribute to more modest price increases over the coming year.

Mortgage rates, however, remain at a historically low level, despite rising inflation during 2021, driven by private consumption and logistical bottlenecks. Global uncertainty surrounding inflation, and about central banks' intentions, has resulted in rising rates, especially at longer maturities. Nonetheless, the direct impact on customers' rates was relatively minor in 2021. During the year, many of Stadshypotek's customers chose to convert to fixed-rate mortgages, although this trend waned slightly as the year went on.

For many, especially first-time buyers, the rising house prices in recent years have significantly affected people's ability to buy a residence. The government's report on "Proposals to facilitate first-time purchases on the housing market" will be published in the spring. However, for others, the increase to house prices has presented opportunities. In order for us to harness these opportunities, we need to continue adapting to new customer requirements, and to reach customers with a relevant offering. Stadshypotek aims to ensure that any of our customer interactions are tailored to that individual customer's needs – no matter when, how or where the customer chooses to meet us. We are a player with a local connection, with a sound knowledge of the local market, and we will continue to operate this way. If there is one thing we have all learned during the pandemic, it is that a meeting can be personal whether it is online or face to face. This is why we are now redoubling our efforts to improve personal meetings in the customer's digital flows. We always have to make sure that we solve our customers' problems and meet their needs. In this respect, we as a mortgage institution must ensure that we are available and accessible in more stages of the customer's journey towards getting their own home.

Sustainability is a cornerstone of our corporate culture, and our business model, built on long-term relationships with customers, society and employees. We will actively contribute to helping property owners with their sustainable transition, and Stadshypotek has continued to develop our green offerings in 2021, for both private and corporate customers. As an example, customers who have a mortgage with us can apply for a green energy loan to make their residence more energy efficient. We are also collaborating with external players to facilitate offering more effective sustainability solutions to our customers. Stadshypotek's goal is that at least 20 per cent of our lending shall be classified as green by the year 2025.

Stadshypotek's operating profit increased by SEK 236 million to SEK 13,077 million during the year. The increase was the result of higher lending volumes in Sweden and Norway, allied with improved margins in the Finnish and Norwegian operations. The lending volume was SEK 1,525 billion, representing an increase of almost SEK 87 billion during 2021. Sweden remains the market where lending is growing most in monetary terms, but the growth rate was highest in our Norwegian operation, where private business grew by 19 per cent and corporate business by 20 per cent. Stadshypotek's branches in Denmark and Finland are included in Handelsbanken's decision to divest its operations in the two markets. In 2021, Denmark and Finland accounted for SEK 995 million, or approximately 7 per cent, of operating profit, and for SEK 108 billion of the lending volume – also approximately 7 per cent of the company's total lending. During the divestment period, it has been business as usual in the affected markets.

Finally, I would like to highlight our credit portfolio, and our low credit risk. In 2021, the pandemic did not adversely affect either our lending or our credit portfolio. 2021 saw a positive net amount in our credit losses, as recoveries exceeded total provisions for future credit losses and confirmed credit losses in all four of our markets. Our low credit risk is reflected in Stadhypotek's stable rating and good access to market funding.

In summary, a strong performance in 2021 and a good platform for our operations for 2022 and beyond.

Stadshypotek's success is based on our close co-operation with Handelsbanken, where extensive knowledge of the local market – particularly on the corporate side of the business – contributes positively to our customer offering and the quality of our credit portfolio. The pandemic of the past two years has meant that we have all had to find new solutions to meet our customers' expectations, and we have succeeded in doing so this year, with fantastic results.

A heartfelt THANK YOU to everyone at Stadhypotek and Handelsbanken for your sterling efforts in 2021.

David Haqvinsson
Stockholm, February 2022

Five-year overview

Income statements SEK m	2021	2020	2019	2018	2017
Interest income according to the effective interest method	20,971	22,097	21,829	20,438	20,210
Interest expenses	-6,023	-7,457	-7,832	-6,750	-6,853
Net interest income	**14,948**	**14,640**	**13,997**	**13,688**	**13,357**
Fee and commission income	13	14	13	13	12
Fee and commission expenses	-41	-42	-44	-39	-38
Net fee and commission income	**-28**	**-28**	**-31**	**-26**	**-26**
Net gains/losses on financial transactions	**88**	**68**	**67**	**-12**	**42**
Other income	**2**	**1**	**1**	**0**	**0**
Total income	**15,010**	**14,681**	**14,034**	**13,650**	**13,373**
General administrative expenses					
Staff costs	-100	-88	-71	-95	-116
Other administrative expenses	-1,810	-1,723	-1,544	-1,138	-1,012
Depreciation, amortisation and impairment losses of property, equipment and intangible assets	-27	-20	-9	-4	-6
Total expenses before credit losses	**-1,937**	**-1,831**	**-1,624**	**-1,237**	**-1,134**
Profit before credit losses	**13,073**	**12,850**	**12,410**	**12,413**	**12,239**
Net credit losses	4	-9	9	-12	10
Operating profit	**13,077**	**12,841**	**12,419**	**12,401**	**12,249**
Profit before taxes	**13,077**	**12,841**	**12,419**	**12,401**	**12,249**
Taxes	-2,722	-2,761	-2,648	-2,729	-2,706
Profit for the year	**10,355**	**10,080**	**9,771**	**9,672**	**9,543**
Earnings per share, SEK	63,922	62,221	60,313	59,706	58,905

Balance sheets SEK m, 31 December	2021	2020	2019	2018	2017
Assets					
Loans to credit institutions	13,301	15,007	11,544	11,735	12,565
Loans to the public	1,525,915	1,439,328	1,372,940	1,299,745	1,222,456
Value change of interest-hedged item in portfolio hedge	4	12	25	33	36
Derivative instruments	7,223	11,955	18,027	18,866	16,895
Other assets	900	1,301	327	441	4,500
Total assets	**1,547,343**	**1,467,603**	**1,402,863**	**1,330,820**	**1,256,451**
Liabilities and equity					
Due to credit institutions	823,116	768,567	695,716	635,846	557,742
Issued securities	652,607	622,083	634,565	627,475	621,958
Derivative instruments	2,428	2,417	295	1,068	3,697
Other liabilities	11,342	12,201	10,763	8,561	18,986
Subordinated liabilities	-	-	-	-	-
Equity	57,850	62,335	61,524	57,870	54,068
Total liabilities and equity	**1,547,343**	**1,467,603**	**1,402,863**	**1,330,820**	**1,256,451**

Key figures	2021	2020	2019	2018	2017
Profit before credit losses, SEK m	13,073	12,850	12,410	12,413	12,239
Credit losses/recoveries, SEK m	4	-9	9	-12	10
Operating profit, SEK m	13,077	12,841	12,419	12,401	12,249
Total assets, SEK m	1,547,343	1,467,603	1,402,863	1,330,820	1,256,451
Equity, SEK m	57,850	62,335	61,524	57,870	54,068
Return on equity, %	15.6	15.1	15.2	15.9	22.5
Return on total assets, %	0.69	0.70	0.71	0.74	0.78
Net interest margin, %	0.99	1.02	1.02	1.05	1.10
C/I ratio before credit losses, %	12.9	12.5	11.6	9.0	8.5
C/I ratio after credit losses, %	12.9	12.5	11.5	9.0	8.4
Credit loss ratio, %	0.00	0.00	0.00	0.00	-0.00
Common equity tier 1 ratio, CRR, %	12.6	13.1	13.4	12.6	30.7
Tier 1 ratio, CRR, %	16.9	16.0	15.3	12.6	30.7
Total capital ratio, CRR, %	18.3	20.7	21.3	20.8	53.1
Average number of employees	57	64	73	81	82

For calculation of key figures and definitions, see pages 86, 87 and 88.

Organisation, sustainability and employees

Stadshypotek AB (publ), corporate identity number 556459-6715, is a public credit market company which has its registered office in Stockholm and is licensed to conduct operations under the Swedish Banking and Financing Business Act. Its core business comprises the financing of properties, primarily residential properties, as well as office and commercial buildings. Since 1997, the company has been a wholly owned subsidiary of Svenska Handelsbanken AB (publ), corporate identity number 502007-7862.

ORGANISATION

Stadshypotek AB is responsible for the Handelsbanken Group's mortgage business in Sweden, Denmark, Finland and Norway. In Sweden, the business mainly comprises the financing of residential properties, as well as office and commercial buildings. The business operations of Stadshypotek's branches in Denmark, Finland and Norway focus primarily on the financing of residential properties.

INTEGRATION WITH HANDELSBANKEN

Stadshypotek's operations are based on the principle that its organisation and working practices are centred around Handelsbanken's branch offices, which are responsible for all the business of individual customers. One consequence of this approach is that Stadshypotek's lending operations in Sweden are run via Handelsbanken's Swedish branch operations, while the lending operations at Stadshypotek's branches in Denmark, Finland and Norway are run via Handelsbanken's branch operations in each of the respective countries. This integration with Handelsbanken has been successfully applied since Handelsbanken's acquisition of Stadshypotek in 1997.

DISCONTINUED OPERATIONS

Stadshypotek's parent company, Handelsbanken, has decided to cease its operations in Denmark and Finland and has begun a process to divest these two units. Stadshypotek's operations in Denmark and Finland are included in Handelsbanken's decision and, as of 31 December 2021, constitute disposal groups and discontinued operations in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. See note 29.

SUSTAINABILITY

In accordance with the Handelsbanken Group's work on sustainability, Stadshypotek strives to achieve sustainable development. Our sustainability work is an integral part of the way we operate – as a bank, as a company, and as an employer. Sustainability is about acting responsibly and with a long-term perspective in areas where we as a company can make a difference, both in our business operations and through our products and services. We do this by constantly reviewing our offering and by developing sustainable products.

We now have a comprehensive offering for both the private and corporate markets. This offering includes green mortgages, a product that entitles private customers living in energy-efficient or environmentally certified residential properties to a lower interest rate if their property meets certain criteria. We also offer green loans to companies that own environmentally certified or energy-efficient buildings, companies intending to build new environmentally friendly and climate-smart buildings, and companies planning environmental improvements to existing buildings.

Stadshypotek is part of the Handelsbanken Group and is subject to the requirement regarding sustainability reporting stipulated in the Swedish Annual Accounts Act. Handelsbanken has in its annual report for 2021 prepared a statutory Sustainability Report which meets the requirements of the Swedish Annual Accounts Act. The disclosures made in the report refer to the entire Group.

For more information about how the Handelsbanken Group addresses sustainability, see handelsbanken.com/sustainability.

EMPLOYEES

In 2021, the average number of employees at Stadshypotek was 57 (64). Of these employees, 40 per cent (35) were women and 60 per cent (65) were men. Stadshypotek's branches in Denmark, Finland and Norway purchase services from Handelsbanken's branch in each of the respective countries in order to run their business. In 2021, the heads of Handelsbanken's regional banks in Denmark, Finland and Norway represented Stadshypotek's branches in each of the respective countries.

Staff development

The company's strength is grounded in the combined expertise of its employees. The most important source of professional enhancement is our day-to-day learning where all employees are responsible for constant development – their own and that of the operations. All employees participate in their unit's business planning every year. After the plan is set, individual planning dialogues and performance reviews are carried out, linking the business goals with the goals of individual employees. Each employee then puts together an individual action plan, setting out the goals to be attained and the conditions necessary for this. Based on the action plan and follow-ups, all employees then have a salary dialogue review with their line manager at the end of the year.

Stadshypotek is part of the Handelsbanken Group's internal labour market. The strong corporate culture and the Bank's values are crucial to the success of operations, so internal recruitment is important. Internal mobility helps spread the working methods, exchange of experience and corporate culture throughout the Group. Employees with many years' experience and extensive knowledge acquired from different parts of the Bank play a key part in ensuring that Handelsbanken has satisfied customers. Stadshypotek's need for employees in various positions is primarily met through internal recruitment within the Group. Managers must be exemplary ambassadors for the Bank's corporate culture, which explains why most managers are recruited internally.

Gender equality and diversity

Work to promote gender equality, diversity and an inclusive corporate culture is a fundamental part of the company's core values. At Stadshypotek, women and men must have equal opportunities for development. We aim to have an inclusive work environment, where we respect and appreciate our different backgrounds, competencies and experiences. No type of discrimination is tolerated at Stadshypotek. Stadshypotek works continuously for gender equality and diversity, which is crucial for attracting and retaining talented employees. A prioritised element of our equality efforts is increasing awareness of how social and cultural norms affect us in our daily lives.

Work environment and health

The overall, long-term goals of work environment efforts are for the employees to enjoy good health, to develop on a personal level and to function in an optimal way. Many different health factors influence these goals. Together with their employees and trade union representative or employee representative, each manager is responsible for performing regular work environment surveys, based on our health factors.

The results form the basis of a work environment plan which is integrated with the unit's business plan and in this way becomes a natural part of how the operation develops. Stadshypotek also follows up sickness absence rate figures, as well as reported incidents.

OKTOGONEN – HANDELSBANKEN'S PROFIT-SHARING SCHEME

The Oktogonen profit-sharing system covers all employees in the Handelsbanken Group, with certain exceptions. The provision is classified as variable remuneration and is subject to profitability metrics linked to the attainment of Handelsbanken's corporate goal. An allocation is made following the Board's overall assessment of the Bank's performance. Disbursements are made directly to the individual employee either in cash, to a pension savings programme, a savings plan or a combination of these.

Corporate governance report

The shareholder ultimately decides on the corporate governance of Stadshypotek. At the annual general meeting, shareholders appoint the Board and the auditors. The Board is responsible to the owner for Stadshypotek's organisation and management of the company's affairs, and it appoints a Chief Executive to run the company's operating activities. The auditors examine the financial reporting, among other matters, and submit an auditor's report. The corporate governance report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies.

SHAREHOLDERS AND SHAREHOLDERS' MEETINGS

Stadshypotek AB is a wholly owned subsidiary of Svenska Handelsbanken AB (publ).

Shareholders exercise their right to decide on matters concerning Stadshypotek at the annual general meeting – Stadshypotek's highest decision-making body. Every year, an annual general meeting is held and this meeting appoints the company's Board of Directors and auditors. At the annual general meeting, decisions are also taken regarding matters such as the fees paid to Board members and auditors, the adoption of the income statement and balance sheet, the appropriation of profits, and whether the Board and Chief Executive are to be discharged from liability for the past financial year. The Articles of Association contain no limitations with regard to the number of votes each shareholder may represent at a shareholders' meeting. Amendments to Stadshypotek's Articles of Association must be decided at a shareholders' meeting.

EXTERNAL AUDITORS

The auditors are appointed by the annual general meeting for the period until the end of the following year's annual general meeting. The auditors are accountable to shareholders. They carry out an audit and submit an auditor's report covering matters such as the Annual Report and the administration of the Board and the Chief Executive. The auditors report orally and in writing to the Board concerning how their audit was conducted and their assessment of Stadshypotek's administrative order and internal control. The auditors also submit a summary report of their audit to the Board as a whole.

THE BOARD

The Board is responsible for Stadshypotek's organisation and manages Stadshypotek's affairs on behalf of the company's shareholders.

The Board continuously assesses the company's financial situation and ensures that Stadshypotek is organised in such a way that the accounting records, management of funds and other aspects of the company's financial circumstances are satisfactorily monitored. The Board establishes policies and instructions on how this is to be carried out. The Chairman is responsible for evaluating the Board's work.

The Board also establishes rules of procedure for the Board and instructions for the Chief Executive, which include a specification of how responsibilities and mandates are allocated between the Board, its Chairman and the Chief Executive. The Board's duties also include the completion of tasks incumbent upon an audit committee.

The Board appoints the Chief Executive and reviews the work of the Chief Executive on a yearly basis. The Board also determines the terms of employment for executive officers at Stadshypotek, and for the head of Stadshypotek's function for risk control.

Further information about the Board is given on pages 8–9.

CHIEF EXECUTIVE

The Chief Executive is appointed by the Board to lead Stadshypotek's day-to-day operations.

Details of some of the terms of employment for executive officers, and of loans to Board members and executive officers, are provided in note 6 on page 40.

CORPORATE GOVERNANCE AT STADSHYPOTEK

Corporate governance concerns how rights and obligations are allocated among the various bodies of the company, in accordance with prevailing laws and regulations. Corporate governance also encompasses the systems for decision-making, and the structure through which shareholders control the Bank, directly and indirectly. Stadshypotek's shareholders exercise corporate governance principally by electing the Board, which in turn appoints and gives instructions to the Chief Executive.

The following are fundamental to corporate governance at Stadshypotek: on the one hand the owner directives, and on the other hand the documents adopted by the Board, for example the Board's rules of procedure, instructions to the Chief Executive, credit instructions and other policy documents, as well as the instructions and guidelines issued by the Chief Executive.

A central part of governance at Stadshypotek concerns the management of risks that arise in operations. Risk management is dealt with separately in note 2.

COMPANY MANAGEMENT

- David Haqvinsson, Chief Executive. Employed since 2020.
- Niklas Eklund, Business Development and Market, Sweden. Employed since 2020.
- Tomas Wistedt, Credits. Employed since 2018.
- Helena Westin, Finance. Employed since 2018.
- Anna Österman, Property Valuation. Employed since 2019.
- Klas Arnald, HR. Employed at Handelsbanken.
- Mattias Lidgren, Funding. Employed at Handelsbanken.

FRAMEWORK FOR INTERNAL CONTROL

Internal control for operations

The responsibility for internal control is an integral part of managerial responsibility at Stadshypotek. This responsibility means that fit-for-purpose instructions and procedures for the operation must be in place, and compliance with these procedures must be monitored regularly.

Internal audit

Internal audit operations at Stadshypotek are managed by Group Audit at Handelsbanken in accordance with outsourcing agreements between Stadshypotek and Handelsbanken.

These internal audit operations must independently and impartially audit Stadshypotek's operations and financial reporting. This includes assessing and verifying Stadshypotek's processes for risk management, internal control and corporate governance.

Internal auditing assignments are based on an internal auditing policy established by the Board and apply a risk-based methodology. Planned auditing tasks are documented every year in an audit plan established by the Board. The conclusions of internal audits, the actions to be taken and their status are reported to the Board on a regular basis.

Compliance

In accordance with the outsourcing agreement between Stadshypotek and Handelsbanken, Stadshypotek's compliance function is managed by Handelsbanken's Group Compliance.

The Compliance function monitors and verifies compliance in Stadshypotek. The function provides support and advice to the business and assists with the implementation of new or amended regulations, or changes to Stadshypotek's products, services, processes and organisation. The Compliance function reports to the Chief Executive and the Board.

Risk control

Risk Control is responsible for identifying, measuring, analysing and reporting risks in the business. This includes monitoring and checking the company's risk management and evaluating whether Stadshypotek's risk management framework is fit-for-purpose and effective. Risk Control also checks that the risks and risk management comply with the company's risk strategy, and fall within the risk tolerance thresholds established by the Board. It is also responsible for checking that financial instruments are properly measured.

The Head of Risk Control reports to the Board, the Chief Executive and to Group Risk Control at Handelsbanken.

Follow-up

The functions for Internal Audit, Compliance and Risk Control monitor compliance with internal policies, instructions and other policy documents.

REMUNERATION PRINCIPLES

The principles for Stadshypotek's system of remuneration are established in a remuneration policy decided by Stadshypotek's Board. The policy stipulates that remuneration must be on market terms, so that Stadshypotek is able to attract, retain and develop skilled staff, and ensure good management succession.

Salaries are set locally and are based on salary-setting factors known in advance: the nature and level of difficulty of the work, competencies, performance and results achieved, leadership, the market, and the employee as a cultural ambassador for the Handelsbanken Group. The independent control functions monitor and analyse the remuneration system, and report material risks and deficiencies to the Board. There is no performance-based variable remuneration, but termination benefits may be agreed.

Handelsbanken's profit-sharing scheme, Oktogonen, also covers employees of Stadshypotek AB. The provision is classified as variable remuneration and is subject to

THE BOARD[1]

Name[1]	Louise Sander Chairman until 8 July 2021[2]	Michael Bertorp Board member	Mikael Hallåker Board member	Jörgen Nilsson Board member
Year elected	2020	2013	2017	2019
Year of birth	1969	1949	1959	1971
Position and other significant board assignments	• Chief Communications Officer at Handelsbanken.	• Chair of Bergs Timber AB. • Consultancy services, legal and business administration.	• Chair of Handelsbanken Liv Försäkringsaktiebolag, Handelsbanken Fastigheter AB and Handelsbanken plc. • Board member of Pensionskassan SHB Försäkringsförening, Svenska Handelsbankens Pensionsstiftelse, Svenska Handelsbankens Personalstiftelse. • Group Management Handelsbanken	• Branch manager in Stockholm county.
Background	• 2011–2013 Chief Executive of Skandia Försäljning AB/Sales Manager at Skandia Bank & Försäkring. • 2009–2011 Head of Communications & Sales, corporate Skandia. • 2006–2008 Head of Business Support at Skandia. • 1997–2006 Head of CRM Norden, Andersen Business Consulting/BearingPoint. • 1994–1997 Chief Executive of AIC Conferences & Training.	• 1984–2005 SCA. • 1982–1984 Swedish Ministry of Justice. • 1972–1982 The Swedish courts.	• 2017–2019 Senior Management, Handelsbanken. • 2008–2017 Head of Investor Relations at Handelsbanken. • 2001–2008 Equity research analyst and Sector Head Financials, Capital Markets, Handelsbanken. • Employed since 2001. • 1997–2001 Markets, Danske Bank. • 1995–1997 Deputy CEO, Försäkringsbolaget Ansvar.	• Various positions at Handelsbanken. • Employed since 1992.
Academic background and qualifications	• Graduate in Economics/ Business Administration. • Management programme at Ruter Dam.	• Law degree.	• Degree in Economics. • ABB Financial Services Management studies, IMD, Lausanne.	• Economics Programme at upper secondary school.
Board meetings Attendance[4]	11/14	14/14	3/14	7/14

[1] The table shows the composition of the Board in 2022. From 1 January 2022, Linda Hellström and Mikael Björnberg are also part of Stadshypotek's Board. Mikael Hallåker stepped down in March 2021 and Jörgen Nilsson stepped down in July 2021.
[2] Chairman until 8 July 2021. Member since 8 July 2021.
[3] Member until 8 July 2021. Chairman since 8 September 2021.
[4] Including per capsulam meetings.

profitability metrics linked to the attainment of Handelsbanken's corporate goal. An allocation is made following the Board's overall assessment of the Bank's performance. Disbursements are made directly to the individual employee either in cash, to a pension savings programme, a savings plan or a combination of these.

INTERNAL CONTROL OF FINANCIAL REPORTING

The control environment described above in this corporate governance report is fundamental to Stadshypotek's internal control of financial reporting.

Risk assessment is another part of the internal control process and comprises identification and management of the risks that may affect financial reporting, as well as the control activities aimed at preventing, detecting and correcting errors and deviations.

Risk assessment

An important part of Stadshypotek's risk assessment is the annual self-assessment. Risks related to financial reporting are part of this overall analysis. A self-evaluation defines events that constitute potential risks to the operations and estimates the probability and consequences of each risk. An action plan is then drawn up, based on the self-evaluation.

Control activities

Various control activities are incorporated into the financial reporting process. Reported amounts and analyses of income statements and balance sheets are reconciled and checked regularly by Stadshypotek's finance and accounting department.

Heads of finance and accounting at branches are responsible for ensuring that the control activities in the financial reporting for their respective units are fit for purpose. This means that they are designed to prevent, detect and correct errors and deviations, and are in compliance with internal guidelines and instructions. At each quarterly closing of accounts, the branches certify that the prescribed periodic checks and reconciliation of accounts have been carried out.

Follow-up

The functions for Internal Audit, Compliance, Risk Control and Stadshypotek's finance and accounting department monitor compliance with internal policies, instructions and other policy documents. The policy established by the Board for internal audit states that it must examine internal governance and control, and must evaluate the reliability of the financial reporting.

Name	Jörgen Olander Board member	Michael Sterne Board member	Helena Håkansson Board member (employee representative)	Göran Stille Chairman since 8 September 2021[3]
Year elected	2020	2021	2018	2021
Year of birth	1965	1967	1969	1966
Position and other significant board assignments	• CFO Handelsbanken plc UK	• County Manager for Östergötland within Handelsbanken AB. • Board member of Tappra Barn fund-raising foundation, as well as of the company that owns said foundation.	• Employee in Swedish branch operations (SK). • Board member of Financial Sector Union of Sweden's Swedish branch operations union club. • Co-opted Board member of Financial Sector Union of Sweden's Handelsbanken union club. • Board member of the Financial Sector Union of Sweden, Southern Region.	• Head of Handelsbanken's Financing Business- and Product Area. • Chairman of the Board in HI/HCG'S Credit Committee. • Chairman of the Netherlands national board. • External registered signatory Svenska Handelsbanken AB. • Chairman of the Board in Handel & Industri.
Background	• Various positions at Handelsbanken. • Employed since 2000.	• Various positions at Handelsbanken. • Employed since 1996. • 1988–1991	• Various positions at Handelsbanken. • Employed since 2007. • 2002–2007 Secondary school teacher, Kalmar. • 1991–1998 Bank employee at Ölands Bank. • 1989–1991 Bank employee at Sparbanken Kronan.	• Various positions at Handelsbanken. • Employed since 1987.
Academic background and qualifications	• Graduate in Economics/Business Administration. • Advanced Management Program, Wharton University.	• Economics, Jönköping University.	• Economics Programme at upper secondary school. • Marketing course, IHM. • Bachelor's degree in English. • Master's degree in French. • Qualified teacher for Years 4–9.	• Stockholm University. • French studies in France. • Higher education course in marketing.
Board meetings Attendance	13/14	7/14	14/14	14/14

Lending

STADSHYPOTEK'S ROLE IN HANDELSBANKEN

In the Swedish operations of the Handelsbanken Group, mortgage finance is conducted principally via Stadshypotek. At Stadshypotek's branches in Denmark, Finland and Norway, business operations focus primarily on financing residential property. Lending takes place through Handelsbanken's branch network in the country concerned.

MORTGAGE MARKET IN SWEDEN

The mortgage market in Sweden grew by 7.1 per cent in 2021, which is 1.2 per cent more than in 2020. The impact of the Covid-19 pandemic on private individuals and companies has not negatively affected the mortgage market in Sweden. Table 1 on page 11 shows lending secured by mortgages to households with single-family housing or housing co-operative apartments, as reported by Statistics Sweden. The change during the year was 7 per cent, compared with 6 per cent the previous year.

In 2021, property prices rose by 7 per cent for housing co-operative apartments and by 13 per cent for single-family homes. As was the case in 2020, 2021 saw a large quantity of residences sold. A total of 132,000 housing co-operative apartments were sold during the year, an increase of 11,000 compared to the previous year. Sales of single-family homes also reached a new high in 2021, with just over 59,000 sales representing an increase of slightly more than 2,000 compared to 2020. Table 2 on page 11 shows price trends in the Greater Stockholm, Greater Gothenburg and Greater Malmö areas.

CORPORATE MARKET IN SWEDEN

The market for lending secured by mortgages to non-financial companies grew by more than 14 per cent during the year, compared with almost 14 per cent in 2020. Table 3 on page 11 shows lending secured by mortgages to Swedish non-financial companies as reported by Statistics Sweden.

The market for commercial properties in 2021 was also characterised by a record-breaking transaction volume. The 2019 volume was passed as early as September, and amounted to just over SEK 350 billion by year-end. This is an increase of around 90 per cent compared to 2020 and approximately 75 per cent higher that the average over the past five years. Corporate acquisitions were especially popular in the commercial property market and made up around 50 per cent of the transaction volume. Similarly to 2020, apartment blocks and community properties were the most prominent category, with the required returns continuing to be pressed downwards. Interest in office premises and properties focused on the experience industry (hotels, restaurants and certain retail sectors) has been cooler, but the required returns have not increased.

MORTGAGE MARKETS IN DENMARK, FINLAND AND NORWAY

Stadshypotek has branches in Denmark, Finland and Norway. In Norway, both household and corporate lending grew strongly, by 10 per cent and 12 per cent, respectively, when expressed in local currency. The growth in corporate lending remained good in Finland, while household lending declined slightly. The Danish branch offers household lending, and in local currency terms, this grew by 2 per cent in 2021.

HIGH LEVELS OF SATISFACTION AMONG MORTGAGE CUSTOMERS

Total customer satisfaction in the mortgage industry grew in 2021. According to a survey undertaken by Swedish Quality Index (SKI), Handelsbanken's customer satisfaction is also increasing, although at a less rapid rate than the industry as a whole. This serves as an indication that we need to maintain a focus on developing our products and services in order to meet changing customer behaviour. All in all, there is little difference between the results of all the major banks.

This year's SKI survey shows that customers want mortgages tailored to their needs in terms of technological services, competitive terms, service and simplicity. As well as price, these are the key factors that the Bank will have to work on to meet customer demand. Expectations on the Bank as a company are that it should be easy to be a customer, and that the Bank takes care of its customers, is socially responsible and is reliable.

STADSHYPOTEK'S LENDING

Stadshypotek's lending volume in Sweden rose by SEK 62 billion (65) during the year. Household lending increased by SEK 47 billion (41), while loans to the corporate market grew by SEK 15 billion (24). At year-end, Stadshypotek's loans to the public in Sweden were SEK 1,302 billion (1,240), with loans to households accounting for 71 per cent (70), or SEK 921 billion (874).

The market share for loans to Swedish households secured by mortgages in single-family housing or housing co-operative apartments was 21.4 per cent (21.8) at the end of December. According to Statistics Sweden's statistics, the market comprises total lending to Swedish households with single-family housing or housing co-operative apartments as collateral. The market share therefore also includes Handelsbanken's lending to Swedish households with collateral in single-family housing or housing co-operative apartments.

At year-end, loans to the public by Stadshypotek's branch in Norway totalled NOK 113 billion (102), with the private market accounting for NOK 84 billion (77) and the corporate market accounting for NOK 28 billion (25). Loans to the public by Stadshypotek's branch in Denmark totalled DKK 37 billion (36) at year-end, all of which were loans to the private market. At year-end, loans to the public by Stadshypotek's branch in Finland totalled EUR 6 billion (5), with the private market accounting for EUR 2 billion (2) and the corporate market accounting for EUR 4 billion (3).

Table 1 – Mortgage market in Sweden[1]

Mortgage lending to households SEK bn **Type of collateral**	**2021**	**2020**	**Change,** SEK bn	**Change,** %
Single-family housing[1]	2,591	2,428	163	7
Housing co-operative apartment[1]	1,339	1,241	98	8
Total	**3,930**	**3,669**	**261**	**7**

Table 2 – Mortgage market in Sweden, price trends

Price trend, %	**2021**	**2020**
Single-family housing		
Greater Stockholm	12	15
Greater Gothenburg	13	10
Greater Malmö	12	15
Housing co-operative apartments		
Greater Stockholm	6	7
Greater Gothenburg	6	3
Greater Malmö	10	9

Table 3 – Corporate market in Sweden

Lending to non-financial companies SEK bn **Type of collateral**	**2021**	**2020**	**Change,** SEK bn	**Change,** %
Property as collateral[1]	1,443	1,263	180	14
of which multi-family dwellings	*924*	*872*	*52*	*6*
of which housing co-operative associations	*539*	*508*	*31*	*6*

Table 4 – Mortgage markets in Denmark, Finland and Norway, price trends

Price trend, %	**2021**	**2020**
Denmark[2]		
– Single-family housing	8.9	7.4
– Owner-occupied apartments	9.7	8.0
Finland[3]	3.6	3.0
Norway[1]	5.2	8.7

[1] The figures for 2021 and 2020 refer to December.
[2] The figures for 2021 and 2020 refer to October.
[3] The figures for 2021 and 2020 refer to November.

Funding

Stadshypotek's treasury function is integrated with Handelsbanken's Treasury Department. This organisational structure offers the best conditions for matching the funding source and instrument offering the lowest funding cost when securing funding. An integrated treasury department has also made it possible to make efficient use of the Handelsbanken Group's liquidity.

FUNDING INSTRUMENTS

Stadshypotek raises funds on the Swedish money market and capital market and through the parent company. Foreign markets are also used for the purposes of diversification. The primary source of funding is bonds in Sweden, along with Handelsbanken's liquidity.

Covered 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. Concentrating large volumes into a small number of loans results in good market liquidity. At year-end, Stadshypotek had 13 outstanding benchmark loans which mature between 2022 and 2028. Stadshypotek's bonds are arranged by five market makers. The Swedish benchmark loan programme is also used for issues in Norwegian kroner.

International issues of covered bonds are done mainly within a Euro Medium Term Covered Note (EMTCN) programme. The total facility amount of this programme is EUR 20 billion. Issues under this programme are arranged according to agreements signed with 21 banks.

In addition, Stadshypotek has a US Medium Term Covered Bond programme for issues in the US. The total facility amount of this programme is USD 15 billion. Stadshypotek has reached sales agreements with 13 banks as part of the programme. Stadshypotek also has a programme for issues in Australia (AMTCN) aimed at Australian and Asian investors.

In addition to the above, Stadshypotek has commercial paper programmes in Sweden and Europe. The ceiling for the Swedish commercial paper programme is SEK 90 billion. The ceiling for the European programme is EUR 4 billion.

Covered bonds

Covered bonds are issued on an ongoing basis, by permission of the Swedish Financial Supervisory Authority, under the Covered Bonds (Issuance) Act (2003:1223). Covered bonds are bonds with priority rights to Stadshypotek's assets. These assets consist of credits and their associated collateral as prescribed by Swedish legislation.

Stadshypotek has covered bond pools in Sweden, Norway and Finland. All cover pools have been given the highest possible rating by Moody's: Aaa. The cover pools consist of collateral as per the legislation mentioned above and include a safety buffer (over collateral, or OC) that exceeds the statutory requirements by a good margin.

The unutilised facilities under the cover pools, including the Danish branch, corresponded to 115 per cent (111) of the nominal debt at 31 December 2021. Information about the assets in the cover pools for covered bonds is provided in the tables on page 13.

INTEREST RATE TRENDS

Covid-19 continued to affect markets in 2021, albeit to a lesser extent than in 2020. The positive news regarding vaccines in late 2020 fuelled economic optimism at the start of the year. This was reinforced by very expansionary fiscal policies across the world in general, and in the USA in particular. As a result of US fiscal policies, combined with the partial shutdown of the service sector, American households continued to spend a larger portion of their incomes on the consumption of goods compared to before the pandemic. Global demand for goods has thus outstripped supply by a wide margin, with bottlenecks and higher prices as a consequence. More than any other factor, the surprisingly robust upturn in inflation affected the fixed-income market in 2021.

The rising and sustained high levels of inflation have forced central banks to re-evaluate their monetary policies. Both the UK and Norwegian central banks hiked their respective policy rates during the second half of the year. The US Federal Reserve rounded off the year with a complete reversal of its strategy. The previous signals that monetary policy would slowly become less expansionary were jettisoned in favour of the rapid withdrawal of support measures, as well as more, and more frequent, rate hikes.

For the Swedish Riksbank, the changes have been far less dramatic. At the final monetary policy meeting in November of the previous year, the Riksbanken predicted that the repo rate would not move any higher until some point in 2024.

Overall, longer market interest rates climbed during the year, but the upturn took a distinct summer holiday, when factors such as growing worries of a new Covid wave pushed rates downwards.

The difference between corporate bonds and government bonds, known as the credit spread, generally contracted in 2021, with support from continued expansionary monetary policy and a strong economic recovery.

FUNDING

The integration of Stadshypotek's treasury function with Handelsbanken's Treasury Department ensures efficient management of the Handelsbanken Group's liquidity and market funding. Among other things, Handelsbanken's liquidity surplus is used to finance lending at Stadshypotek. Liquidity is transferred on a daily basis in the form of overnight loans and lending transactions from Handelsbanken to Stadshypotek that involve longer maturities. In addition, long-term funding in Handelsbanken's name on the international capital market can be passed on to Stadshypotek.

With the aim of reducing liquidity risk, short-term funding is augmented by long-term funding, which is adjusted using swap agreements so that the interest-fixing period matches the maturity of lending. Thus, Stadshypotek has good diversification of its funding with respect to both maturity and geographical markets.

Lending with long-term rate fixing has mainly been financed in Stadshypotek's own name in Sweden through the issue of covered bonds. Stadshypotek also has international long-term funding in its own name through international funding programmes.

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

Thus, funding can be carried out when market conditions are favourable, without exposing the company to interest rate and foreign exchange risks.

At the year-end, interest rate swap agreements in which fixed interest is received totalled SEK 216.8 billion (241.9), while interest rate swap agreements paying fixed interest amounted to SEK 20.8 billion (20.8).

Issues made under Stadshypotek's benchmark programme in Swedish kronor totalled SEK 121.9 billion (101.6) during the year. During the same period, a nominal volume totalling SEK 95.5 billion (93.9) matured or was repurchased. The carrying amount of the outstanding Swedish kronor bonds was SEK 511.1 billion (475.2) at year-end, including accrued interest.

There were no issues of commercial paper in Swedish kronor during the year; the outstanding volume at the year-end was zero.

Issues of foreign currency bonds under the EMTCN programme totalled EUR 1.0 billion (1.0). The nominal outstanding volume at year-end was EUR 8.9 billion (10.4) and GBP 0.7 billion (0.7). There were no outstanding volumes in the European commercial paper programme at year-end.

No issues were made in USD or AUD during the year. The outstanding volume in the US programme totalled USD 1.3 billion (1.3) at year-end. There is no longer any outstanding volume in AUD.

The Norwegian kroner issue was a nominal amount of NOK 8.0 billion (6.0). The outstanding volume at the year-end was NOK 29.0 billion (25.5).

RATINGS

The ratings remained unchanged during the year.

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

Lending volume available in cover pools 31 December SEK m	Assets pooled		Assets utilised	
	2021	2020	2021	2020
Swedish pool, SEK	1,205,881	1,149,000	617,417	606,455
Norwegian pool, NOK	110,020	91,674	56,745	37,822
Finnish pool, EUR	55,517	50,629	18,049	17,673
Total	**1,371,418**	**1,291,303**	**692,211**	**661,950**

Average loan-to-value (LTV) of cover pools 31 December %	2021	2020
Swedish pool, SEK	49.4	52.4
Norwegian pool, NOK	50.0	53.4
Finnish pool, EUR	49.8	49.5

At 31 December 2021, the cover pool assets for covered bonds, categorised by type of collateral, were as follows:

Type of collateral SEK m	Sweden	Norway	Denmark	Finland	Total
Public	2,551	0	0	9,441	11,992
Single-family housing	492,606	55,123	36,500	8,478	592,707
Second home	31,944	4,404	4,359	872	41,579
Rental property	323,076	25,475	0	26,538	375,089
Housing co-operative apartment, share	270,042	6,715	0	10	276,767
Housing co-operative apartment, premises	281	0	0	0	281
Owner-occupied apartment	0	16,943	6,206	0	23,149
Housing company share – apartment	0	474	0	6,137	6,611
Housing company share – house	0	0	0	3,990	3,990
Commercial/Offices	39,204	39	0	0	39,243
Agricultural	45,436	787	21	3	46,247
Residential farm	0	60	1,044	26	1,130
Other	741	0	0	22	763
Total	**1,205,881**	**110,020**	**48,130**	**55,517**	**1,419,548**

Stadshypotek's funding 31 December	2021		2020		
SEK bn	Carrying amount	Proportion, %	Carrying amount	Proportion, %	Change
Funding from the parent company	823	55	769	55	54
Covered bonds, SEK	498	34	475	34	23
Covered bonds, foreign currency	141	10	147	11	-6
Senior Non-preferred Notes	14	1	-	-	14
Total	**1,476**	**100**	**1,391**	**100**	**85**

Performance and financial position

FINANCIAL PERFORMANCE

Stadshypotek's operating profit for the year was SEK 13,077 million (12,841), an increase of SEK 236 million (422), or 2 per cent (3), compared to the previous year.

OPERATING INCOME

Income totalled SEK 15,010 million (14,681), up by SEK 329 million (647) or 2 per cent (5) compared to the previous year. Of this income, SEK 1,086 million (939) was attributable to the branch in Norway, SEK 566 million (485) to the branch in Finland and SEK 501 million (517) to the branch in Denmark.

Net interest income increased by SEK 308 million (643), or 2 per cent (5), to SEK 14,948 million (14,640). Of the net interest income, SEK 1,080 million (924) was attributable to the branch in Norway, SEK 554 million (476) to the branch in Finland and SEK 501 million (517) to the branch in Denmark. Net interest income for the Swedish operations increased by SEK 90 million (490), primarily due to higher lending volumes to the private market.

Net gains/losses on financial transactions totalled SEK 88 million (68).

EXPENSES AND CREDIT LOSSES

Expenses increased by SEK 106 million (207), or 6 per cent (13), to SEK -1,937 million (-1,831), of which SEK -91 million (-79) was attributable to the branch in Norway, SEK -36 million (-37) to the branch in Finland and SEK -37 million (-39) to the branch in Denmark. Staff costs rose by SEK 12 million (17) or 14 per cent (24) compared to 2020. Other administrative expenses increased by SEK 87 million (179), or 5 per cent (12). This increase was mainly attributable to the increase in sales compensation paid to the parent company for the services performed by the branch office operations on behalf of Stadshypotek in relation to the sale and administration of mortgage loans. Higher business volumes and increased expenditure relating to development have also contributed to this.

Net credit losses totalled SEK 4 million (-9). This amount includes expert-based calculations that take into account the effects of Covid-19, and entail a provision requirement of SEK -25 million. The credit loss ratio stood at 0.00 per cent of lending (0.00).

TAXES AND PROFIT FOR THE YEAR

After taxes of SEK -2,722 million (-2,761), profit for the year was SEK 10,355 million (10,080).

PROFITABILITY

The profit corresponded to a return on equity of 15.6 per cent (15.1). For a five-year overview of income statements and balance sheets, and for key financial figures and ratios, see page 4.

OTHER COMPREHENSIVE INCOME

Other comprehensive income consists primarily of the effective portion of the change in the fair value of interest rate swaps and cross-currency interest rate swaps used as hedging instruments in cash flow hedging. Cash flow hedges are applied to manage exposures to variations in cash flows relating to changes in the variable interest rates on lending and funding. Cash flow hedging is also used to hedge foreign exchange risk in future cash flows relating to funding in foreign currencies. Lending and funding are recognised at amortised cost, whereas the derivatives used to hedge these items are recognised at market value. Over time, the market values of the derivatives reach zero as each individual hedge reaches maturity, but this entails volatility in other comprehensive income during the term of the hedge. During the period, these changes in the value of hedge derivatives in cash flow hedges totalled SEK -1759 million (461) after tax.

TOTAL ASSETS AND EQUITY

At 31 December 2021, Stadshypotek's total assets stood at SEK 1,547,343 million (1,467,603), with equity accounting for SEK 57,850 million (62,335).

In 2021, Stadshypotek AB redeemed two outstanding subordinated loans of SEK 8.9 billion, and simultaneously issued tier 1 capital instruments for an amount of SEK 4.9 billion. Total own funds thus decreased by SEK 4.0 billion while tier 1 capital increased by SEK 4.9 billion.

GROUP CONTRIBUTION

A Group contribution of SEK 11,000 million (11,400) has been provided to the parent company, Handelsbanken.

FINANCIAL RISKS

For information about financial risks, see note 2.

RECOMMENDED APPROPRIATION OF PROFIT

In accordance with the balance sheet for Stadshypotek AB, the following profits, after deduction for a net paid Group contribution of SEK 8,734 million and other dividends of SEK 515 million, are at the disposal of the annual general meeting:

Retained earnings, SEK m	16,515
Fair value fund, SEK m	1,027
Profit for the year, SEK m	10,355
Total	**27,897**

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

When assessing the amount of the Group contribution from the company, account has been taken of the nature of operations, their scope, the consolidation requirement, the capital adequacy requirement and risk-taking. The Board's assessment is that the above appropriation of profits is prudent and well adapted to the operations as a going concern. The total capitalisation of Stadshypotek at year-end exceeded the statutory minimum requirement pursuant to regulation (EU) 575/2013 and Directive 2013/36/EU and other relevant requirements established by the authorities for the company.

Effects of Covid-19

The impact that Covid-19 has had on the economy also only had a limited effect on the performance and financial position of Stadshypotek AB during 2021. The relief from mortgage payments initiated by the Swedish Financial Supervisory Authority in effect until August 2021 has now expired, and repayments have recommenced for those customers granted a mortgage payment holiday due to the pandemic.

HALF-YEARLY PERFORMANCE

	2021		2020	
SEK m	Jul–Dec	Jan–Jun	Jul–Dec	Jan–Jun
Interest income according to the effective interest method	10,492	10,479	10,791	11,306
Interest expense	-3,008	-3,015	-3,427	-4,030
Net interest income	**7,484**	**7,464**	**7,364**	**7,276**
Fee and commission income	6	7	7	7
Fee and commission expense	-21	-20	-21	-21
Net fee and commission income	**-15**	**-13**	**-14**	**-14**
Net gains/losses on financial transactions	57	31	49	19
Other income	2	0	0	1
Total income	**7,528**	**7,482**	**7,399**	**7,282**
General administrative expenses				
Staff costs	-55	-45	-47	-41
Other administrative expenses	-897	-913	-867	-856
Depreciation, amortisation and impairment losses of property, equipment and intangible assets	-13	-14	-17	-3
Total expenses before credit losses	**-965**	**-972**	**-931**	**-900**
Profit before credit losses	**6,563**	**6,510**	**6,468**	**6,382**
Net credit losses	-2	6	44	-53
Operating profit	**6,561**	**6,516**	**6,512**	**6,329**
Profit before taxes	**6,561**	**6,516**	**6,512**	**6,329**
Taxes	-1,371	-1,351	-1,392	-1,369
Net profit/loss for the period	**5,190**	**5,165**	**5,120**	**4,960**

Income statement

SEK m		2021	2020
Interest income according to the effective interest method		20,971	22,097
Interest expense		-6,023	-7,457
Net interest income	*Note 3*	**14,948**	**14,640**
Fee and commission income		13	14
Fee and commission expense		-41	-42
Net fee and commission income	*Note 4*	**-28**	**-28**
Net gains/losses on financial transactions	*Note 5*	**88**	**68**
Other income		**2**	**1**
Total income		**15,010**	**14,681**
General administrative expenses			
Staff costs	*Note 6*	-100	-88
Other administrative expenses	*Note 7*	-1,810	-1,723
Depreciation, amortisation and impairment losses of property, equipment and intangible assets	*Note 15, 16*	-27	-20
Total expenses before credit losses		**-1,937**	**-1,831**
Profit before credit losses		**13,073**	**12,850**
Net credit losses	*Note 8*	4	-9
Operating profit		**13,077**	**12,841**
Profit before taxes		**13,077**	**12,841**
Taxes	*Note 9*	-2,722	-2,761
Profit for the year		**10,355**	**10,080**
Earnings per share, SEK		63,922	62,221

Statement of comprehensive income

SEK m	2021	2020
Profit for the year	**10,355**	**10,080**
Other comprehensive income		
Items that may subsequently be reclassified to the income statement		
Cash flow hedges	-2,216	552
Translation difference for the year	157	-198
of which hedges of net assets in foreign operations	-	-
Tax on items that may subsequently be reclassified to the income statement	457	-91
of which cash flow hedges	*457*	*-91*
Total items that may subsequently be reclassified to the income statement	**-1,602**	**263**
Total other comprehensive income	**-1,602**	**263**
Total comprehensive income for the year	**8,753**	**10,343**

The year's reclassifications to the income statement are presented in Statement of changes in equity on page 18.

Balance sheet

31 December SEK m		2021	2020
ASSETS			
Loans to credit institutions	*Note 10*	13,301	15,007
Loans to the public	*Note 11*	1,525,915	1,439,328
Value change of interest-hedged item in portfolio hedge		4	12
Shares and participating interests	*Note 12*	0	0
Derivative instruments	*Note 13, 14*	7,223	11,955
Intangible assets	*Note 15*	97	121
Property and equipment	*Note 16*	0	0
Current tax assets		527	794
Deferred tax assets	*Note 9*	73	0
Other assets	*Note 17*	148	329
Prepaid expenses and accrued income	*Note 18*	55	57
Total assets		**1,547,343**	**1,467,603**
of which Group claims	*Note 24*	*20,604*	*27,059*
LIABILITIES AND EQUITY			
Due to credit institutions	*Note 19*	823,116	768,567
Issued securities	*Note 20*	652,607	622,083
Derivative instruments	*Note 13, 14*	2,428	2,417
Current tax liabilities		-	-
Deferred tax liabilities	*Note 9*	251	708
Other liabilities	*Note 21*	11,069	11,446
Accrued expenses and deferred income	*Note 22*	22	47
Total liabilities		**1,489,493**	**1,405,268**
of which Group liabilities	*Note 24*	*850,587*	*782,407*
Share capital		4,050	4,050
Other funds		26,930	32,556
Retained earnings		16,515	15,649
Profit for the year		10,355	10,080
Total equity		**57,850**	**62,335**
Total liabilities and equity		**1,547,343**	**1,467,603**

Statement of changes in equity

31 December 2021 SEK m	Restricted equity			Non-restricted equity					
	Share capital[1]	Statutory reserve	Fund for internally developed software	Tier 1 instruments	Tier 2 instruments	Hedge reserve[2]	Translation reserve[2]	Retained earnings including profit for the year	Total
Closing equity 2021	4,050	8,106	121	8,300	13,400	2,725	-96	25,729	62,335
Profit for the year								10,355	10,355
Other comprehensive income						-1,759	157		-1,602
of which reclassified in equity							*-11*		*-11*
Total comprehensive income for the year						**-1,759**	**157**	**10,355**	**8,753**
Reclassified to retained earnings								11	11
Tier 2 instruments					-8,900				-8,900
Tier 1 instruments				4,900					4,900
Dividend on equity instruments								-515	-515
Group contributions provided								-11,000	-11,000
Tax effect on Group contributions								2,266	2,266
Fund for internally developed software			-24					24	-
Closing equity 31 December 2021	**4,050**	**8,106**	**97**	**13,200**	**4,500**	**966**	**61**	**26,870**	**57,850**

31 December 2020 SEK m	Restricted equity			Non-restricted equity					
	Share capital[1]	Statutory reserve	Fund for internally developed software	Tier 1 instruments	Tier 2 instruments	Hedge reserve[2]	Translation reserve[2]	Retained earnings including profit for the year	Total
Closing equity 2020	4,050	8,106	119	5,300	16,400	2,264	102	25,183	61,524
Profit for the year								10,080	10,080
Other comprehensive income						461	-198		263
of which reclassified in equity							*32*		*32*
Total comprehensive income for the year						**461**	**-198**	**10,080**	**10,343**
Reclassified to retained earnings								-32	-32
Tier 2 instruments					-3,000				-3,000
Tier 1 instruments				3,000					3,000
Dividend on equity instruments								-540	-540
Group contributions provided								-11,400	-11,400
Tax effect on Group contributions								2,440	2,440
Fund for internally developed software			2					-2	-
Closing equity 31 December 2020	**4,050**	**8,106**	**121**	**8,300**	**13,400**	**2,725**	**-96**	**25,729**	**62,335**

[1] Average number of shares, 162,000 (162,000). [2] Included in fair value fund.

The translation reserve includes conversion effects relating to the balance sheets and income statements of the company's international branches. Accumulated conversion effects are reported for taxation when an international branch is closed down or divested. The tax regulations for the taxation of conversion effects are highly complex, and therefore subject to different interpretations. Therefore, it cannot be ruled out that conversion effects may need to be reported for taxation at an earlier stage than when a divestment/closure occurs.

Specification of changes in equity

Change in hedge reserve SEK m	2021	2020
Hedge reserve at beginning of year	**2,725**	**2,264**
Cash flow hedge		
Effective portion of change in fair value	**-2,100**	**668**
Interest rate risk	*2,238*	*747*
Foreign exchange risk	*138*	*-79*
Net amount reclassified in the income statement	**-116**	**-116**
Interest rate risk	*-116*	*-116*
Foreign exchange risk	*-*	*-*
Tax	**457**	**-91**
Hedge reserve at end of year	**966**	**2,725**

Change in translation reserve SEK m	2021	2020
Translation reserve at beginning of year	**-96**	**102**
Change in translation difference	168	-230
Reclassified in equity	-11	32
Translation reserve at end of year	**61**	**-96**

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

Cash flow statement

SEK m	2021	2020
OPERATING ACTIVITIES		
Operating profit	13,077	12,841
of which paid-in interest	*21,047*	*22,098*
of which paid-out interest	*-5,802*	*-7,528*
Adjustment for non-cash items in profit/loss:		
Credit losses	7	33
Depreciation and amortisation	27	20
Other non-cash items, as specified[1]	-5,365	2,293
Paid income tax	-264	-1,748
Change in the assets and liabilities of operating activities		
Loans to the public	-86,670	-66,421
Due to credit institutions	54,426	72,850
Issued securities	29,796	-14,612
Derivative instruments	2,469	8,760
Change in other balance sheet items	6,337	-316
Cash flow from operating activities	**13,840**	**13,699**
INVESTING ACTIVITIES		
Acquisition of intangible assets	-3	-21
Cash flow from investing activities	**-3**	**-21**
FINANCING ACTIVITIES		
Group contribution	-11,400	-9,400
Repayment of subordinated liabilities	-4,000	
Dividend	-515	-540
Cash flow from financing activities	**-15,915**	**-9,940**
CASH FLOW FOR THE YEAR	**-2,078**	**3,738**
Liquid funds at beginning of year	**15,007**	**11,544**
Cash flow from operating activities	13,840	13,699
Cash flow from investing activities	-3	-21
Cash flow from financing activities	-15,915	-9,940
Exchange rate difference on liquid funds	372	-275
Liquid funds at end of year	**13,301**	**15,007**
Liquid funds		
Liquid funds held by banks	8,301	10,007
Funds on a blocked account with banks relating to issuance of covered bonds	5,000	5,000
Loans to credit institutions	**13,301**	**15,007**

[1] **Specification of other non-cash items in the income statement**	2021	2020
Non-cash changes in Net gains/losses on financial transactions	59	-199
Change in accrued interest	297	-69
Change in amortised cost	-3,505	2,100
Revaluation effects in OCI	-2,216	461
Total changes in value	**-5,365**	**2,293**

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

Notes

NOTE 1 Accounting policies and other matters relating to the preparation of the financial reports

CONTENTS

1. STATEMENT OF COMPLIANCE

Basis for accounts

Stadshypotek's (the company) 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 guidelines, the 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.

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

Stadshypotek's subsidiary holdings comprise the dormant company Svenska Intecknings Garanti AB Sigab. In accordance with Chapter 7, section 7 (4) of the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, the company has not prepared consolidated accounts as the subsidiary is of marginal significance.

The Annual Report is presented in Swedish kronor.

The accounting policies described below have been applied consistently for all periods presented in the financial reports unless otherwise stated.

Issuing and adoption of annual report

The Annual Report was approved for issue by the Board and the Chief Executive on 7 February 2022 and will be submitted for adoption by the annual general meeting on 27 March 2022.

2. AMENDMENTS TO ACCOUNTING POLICIES

The amendments made to accounting policies applied by the company as of 1 January 2021 are described below. Other changes to IFRS applied as of 1 January 2021 have had no material impact on the company's accounting.

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and measurement, IFRS 7 Financial Instruments: Disclosures and IFRS 16 Leases – Interest Rate Benchmark Reform Phase 2

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and measurement, IFRS 7 Financial Instruments: Disclosures and IFRS 16 Leases, relating to the Interest Rate Benchmark Reform Phase 2, entered into force on 1 January 2021. The amendments to IFRS 9 entail that modifications of financial assets and financial liabilities, implemented as a direct consequence of the Interest Rate Benchmark Reform, are recognised as a change in the effective interest. Gains or losses arising due to the modification are thus not recognised. In addition, the amendments to IFRS 9 and IAS 39 allow for certain exemptions from hedge accounting requirements when existing reference rates in hedging relationships are replaced with alternative reference rates. The amendments are therefore assessed as facilitating the transition to new reference rates without significant profit/loss effects, and thus without a material impact on the company's financial reports, capital adequacy, large exposures or other circumstances according to the applicable regulatory requirements. The comparative figures for previous periods have not been recalculated, and opening retained earnings have not been affected by any initial impact in conjunction with the application of the amendments.

3. CHANGES IN IFRS WHICH ARE YET TO BE APPLIED

None of the changes to IFRS issued for application are expected to have any material impact on the company's financial reports, capital adequacy, large exposures or other circumstances under the applicable operating rules.

Other changes in IFRS

None of the other changes in the accounting regulations issued for application are assessed to have a material impact on the company's financial reports, capital adequacy, large exposures or other circumstances according to the applicable regulatory requirements.

4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets or a group of assets and attributable liabilities (disposal group) are classified as held for sale when the carrying amount will be mainly recovered through a sale and when a sale is highly probable. If an asset or disposal group is classified as held for sale, special valuation principles are applied. These principles essentially mean that, with the exception of items such as financial assets and liabilities, assets held for sale and disposal groups are measured at the lower of the carrying amount and fair value less costs to sell. Any impairment losses and subsequent revaluations are recognised directly in the income statement. However, a gain is not reported to the extent that it exceeds previously recognised accumulated impairment. For legal entities, non-current assets with a definite useful life are depreciated/amortised over their useful life in accordance with the Swedish Annual Accounts Act, for such time as they are classified as held for sale. Assets and liabilities held for sale are not recognised on separate rows on the balance sheet of legal entities, but are disclosed in a separate note. See note 29.

Independent operations of a material nature which can be clearly differentiated from the company's other operations and which are classified as held for sale using the policies described above are considered to be discontinued operations. Profit or loss from discontinued operations comprises the profit or loss after tax of discontinued operations, the profit or loss after tax that arises when valuing the assets held for sale/disposal groups that are included in discontinued operations at fair value less costs to sell, and realised gains/losses from the disposal of discontinued operations. Profit from discontinued operations is not recognised separately on an individual row in the income statement of legal entities. Profit from discontinued operations is instead disclosed in a separate note. See note 29.

5. SHARES AND PARTICIPATING INTERESTS IN GROUP COMPANIES
Shares and participating interests in subsidiaries are measured at cost.

6. SEGMENT REPORTING (IFRS 8)
The segment reporting presents income/expenses and assets/liabilities broken down by business segments. A business segment is a part of the company that runs operations which generate external or internal income and expenses and whose profit/loss is regularly assessed and followed up by the company's management as part of corporate governance. The segment reporting shows income and expenses and also assets broken down into the geographical areas where the company has operations. The principles for segment reporting are described further in note 25.

7. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES (IAS 21)
The company's presentation currency is Swedish kronor. The functional currency for the company's operations outside Sweden usually differs from the company's presentation currency. The currency used in the economic environment where the operations are primarily conducted is regarded as the functional currency.

Translation of transactions in a currency other than the functional currency
Transactions in a currency other than the functional currency – foreign currency – are initially translated into the functional currency at the rate prevailing on the transaction date. Monetary items in foreign currencies and non-monetary items in foreign currencies that are measured at fair value are converted at the balance sheet date using the prevailing closing rate. Gains and losses arising from the currency translation of monetary items and non-monetary items measured at fair value are recognised in the income statement as exchange rate effects in Net gains/losses on financial transactions. Translation differences that have arisen from non-monetary items classified as measured at fair value through other comprehensive income from 1 January 2020, and which were classified as available-for-sale financial assets until 31 December 2019, are recognised as a component of other comprehensive income and are accumulated in equity. Exchange differences arising when translating monetary items comprising part of a net investment in a foreign operation are recognised in the same way.

Translation of foreign operations to the company's presentation currency
When translating the foreign branches' balance sheets and income statements from the functional currency to the company's presentation 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. Exchange differences are recognised as a component of Other comprehensive income and are included in the translation reserve in equity.

8. RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS ON THE BALANCE SHEET
Purchases and sales of equities and money market and capital market instruments on the spot market are recognised on the trade date, which is the date on which an agreement is entered into. 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 is fulfilled, ceases or is cancelled. The policies for recognising financial instruments on the balance sheet are of particular importance when reporting repurchase transactions (see separate section).

9. FINANCIAL INSTRUMENTS (IAS 32, IFRS 9)
The company's operations mainly comprise the following financial instruments: Loan receivables regarding credit institutions and the public (private individuals and companies with property mortgages), derivatives, other financial claims, issued securities, and deposits from and lending to credit institutions.

Measurement categories
All financial assets, in compliance with IFRS 9, are allocated to one of the following measurement categories:
1. amortised cost
2. fair value through other comprehensive income
3. fair value through profit or loss
   a. mandatory
   b. fair value option.

The starting point for the classification of financial assets into the respective measurement categories is the company's business model for managing the financial instruments, as well as whether the instrument's contractual cash flows constitute solely payments of principal and interest.

Financial liabilities are classified as follows:
1. amortised cost
2. fair value through profit or loss
   a. mandatory
   b. fair value option.

As a general rule, financial liabilities are recognised at amortised cost. The exceptions are financial liabilities which are required to be measured at fair value through profit or loss, such as derivatives, and liabilities which, upon initial recognition, are irrevocably identified as being measured at fair value (fair value option).

Financial assets and liabilities recognised on the same line on the balance sheet may be classified in different measurement categories.

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 in the income statement under Net gains/losses on financial transactions. For other financial instruments, the transaction costs are included in the acquisition cost.

Assessment of the business model
The business model for managing financial assets defines classification into measurement categories. The business model is determined at portfolio level, as this best reflects how the operations are governed and how information is reported to and evaluated by the company's management. Information of significance when making a weighted assessment of the business model for a portfolio includes the established guidelines and objectives of a portfolio and how these are implemented in the operations, the risks which affect the performance of the portfolio and how the risks are managed, as well as the frequency, volume, reasons for and times of sales.

Assessment of whether contractual cash flows constitute solely payments of principal and interest
The assessment of whether contractual cash flows constitute solely payments of principal and interest is significant for the classification into measurement categories. For the purposes of this assessment, 'principal' is defined as the financial asset's fair value upon initial recognition. Interest is defined as consideration for the time value of money, credit risk, other fundamental lending risks (such as liquidity risk) and costs (such as administrative expenses), as well as a profit margin.

To assess whether the financial asset's contractual cash flows constitute solely payments of principal and interest, the contractual terms of the financial asset are reviewed. If there are contractual terms that could change the timing or amounts of the contractual cash flows, modify the consideration for the time value of money, cause leverage or entail extra costs for prepayment and extension, then the cash flows are deemed not to constitute solely payments of principal and interest.

Amortised cost
A financial asset is to be measured at amortised cost if both of the following conditions are met:
- The objective of the business model is to collect contractual cash flows.
- The contractual cash flows constitute solely payments of principal and interest.

NOTE 1 Cont.

Financial assets recognised in the measurement category amortised cost consist of loans that fulfil the above conditions. These assets are subject to impairment testing, see section 11. Financial liabilities recognised in the measurement category amortised cost consist primarily of liabilities due to credit institutions and issued securities.

Amortised cost consists of the discounted present value of all future payments relating to the instrument where the discount rate is the instrument's effective interest rate at the time of acquisition.

Interest and credit losses relating to financial instruments measured at amortised cost are recognised on the income statement in net interest income and the row for credit losses, respectively. Early repayment charges for loans redeemed ahead of time, as well as capital gains/losses generated from repurchases of the Bank's own issued securities, are recognised on the income statement under Net gains/losses on financial transactions. Foreign exchange effects are also recognised in net gains/losses on financial transactions.

Fair value through profit or loss, mandatory

If a financial asset does not meet the conditions for measurement at amortised cost or for measurement at fair value through other comprehensive income, measurement at fair value through profit or loss is mandatory.

Financial assets and liabilities held for trading are always classified as measured at fair value through profit or loss, as are financial assets managed and evaluated on a fair value basis.

The measurement category called fair value through profit or loss, mandatory, includes derivatives, value change of interest-hedged items in portfolio hedges, and assets where the customer bears the value change risk.

Foreign exchange effects, unrealised and realised changes in value related to these instruments are recognised in the income statement under Net gains/losses on financial transactions.

For the recognition of derivatives through hedge accounting, see section 12.

Fair value through profit or loss, fair value option

There is an option, at initial recognition, to irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring the asset.

Unrealised and realised changes in the fair value of financial instruments that are measured at fair value through profit or loss via the fair value option are recognised under Net gains/losses on financial transactions. Interest attributable to these instruments is recognised under net interest income.

At 31 December 2021 and 31 December 2020, the only instance for the company where the above criteria in the measurement category were met was liabilities where the customer bears the value change risk.

Reclassifications of financial instruments

As a general rule, financial assets are not reclassified after initial recognition. Reclassification is permitted in the rare cases where the company changes the business model it applies for the management of a portfolio of financial assets. The reclassification of financial liabilities is not permitted after initial recognition.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument (loan), for example, a credit guarantee. The fair value of an issued guarantee is the same as the premium received when it was issued. Upon initial recognition, the premium received for the guarantee is recognised as a liability under Accrued expenses and deferred income on the balance sheet. The guarantee is subsequently measured at the higher of the amortised premium or the provision for the expected loss. Premiums relating to issued financial guarantees are amortised in net fee and commission income over the validity period of the guarantee. In addition, the total guaranteed amount relating to guarantees issued is reported off the balance sheet as a contingent liability, see note 23.

Premiums for purchased financial guarantees are accrued and recognised as decreased interest income in net interest income if the debt instrument to which the guarantee refers is recognised there.

Loan commitments are reported off the balance sheet until the settlement date of the loan, see note 23. Fees received for loan commitments are accrued in net fee and commission income over the maturity of the commitment unless it is highly probable that the commitment will be fulfilled, in which case the fee received is included in the effective interest of the loan.

Financial guarantees and irrevocable loan commitments are subject to impairment testing, see section 11.

Compound financial instruments

A compound (hybrid) financial instrument consists of an embedded derivative and a non-derivative host contract. Some of the compound instrument's cash flows vary in a way similar to the cash flows of a stand-alone derivative.

If the host contract in a compound financial instrument is a financial liability, an embedded derivative must be separated from the host contract and recognised as a derivative if the following conditions are fulfilled:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- the compound financial instrument is not measured at fair value through profit or loss (that is, a derivative that is embedded in a financial liability measured at fair value through profit or loss is not separated).

Separate recognition is not applied to compound financial instruments when the host contract is a financial asset. Financial assets with embedded derivatives are regarded as a whole when assessing whether their contractual cash flows constitute solely payments of principal and interest.

Repurchase agreements and reverse repurchase agreements

Repurchase agreements, or repo transactions, refer to agreements where the parties simultaneously agree on the sale of specific securities and the repurchase of these securities at a pre-determined price. Securities sold in a repo transaction remain on the balance sheet during the life of the transaction, as the company is exposed to the value change risk applying to the security during this period. The sold instrument is also reported off-balance as a pledged asset. Depending on the counterparty, payment received is recognised under due to credit institutions or as deposits and borrowing from the public. Securities bought in a repo transaction (reverse repurchase agreement) are accounted for in the corresponding way, i.e. they are not recognised on the balance sheet during the life of the transaction. Depending on the counterparty, the payment made is recognised under lending to other credit institutions or loans to the public. Collateral received which is sold on under repurchase agreements is recognised off-balance as a commitment.

Derivative instruments

All derivatives are recognised on the balance sheet at fair value. Derivatives with positive fair values are recognised on the assets side under Derivative instruments. Derivatives with negative fair values are recognised on the liabilities side under Derivative instruments. Realised and unrealised gains and losses on derivatives are recognised in the income statement under Net gains/losses on financial transactions. For the recognition of derivatives through hedge accounting, see section 12.

10. PRINCIPLES FOR FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the price at which an asset could be sold or a liability could be transferred in a normal transaction between independent market participants.

For financial instruments traded on an active market, the fair value is the same as the quoted market price. An active market is one where quoted prices are readily and regularly available from a regulated market, execution venue, reliable news service or equivalent, and where the price information received can be verified by means of regularly occurring transactions. The current market price corresponds to the price between the bid price and the offer price which is most representative of fair value under the circumstances. For groups of financial instruments which are managed on the basis of the company's net exposure to market risk, the current market price is presumed to be the same as the price which would be received or paid if the net position were divested.

For financial instruments where there is no reliable information about market prices, fair value is established using valuation models. The valuation models used are based on input data which essentially can be verified using market observations such as market interest rates and share prices. If necessary, an adjustment is made for other variables which a market participant would be expected to take into consideration when setting a price. The assumptions used in the valuation are based on internally generated experience and are continuously examined by the risk control function. The result is compared with the actual outcome so as to identify any need for adaptations of assumptions and forecasting models.

Derivatives

Derivatives which are traded on an active market are valued at market price. Most of the company's derivative contracts, including interest rate swaps and various types of linear currency derivatives, are valued using valuation models based on market rates and other market prices. The valuation of non-linear derivative contracts that are not actively traded is also based on a reasonable assumption of market-based input data such as volatility.

All derivatives are included in hedge accounting. All derivative instruments are used to match funding and lending (hedged items). The derivative's nominal interest flows may differ from current market rates at the time of the transaction, meaning that there may be initial amounts to receive or pay. These correspond to the derivative's initial market value and are referred to as a transaction price or "up-front fee". The transaction price corresponds to the premium/discount of funding at the time of issue and ensures efficiency in hedge accounting over the entire maturity period.

Assets and liabilities where the customer bears the value change risk

Assets where the customer bears the value change risk mainly comprise shares in unit-linked insurance contracts. These shares are valued using the fund's current market value (NAV). Each asset corresponds to a liability where the customer bears the value change risk. The valuation of these liabilities reflects the valuation of the assets. Since the policyholders/shareholders have prior rights to the assets, there is no motive to adjust the valuation for credit risk. Assets and liabilities where the customer bears the value change risk have essentially been classified at fair value through profit or loss.

11. CREDIT LOSSES

Expected credit losses

The impairment rules presented in IFRS 9 apply to financial assets at amortised cost, financial assets at fair value through other comprehensive income, as well as financial guarantees and irrevocable loan commitments, and are based on a model for the recognition of expected credit losses (ECL). This model stipulates that the provision must reflect a probability-weighted amount determined through the evaluation of a number of potential outcomes, with consideration given to all reasonable and verifiable information available as per the reporting date without unreasonable expense or exertion. The assessment takes into account historical, current and future-oriented factors. The assets to be tested for impairment are divided into the following three stages, depending on the degree of credit impairment:

- Stage 1 comprises financial assets with no significant increase in credit risk since initial recognition.
- Stage 2 comprises financial assets with a significant increase in credit risk since initial recognition, but for which there is no objective evidence that the claim is credit-impaired at the time of reporting.
- Stage 3 comprises financial assets for which objective circumstances have been identified indicating that the claim is credit-impaired. For a definition of credit-impaired assets, refer to the heading Default or Credit-impaired asset below.

In Stage 1, provisions are to be recognised which correspond to the loss expected to occur within 12 months as a result of default. In Stage 2 and Stage 3, provisions are to be recognised corresponding to the loss expected to occur at some time during the whole of the remaining maturity of the asset as a result of default.

For agreements in Stage 1 and Stage 2, there is a Group-wide, central process using model-based calculations. The process begins for all agreements with an assessment of whether there has been a significant increase in the credit risk since initial recognition (start date of the agreement). For a more detailed description of significant increase in credit risk, see the Credit risks section of note 2. The provisions in the different impairment stages are calculated on an individual basis.

Manual calculation is used for agreements in Stage 3, with the exception of a small portfolio of homogeneous claims which have a model-calculated provision in Stage 3. One exception to this is a small portfolio of homogeneous claims in Stage 3 with similar risk profiles, which also uses a model-based calculation. In conjunction with each reporting date, an assessment is made at agreement level as to whether an agreement will be subject to a model-based calculation or a manual calculation.

Model-based calculation

The calculations of expected credit losses are primarily affected by the risk parameters 'probability of default' (PD), 'exposure at default' (EAD) and 'loss given default' (LGD). Expected credit losses are determined by calculating PD, EAD and LGD up to the expected final maturity date of the agreement. The three risk parameters are multiplied and adjusted by the survival probability or, alternatively, the probability that a credit exposure has not defaulted or been repaid in advance. The estimated expected credit losses are then discounted back to the reporting date using the original effective interest rate and are totalled. The total of credit losses for Stage 1 is calculated with the probability of default for the next 12 months, while for Stage 2 and Stage 3, the calculation applies the probability of default during the asset's time to maturity.

The calculation of the expected credit losses takes into consideration at least three macroeconomic scenarios (one neutral, one positive and one negative scenario) with relevant macroeconomic risk factors, such as unemployment, key rates and central bank rates, GDP, inflation and property prices, by country. The various scenarios are used to adjust the risk parameters. Every macroeconomic scenario is assigned a probability, and the expected credit losses are obtained as a probability-weighted average of the expected credit losses for each scenario.

For more detailed information on the models used to calculate expected credit losses for agreements in Stage 1 and Stage 2 (and for a small portfolio of homogeneous claims in Stage 3), and for an explanation of concepts such as PD, EAD and LGD, expected maturity, significant increase in credit risk and macroeconomic information, see the Credit risks section in note 2. For a sensitivity analysis for expected credit losses, see note 8.

Manual calculation

Assets in Stage 3 are tested for impairment on an individual basis using a manual calculation (with the exception of a small portfolio of homogeneous claims which have a model-calculated provision in Stage 3). This testing is carried out on a regular basis and in conjunction with every reporting date by the local branch with business responsibility (unit with customer and credit responsibility) and is decided by the regional credit committee or central credit department.

Impairment testing is carried out when there are objective circumstances which indicate that the counterparty will not be able to fulfil its contractual obligations, according to the definition of default. Such objective circumstances could be, for example, late payment or non-payment, a change in the internal rating, or if the borrower enters bankruptcy.

Impairment testing involves an estimation of future cash flows and the value of the collateral (including guarantees). Consideration is normally

NOTE 1 Cont.

given to at least two forward-looking scenarios for expected cash flows, based on both the customer's repayment capacity and the value of the collateral. The outcome of these scenarios is probability-weighted and discounted with the loan's original effective interest rate. The scenarios used may take into account both macroeconomic and agreement-specific factors, depending on what is deemed to affect the individual counterparty's repayment capacity and the value of the collateral. The assessment takes into account the specific characteristics of the individual counterparty. An impairment loss is recognised if the estimated recoverable amount is less than the carrying amount.

Expert-based calculation

Expert-based calculation is also carried out for credit losses in order to incorporate the estimated impact of factors not deemed to have been captured by the model (Stage 1, Stage 2 and for a small portion of homogeneous claims in Stage 3), or which have not been considered in the manual assessment (Stage 3). The model-based calculations are constructed with the ambition of making as accurate estimations as possible of the individual contributions to the overall provision requirement. However, it is very difficult to incorporate all of the particular characteristics that define an individual agreement into a general model. For this reason, a manual analysis is carried out of the agreements which give the largest contributions to the overall provision requirement. The manual analysis aims to apply expert knowledge about the individual credits to assess whether the model-based or manual calculation needs to be replaced with an expert-based calculation. An expert-based calculation may result in either a higher or a lower provision requirement than the original calculation.

Expert-based calculation can also be carried out at a more aggregate level to adjust the model-based calculations for a sub-portfolio or similar. These adjustments are distributed proportionally over the agreements involved. An expert-based calculation may result in either a higher or a lower provision requirement than the original calculation.

Recognition and presentation of credit losses

- Financial assets measured at amortised cost are recognised on the balance sheet at their net amount, after the deduction of expected credit losses.
- Off-balance sheet items (financial guarantees and irrevocable loan commitments) are recognised at their nominal amounts. Provisions for expected credit losses on these instruments are recognised as a provision on the balance sheet.
- Financial assets measured at amortised cost and off-balance sheet items, are recognised in the period's credit losses (expected and actual) in the income statement under the item Credit losses. Credit losses comprise the period's provisions for expected credit losses, less reversals of previous provisions, as well as write-offs and recoveries during the period.
- Write-offs comprise actual credit losses, less reversals of previous provisions for expected credit losses in Stage 3 and may refer to either the entirety or parts of a financial asset. Write-offs are recorded when there is deemed to be no realistic possibility of repayment. Following a write-off, the claim on the borrower and any guarantor normally remains and is thereafter, as a rule, monitored. Monitoring is not pursued in certain situations, such as when a trustee in bankruptcy has submitted their final accounts of the distribution of assets in conjunction with the bankruptcy, when a scheme of arrangement has been accepted or when a claim has been waived in its entirety. Claims for which a concession is granted in conjunction with a restructuring of financial assets are always recognised as actual credit losses.
- Payments accruing to the company in relation to written-off financial assets are recognised in income as recoveries. Further information on credit losses is provided in note 8.

Default or Credit-impaired asset

The company's definition of default is identical to that applied in the Capital Requirements Regulation, entailing either that the counterparty is over 90 days overdue with a payment or that an assessment has been made that the counterparty will be unable to fulfil their contractual payment obligations.

Such an assessment implies that it is deemed to be more likely that the borrower will be unable to pay than that they will be able to pay. This assessment is based on all available information about the borrower's repayment capacity. Consideration is given to indicators of insolvency such as insufficient liquidity, late/cancelled payments, records of non-payment or other signs of impaired repayment capacity. Other signals may include the borrower being declared bankrupt or the granting of a substantial concession or forbearance measure, entailing a decrease in the value of the company's claim on the borrower.

The probability of default is calculated before each reporting date and is incorporated in the assessment of whether there has been a significant increase in the credit risk since the initial recognition, as well as in the calculation of expected credit losses for financial assets in Stage 1 and Stage 2.

A credit-impaired financial asset, which is an exposure in Stage 3, is defined as an exposure in default. This means that the assessment for accounting purposes is consistent with the assessment used in the company's credit risk management.

Interest

In Stage 1 and Stage 2, recognition of interest income attributable to items on the balance sheet is based on gross accounting, which means that the full amount of interest income is recognised in net interest income. In Stage 3, interest income is recognised net, that is, taking into account impairment. Interest rate effects arising due to discounting effects, attributable to the decrease of the period until the expected payment, result in a reversal of previously provisioned amounts and are recognised as interest income in accordance with the effective interest method.

Valuation of repossessed property and equipment to protect claims

Upon initial recognition, repossessed property and equipment is recognised at fair value on the balance sheet. Repossessed property and equipment which is expected to be divested in the near future is valued at the lower of the carrying amount and fair value less costs to sell.

Repossessed property which is not expected to be divested in the near future is reported as investment properties at fair value through profit or loss.

Modified financial assets

A loan is seen as modified when the terms and provisions which determine the cash flows are amended relative to those in the original agreement as the result of implemented measures in the form of concessions (forbearance) or commercial renegotiations. Forbearance refers to changes to terms and conditions in conjunction with restructuring or other financial relief measures implemented with the objective of securing repayment in full, or of maximising repayment of the outstanding loan amount from borrowers experiencing or facing financial difficulties. Commercial renegotiations refer to changes to terms and conditions which are not related to a borrower's financial difficulties, such as changes in the cash flow for a loan arising due to changes in market conditions with regard to repayment or interest.

If the cash flows from a financial asset which is classified as measured at amortised cost have been modified, but the cash flows have not significantly changed, the modification does not normally cause the financial asset to be removed from the balance sheet. In such cases, the gross carrying amount is recalculated on the basis of the changed cash flows of the financial asset, and the adjustment amount is recognised as a modification gain or loss in the income statement. As there may be various reasons for implementing a modification, there is no unconditional connection between modifications and assessed credit risk.

When a financial asset is subject to forbearance measures and the asset remains on the balance sheet, it is classified in Stage 2 or Stage 3, based on the outcome of the assessment made when granting the concession. The assessment involves a check of whether a provision is required for credit loss, or other circumstance which results in classification in Stage 3. If a financial asset is modified in a way that results in significantly changed cash flows, the modified financial asset is derecognised from the balance sheet and replaced with a new agreement. In such cases, the modification date constitutes the initial recognition date for the new agreement and is used thereafter for the calculation of expected credit losses and for assessing whether there has been a significant increase in the credit risk since the initial recognition.

12. HEDGE ACCOUNTING (IAS 39)

The company applies different methods for hedge accounting, depending on the purpose of the hedge. Derivatives – mainly interest rate swaps and cross-currency interest rate swaps – are used as hedging instruments. In addition, when hedging foreign exchange risks related to net investments in foreign operations, liabilities in the functional currency of the respective foreign operation are used as a hedging instrument. As part of the company's hedging strategies, the value changes of hedging instruments are sometimes divided into separate components and included in more than one hedge relationship. Therefore a single hedging instrument can hedge different risks. Hedging instruments are only split in this way if the hedged risks can be clearly identified, the efficiency can be reliably measured, and the total value change of the hedging instrument is included in a hedge relationship.

Cash flow hedge

Cash flow hedges are applied to manage exposures to variations in cash flows relating to changes in the variable interest rates on lending and funding. The expected maturity for this type of lending and borrowing is normally much longer than the fixing period, which is very short. Cash flow hedging is also used to hedge foreign exchange risk in future cash flows deriving from lending and borrowing. Derivatives which are hedging instruments in cash flow hedges are measured at fair value. If the derivative's value change is effective – that is, it corresponds to future cash flows related to the hedged item – it is recognised as a component of Other comprehensive income and in the hedge reserve in equity. Ineffective components of the derivative's value change are recognised in the income statement under Net gains/losses on financial transactions. When a cash flow hedge is terminated early, the cumulative gain or loss on the hedging instrument previously recognised in other comprehensive income is amortised under Net gains/losses on financial transactions during the period in which the hedged cash flows are expected to occur. If cash flow hedges are terminated early and the hedged cash flows are no longer expected to occur, the accumulated value change is reclassified in the hedge reserve to Net gains/losses on financial transactions. See note 13.

Hedge accounting at fair value

Fair value hedges are used to protect the company against undesirable impact on profit/loss due to exposure to changes in market prices. Fair value hedges are applied for individual assets and liabilities and for portfolios of financial instruments. Hedged risks in hedging packages at fair value comprise the interest rate and foreign exchange risk on lending and borrowing at fixed interest rates, and also lending with interest rate caps. The hedging instruments in these hedging relationships comprise interest rate swaps and interest rate options. 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 transactions. When portfolio hedging is applied, the value of the hedged item is reported as a separate line item on the balance sheet in conjunction with Loans to the public. When fair value hedges are prematurely terminated, the accrued value change on the hedged item is amortised in Net gains/losses on financial transactions during the remaining time to maturity. When a fair value hedge is terminated early, and the hedged item no longer exists, the value change generated is reversed directly under Net gains/losses on financial transactions. Accumulated changes in the value of portfolio hedges which have been terminated early are reported on the balance sheet under Other assets.

13. INTANGIBLE ASSETS (IAS 38)

Recognition in the balance sheet

An intangible asset is an identifiable, non-monetary asset without physical form. An intangible asset is only recognised on the balance sheet if the probable future economic benefits attributable to the asset will flow to the company and the acquisition 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 on the balance sheet.

Investments in software developed in-house are recognised as an expense on a current basis to the extent that the expenditure refers to maintenance of existing business operations or software.

Agreements with suppliers that provide the Bank with a cloud service that involves access to the supplier's application, platform or infrastructure for the duration of the agreement comprise service contracts. Fees for a cloud service are charged to expenses on an ongoing basis for the duration of the contract. Any charges paid in advance are recognised as an asset, i.e. prepaid expenses. Fees for configuration and adaptations of a cloud service are charged to expenses when a supplier renders the services in question. When configuration and adaptations are an integral part of the cloud service and are undertaken by the supplier of the cloud service, or a sub-contractor to the supplier, the fee is charged to expenses on an ongoing basis for the duration of the agreement. Any charges paid in advance are recognised as prepaid expenses.

In the case of in-house development of new software, or development of existing software for new business operations, the expenditure incurred that can be reliably measured is capitalised from the time when it is probable that economic benefit will arise. Expenditure arising from borrowing costs is capitalised from the date on which the decision was made to capitalise expenditure for development of intangible assets.

Intangible assets with a finite useful life

Intangible assets for which it is possible to establish an estimated useful life are amortised. The amortisation is on a straight-line basis over the useful life of the asset. Currently this means that internally developed software is normally amortised over five years. In certain infrastructure projects, the useful life is assessed to be more than five years. For these types of investment, the amortisation period is up to 15 years. The amortisation period is tested on an individual basis at the time of new acquisition and also continually if there are indications that the useful life may have changed. Intangible assets with a finite useful life are reviewed for impairment when there is an indication that the asset may have decreased in value. Impairment testing is performed by calculating the recoverable amount of the assets, i.e. 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.

14. PROPERTY AND EQUIPMENT (IAS 16)

The company's tangible non-current assets consist of equipment. These assets are 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 reviewed annually. Personal computers and other IT equipment are usually depreciated over three years and investments in premises over ten years. Other equipment is normally depreciated over five years. Impairment testing of property and equipment is carried out when there is an indication that the value of the asset may have 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. An impairment charge is reversed if there is an indication that there is no longer any impairment loss and there has been a change in the assumptions underlying the estimated recoverable amount.

15. EQUITY

Equity comprises the components described here.

Hedge reserve

Unrealised changes in the value of derivative instruments which comprise hedge instruments in cash flow hedges are reported in the hedge reserve.

NOTE 1 Cont.

Translation reserve
The translation reserve comprises unrealised foreign exchange effects arising due to translation of foreign units to the company's presentation currency.

Retained earnings including profit for the year
Retained earnings comprise the profits generated from the current and previous financial years. Dividends are reported as deductions from retained earnings. Realised gains/losses which are attributable to equity instruments classified as measured at fair value through other comprehensive income are reclassified from the fair value reserve to retained earnings.

16. GROUP CONTRIBUTIONS
Group contributions are recognised in accordance with the economic substance of the contribution. Group contributions provided by the company to the parent company are treated as dividends and recognised as a reduction of retained earnings.

17. INCOME
Net interest income
Interest income and interest expenses are calculated and recognised by applying the effective interest method or, where considered appropriate, by applying a method that results in an amount constituting a reasonable estimate of the results of a calculation based on the effective interest method. Effective interest includes fees which are considered an integral part of the effective interest rate of a financial instrument (generally fees received as compensation for risk). The effective interest rate corresponds to the rate used to discount future contractual cash flows to the carrying amount of the financial asset or liability. Net interest income also includes interest from derivative instruments recognised through hedge accounting and interest from derivatives in economic hedges, as these hedge items for which the interest flows are recognised under Net interest income.

All interest income and interest expense are recognised as net interest income in the income statement.

In addition to interest income and interest expenses, net interest income includes fees for state guarantees, such as deposit guarantees and the resolution fee. See note 3.

Revenue from contracts with customers
The standard Revenue from contracts with customers, IFRS 15, is applied for different types of services which are mainly recognised under Fee and commission income in the income statement. IFRS 15 is also applicable to the item Other income. However, Other income does not, in all material respects, refer to income from contracts with customers.

The income is recognised at the point in time at which the performance obligation is fulfilled, which corresponds to the transfer of control over the service to the customer. The total reimbursement is divided between each service and recognition in income depends on whether the services are fulfilled at a specific point in time, or over time.

The following principles apply to the time at which income is recognised:

The income recognised must reflect the anticipated income. When the income includes variable reimbursement, such as a discount, bonus or performance-based element, the income is recognised only when it is highly probable that no repayment of the amount will take place.

Payments are made on a regular basis as the services are performed and advance payments refer to a maximum of 12 months into the future. Accrued income is recognised for services rendered which are yet to be paid for and deferred income is recognised for short-term advance payments for services which are yet to be rendered. Income from contracts with customers constitutes an insignificant proportion of the items Other accrued income and Deferred income. There is no additional expenditure to obtain a contract with a customer recognised as an asset (prepaid expense), instead additional expenditure to obtain a contract with a customer is recognised as an expense during the accounting period in which it arises.

Net fee and commission income
Income and expense for various kinds of services are recognised in the income statement under the items Fee and commission income and Fee and commission expense, respectively. This means that items such as premiums for financial guarantees given are recognised as commissions. Guarantee commissions that are comparable to interest and fees that constitute integrated components of financial instruments and therefore are included when calculating the effective interest are recognised under Net interest income and not commissions. Fee and commission expense is transaction-based and directly related to transactions for which the income is recognised as fee and commission income.

Net gains/losses on financial transactions
Net gains/losses on financial transactions shows the impact on profit or loss that arises when measuring financial assets and liabilities at fair value through profit or loss and when financial assets and liabilities are realised. Gains/losses on financial instruments at amortised cost consist of realised gains and losses on financial assets and liabilities classified as measured at amortised cost, such as early repayment charges for loans redeemed ahead of time, and capital gains/losses generated from repurchases of the Bank's own issued securities and premature closing of derivatives contracts.

Gains/losses on financial instruments measured at fair value through profit or loss, fair value option, consist of unrealised and realised changes in the value of financial assets and liabilities that upon initial recognition were identified as measured at fair value through profit or loss.

Gains/losses on financial instruments measured at fair value through profit or loss, mandatory, consist of unrealised and realised changes in value, dividend income and interest (with the exception of interest deriving from derivatives used to hedge items for which the interest flow is recognised in net interest income) on financial assets and liabilities held for trading, or which are managed and evaluated on the basis of fair value.

Fair value hedges consist or unrealised and realised changes in the value of hedging instruments, and the hedged risk component in financial assets and liabilities which constitute hedged items in fair value hedges. Ineffective portion of cash flow hedges consists of changes in the value of hedging instruments which do not correspond to future cash flows attributable to the hedged item.

18. EMPLOYEE BENEFITS
Staff costs
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. Any remuneration in connection with terminated employment is recognised as a liability when the agreement is reached and amortised over the remaining employment period.

Accounting for pensions (IAS 19)
Defined benefit plans
The company has pension obligations which are guaranteed through insurance with Pensionskassan SHB, Försäkringsförening (pension fund). These obligations are reported according to the IAS 19 rules for defined benefit plans, whereby the company under common control shares the risks related to the pension obligations, since the pension fund's assets are not allocated among the employers who have insurance with the pension fund. According to these rules, the company reports the insurance charges which are debited for the period as an expense.

Defined contribution pension plans
Defined contribution pension plans under the BTPK plan are plans where the company's obligations are limited to the contributions the company has undertaken to pay. In such cases, the size of the employee's pension is determined by the contributions the company pays towards the plan or to an insurance company and the return on the capital invested that these contributions generate. Consequently, it is the employee who bears the actuarial risk (that benefits will be less than expected) and the investment risk (that assets invested will be insufficient to meet expected benefits). The company's obligations regarding contributions to defined contribution plans are reported as an expense in the profit for the year to the degree

such benefits are accumulated as a result of the employees working for the company over a period of time.

19. TAXES (IAS 12)

The tax expense for the period consists of current tax and deferred tax. Current tax refers to taxes relating to the period's, or previous periods', 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. Deferred tax claims related to deductible temporary differences and loss carry forwards are only recognised if it is probable that they will be utilised. Deferred tax liabilities are recognised at nominal value. Tax is recognised in the income statement, in Other comprehensive income or directly in equity depending on where the underlying transaction is reported.

20. ESTIMATES AND KEY ASSUMPTIONS

In certain cases, the application of the company'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 estimates and assumptions about the future. Such assumptions always imply a risk for adjustment of the reported value of assets and liabilities. The assessments and assumptions applied always reflect the management's best and fairest assessments and are continually subject to examination and validation. Below follows a report of the assessments and assumptions that have had a material impact on the financial reports.

Credit losses

The calculation of expected credit losses involves a number of decisions arrived at using assumptions and assessments. The valuation of expected credit losses is inherently associated with a certain degree of uncertainty. Areas involving a high degree of assessment are described below under the respective headings.

Forward-looking data in macroeconomic scenarios

The company continuously monitors macroeconomic developments, with a particular focus on the home markets. Through this monitoring, macroeconomic scenarios are produced which form the basis for the forward-looking data used in the model-based calculation of expected credit losses. The capacity of the company's customers to fulfil their contractual payments varies in line with macroeconomic developments. Consequently, future macro-economic developments have an impact on the company's view of the provision needed to cover expected losses. The calculation of the provision requirement for expected credit losses is based on the neutral scenario proposed by the company's macro-research unit. As the losses may be more highly affected by a future deterioration of economic trends than by the equivalent improvement, the company uses at least two alternative scenarios to take into account the non-linear aspects of expected credit losses. These alternative scenarios represent conceivable developments, one significantly worse and one significantly better than the neutral scenario. The most significant macroeconomic risk factors have been selected on the basis of the company's loss history over the past decade, supplemented with experience-based assessments. These macroeconomic risk factors are then used as macroeconomic risk factors in the company's quantitative statistical models for forecasting migrations, defaults, loss rates and exposures. Macroeconomic risk factors include unemployment, key rates and central bank rates, GDP, inflation and property prices. The company's business model, to offer credit to customers with a high repayment capacity, means that the connection between the macroeconomic developments and the provision requirement is not always particularly pronounced. For a more detailed description of macroeconomic information, see the Credit risks section of note 2 and for a sensitivity analysis, see note 8.

Significant increase in credit risk

The company makes an assessment at agreement level at the end of each reporting period as to whether there has been a significant increase in credit risk since initial recognition. For a more detailed description of significant increase in credit risk, see the Credit risks section of note 2.

Model-based calculation

The quantitative models which form the basis for the calculation of expected credit losses for agreements in Stage 1 and Stage 2 make use of several assumptions and assessments. One key assumption is that the quantifiable relationships between macroeconomic risk factors and risk parameters in historical data are representative of future events. The quantitative models applied are based on a history of approximately 10 years, although this history varies by product and region depending on the availability of historical outcomes. The quantitative models have been designed with the help of econometric models, applying the assumption that the observations are independently conditioned by the risk factors. This means that the risk parameters can be predicted without distortion. Furthermore, a selection of the most significant macroeconomic risk factors is made on the basis of the individual macroeconomic risk factors' demonstrative ability on individual risk parameters. The selection of the macroeconomic risk factors and specification of the model are based on achieving a balance between simplicity, demonstrative ability and stability.

Manual and expert-based calculation

As a general rule, manual calculations are used for agreements in Stage 3, with the exception of a small portfolio of homogeneous claims in Stage 3.

Expert-based calculation is carried out for model outcomes on agreements in Stage 1 and Stage 2, in order to incorporate the estimated impact of factors not deemed to have been captured by the model and also for manually assessed agreements in Stage 3. For a more detailed description of manual and expert-based calculation, see Manual calculation and Expert-based calculation in section 11.

21. EXCHANGE RATES

Exchange rates	31 Dec 2021	31 Dec 2020
EUR 1 = SEK		
Income statement (average)	10.1457	10.4873
Balance sheet (at end of period)	10.2546	10.0414
GBP 1 = SEK		
Income statement (average)	11.8045	11.7986
Balance sheet (at end of period)	12.2153	11.1126
USD 1 = SEK		
Income statement (average)	8.5822	9.2039
Balance sheet (at end of period)	9.0645	8.1757
NOK 1 = SEK		
Income statement (average)	0.9983	0.9788
Balance sheet (at end of period)	1.0271	0.9541
DKK 1 = SEK		
Income statement (average)	1.3642	1.4069
Balance sheet (at end of period)	1.3790	1.3498
CHF 1 = SEK		
Income statement (average)	9.3858	9.8010
Balance sheet (at end of period)	9.8838	9.2606

22. COMPANY INFORMATION

The Annual Report was approved for issue by the Board and the Chief Executive on 7 February 2022 and will be submitted for adoption by the annual general meeting on 28 March 2022.

Stadshypotek AB (publ) has its registered office in Stockholm, at the address Torsgatan 14, 103 70 Stockholm, Sweden. Its core business comprises the financing of properties, primarily residential properties, as well as office and commercial buildings. The company is a wholly owned subsidiary of Svenska Handelsbanken AB (publ). Further information on the operations is provided in the Administration report.

NOTE 2 Risks and risk control

RISKS AND UNCERTAINTY FACTORS

As part of the Handelsbanken Group, Stadshypotek has a low risk tolerance and avoids granting credits to high-risk customers. This, combined with good capitalisation and a strong liquidity situation, makes the company well prepared to operate in a stricter regulatory environment and more difficult market conditions.

RISK CONTROL

Stadshypotek's operations are conducted with a controlled low level of risk. Stadshypotek's risks are credit risk, market risk, liquidity risk, operational risk and business risk. Credit risk is the risk of Stadshypotek facing economic loss because its counterparties cannot fulfil their contractual obligations. Market risk stems from price changes in the financial markets. The market risks affecting Stadshypotek are interest rate risk and foreign exchange risk. Liquidity risk refers to the risk that Stadshypotek will not be able to meet its payment obligations when they fall due without being affected by unacceptable costs or losses. Operational risk is defined as the risk of loss due to inadequate or failed internal processes, human error, malfunctioning systems, or external events. The definition includes legal risk. Credit risk is the most significant risk for Stadshypotek.

The Stadshypotek Board establishes policies describing how various risks must be managed and reported. In addition, Stadshypotek's Chief Executive sets guidelines and instructions for managing and controlling all types of risk. These documents are based on the policies that the Board of Handelsbanken has adopted for managing and reporting risks within the Handelsbanken Group as a whole. Stadshypotek's risk management aims to ensure compliance with the strict approach to risk established by the Board.

Stadshypotek's lending operations are integrated with those of Handelsbanken, which means that Stadshypotek's lending is carried out via the Bank's branch network. Stadshypotek's funding needs are managed by Handelsbanken's Treasury Department. Individual outsourcing agreements specify the services which Handelsbanken performs on behalf of Stadshypotek. Thus, the business operations at Stadshypotek are conducted according to the same fundamental principles which apply at Handelsbanken. The Bank's corporate culture is characterised by a clear division of responsibility, where each part of the business operations bears full responsibility for its business and for risk management. The person who is most familiar with the customer and the market conditions is the person best equipped to assess the risk and can also take action at an early stage in the event of problems. Each branch and each profit centre is responsible for dealing with any problems that arise. As a consequence, there are strong incentives for high risk awareness and for prudence 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 large loans are subject to limits and are assessed at various decision levels, depending on the size of the credit limit. Procedures also exist to limit market risk and liquidity risk at Stadshypotek, where the company's Board establishes limits.

Stadshypotek also has risk control independent of business operations which is responsible for the regular follow-up and monitoring of all risks applying to operations, primarily credit risk, market risk, liquidity risk, counterparty risk and operational risk. The Risk Control function carries out daily measurements and checks to ensure that risk exposure for market, liquidity and counterparty risks is within the set limits. Limit utilisation is reported internally within the company, and to the parent company's Group Risk Control function. In addition, limit utilisation is reported regularly to Stadshypotek's Chief Executive and Board of Directors.

Stadshypotek is also covered by Group Risk Control at Handelsbanken, which 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. Group Risk Control is responsible for the independent reporting of risks for the banking group of which Stadshypotek is a part. Group Risk Control also develops and provides models for measuring risk that are applied in Stadshypotek's operations and performs certain calculations that provide a basis for some of Stadshypotek's external reporting.

Stadshypotek also has a procedure for continual capital planning to ensure that it has a sufficient amount of capital to secure the company's survival if a serious loss were to occur, despite the measures taken to manage the risks. The method for calculating economic capital ensures that all risks are considered in a consistent manner when the need for capital is assessed.

CREDIT RISKS

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

Rules for lending at Stadshypotek

Lending must be carried out in accordance with the terms stated in Stadshypotek's credit instructions, established annually by the company's Board. The credit instructions include the maximum permitted loan-to-value ratio (LTV) for various property types and a requirement that loans above a certain amount be subject to an advance examination conducted by Stadshypotek's credit department before the loan can be disbursed. Stadshypotek primarily offers loans for residential properties. The limit for satisfactory mortgage collateral corresponds to a maximum of 85 per cent of the market value of the property in the case of residential properties such as detached houses, housing co-operative apartments and second homes. This applies to lending in Sweden and also to Stadshypotek's branches in Norway and Finland. At the branch in Denmark, it is possible to borrow up to 80 per cent of the property's market value in the case of residential properties. The above limits are set to reflect the customary loan-to-value ratios for mortgage borrowing in each of the respective countries. For office and commercial properties, which are only mortgaged in the Swedish market, a maximum of 60 per cent of the market value applies. Industrial and warehouse properties are not financed by Stadshypotek.

Principles for managing credit risk

Stadshypotek's lending takes place through Handelsbanken's branch network. Lending operations are based on the principles applying at the Bank, but also take into account other special instructions and regulations regarding the granting of credit, 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 large credits are subject to limits and 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. The Bank is selective when choosing customers, and borrowers must be of high quality. The quality requirement is never neglected in favour of higher credit volumes or to achieve higher returns. Of the total volume for corporate exposures at Stadshypotek, 99 per cent (99) 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 risk rating scale.

The Bank strives to be a relationship bank whose branches maintain regular contact with the customer. This gives the branch 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 a problem escalates, than would have been possible with a more centralised management of problem loans. Therefore, the branch addresses problems that arise when a customer has repayment difficulties. If necessary, the branch obtains support from the regional head office and Stadshypotek's credit department. In accordance with the Bank's practices, all employees whose work involves transactions linked to credit risk adopt a tried and tested approach to such risks, and this constitutes an important part of the Handelsbanken Group's culture.

According to the Handelsbanken Group's and Stadshypotek's credit policy, weak repayment capacity can never be accepted on the grounds that good collateral has been offered to the Bank.

NOTE 2 Cont.

Collateral may, however, substantially reduce Stadshypotek's loss if the borrower cannot fulfil their commitments. Credits in Stadshypotek must therefore always be satisfactorily secured by mortgages in property or a co-operative apartment. Unsecured credit may be granted when the borrower or guarantor is a government, regional authority or municipality, or when lending to joint ownership associations. In addition to the advance examination conducted in accordance with the Credit Instructions for Stadshypotek, Stadshypotek's credit department carries out a further examination after loans have been disbursed. This examination covers loans selected according to pre-determined criteria, checking, for example, that the loan-to-value ratio of properties mortgaged complies with regulations. In addition, Stadshypotek's credit department conducts regular checks of Stadshypotek's loan portfolio to ensure that property values and LTVs are at a satisfactory level and comply with the Credit Instructions for Stadshypotek. Stadshypotek's valuation unit carries out regular checks to ensure that the property valuations are correctly performed and that they reflect the market value of the property.

Risk rating

The Handelsbanken Group's risk rating system comprises a number of different systems, methods, processes and procedures to support the Handelsbanken Group's classification and quantification of credit risk.

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 rating is based on the Bank's internal rating, which is determined by an assessment of each counterparty's repayment capacity. The rating is determined by the risk of financial strain and by the assessed resistance to this strain. The method and classification are based on the rating model applied by the Handelsbanken Group.

The internal rating is the most important component of the Handelsbanken Group's model for calculating capital requirements according to the 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 made by the person responsible for granting the credit and it is subsequently checked by independent bodies.

Risk rating methods

To quantify the Handelsbanken Group's credit risks, and thus also Stadshypotek's credit risks, a calculation is made of the customer's probability of default (PD), the Handelsbanken Group's expected exposure at default (EAD), and the proportion of the exposure that the Handelsbanken Group is expected to lose in the event of default (Loss Given Default, LGD). Default is defined as when the counterparty is either 90 days late in making payment, or when an assessment has been made that the counterparty will not be able to pay as contractually agreed, for example, if declared bankrupt.

The PD value is expressed as a percentage where, for example, a PD value of 0.5 per cent means that one borrower in 200 with the same PD value is expected to default within one year. A credit in default does not necessarily mean that Stadshypotek will incur a loss, since there is collateral for the exposure. Nor does a default mean that it is out of the question that the counterparty will pay at some time in the future, since the payment problems may be temporary. At Stadshypotek, unsecured loans may only be granted when the borrower or guarantor is a government, region or municipality, or when lending to joint ownership associations.

For corporate exposures, the internal rating set for each counterparty is directly converted into a risk class graded on a scale from 1 to 10 (where risk class 10 refers to counterparties that have defaulted). The corporate exposures are divided into four counterparty types based on the business evaluation template used for the counterparty. PD is calculated individually for each risk class and counterparty type.

For retail exposures, the risk class is also based on the internal rating assigned to all credit customers. The rating is not translated directly into a risk class as for corporate exposures; instead, the different exposures are sorted into a number of smaller groups on the basis of certain factors. Such factors include the type of credit, the counterparty's debt-servicing record and whether there are one or more borrowers. An average default rate is calculated for each of the smaller groups, and on the basis of this, the groups are sorted into one of the ten risk classes. Different models are used for exposures to private individuals and to small companies respectively (that are also classed as retail exposures), but the principle is the same.

For retail exposures and exposures to medium-sized companies, property companies and housing co-operative associations, the LGD is determined using the Handelsbanken Group's own loss history. For exposures to large corporates that are subject to a capital requirement using the IRB Approach with own estimates of LGD and credit conversion factor (CCF), the LGD is determined on the basis of internal losses and external observations. For retail exposures secured by property in Sweden and for property exposures to medium-sized companies, property companies and housing co-operative associations, different LGD values are applied depending on the LTV ratio of the collateral.

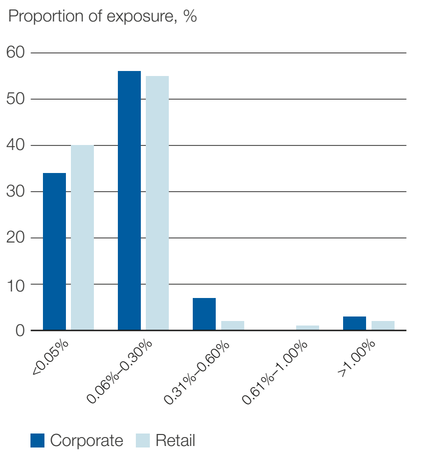
For each exposure class, the PD is calculated for each of the risk classes that refer to non-defaulted counterparties or agreements. PD is based on calculations of the historical percentage of defaults for different types of exposure. The average default rate is then adjusted by a margin of conservatism and a business cycle adjustment factor. The margin is intended to ensure that the long-term probability of default is not underestimated.

Stadshypotek has received approval from the Swedish Financial Supervisory Authority to use new models for calculation of the PD values for companies. These models estimate the long-term PD, including a margin of conservatism and a business cycle adjustment, at the portfolio level. This portfolio PD is then allocated among the various risk classes. Normally the portfolio PD will not vary from year to year, though the risk-class PD will, as the breakdown of counterparties among the risk classes varies over time. When the new models were implemented, the risk weights for companies increased, while the future variation of the risk weights – and accordingly the capital requirement – decreased.

When establishing LGD, the risk measure must reflect the loss rates during economically unfavourable circumstances, known as downturn LGD. For collateral in property, the downturn LGD is based on observed loss rates from the property crisis in the early 1990s.

In addition to the capital adequacy calculation, measures of risk (PD, EAD, LGD) are used to calculate the cost of capital in each individual transaction and to calculate economic capital (EC). This means that margins in the form of business cycle adjustments and conservatism adjustments in the risk measurements are also included in the cost of capital in individual transactions and in calculations of economic capital, which means that the loss levels that the risk measurements imply are conservative. The method used means that the Handelsbanken Group's historical losses have a direct impact on risk calculations and capital requirements.

PD intervals and proportion of exposure by exposure type, corporate and retail, excluding defaulted credits



The diagram above shows a breakdown of Stadshypotek's exposures (EAD), excluding credits in default, between the different PD intervals for each exposure class. The PD values used are those applied when calculating the capital requirement.

NOTE 2 Cont.

Credit risk exposures by risk class

Credit risk exposures by risk class 2021	Balance sheet items			Off-balance sheet items	
SEK m	Loans to the public	Loans to credit institutions	Derivative instruments	Contingent liabilities	Total
Risk class					
1	502,118	-	-	0	502,118
2	502,171	-	-	2	502,173
3	355,342	-	-	1	355,343
4	115,439	-	-	1	115,440
5	24,206	-	-	-	24,206
6	3,640	-	-	-	3,640
7	17,269	-	-	-	17,269
8	291	-	-	-	291
9	4,409	-	-	-	4,409
Defaults	1,024	-	-	-	1,024
Standardised approach	6	13,301	7,223	-	20,530
Total	**1,525,915**	**13,301**	**7,223**	**4**	**1,546,443**

Credit risk exposures by risk class 2020	Balance sheet items			Off-balance sheet items	
SEK m	Loans to the public	Loans to credit institutions	Derivative instruments	Contingent liabilities	Total
Risk class					
1	443,564	-	-	0	443,564
2	468,355	-	-	2	468,357
3	355,073	-	-	3	355,076
4	119,671	-	-	1	119,672
5	23,268	-	-	-	23,268
6	3,703	-	-	0	3,703
7	18,571	-	-	-	18,571
8	625	-	-	-	625
9	5,882	-	-	-	5,882
Defaults	519	-	-	-	519
Standardised approach	97	15,007	11,955	-	27,059
Total	**1,439,328**	**15,007**	**11,955**	**6**	**1,466,296**

Balance sheet items subject to impairment testing under IFRS 9, broken down by risk class

Balance sheet items that are subject to impairment testing under IFRS 9, broken down by risk class 2021	Gross			Provisions		
SEK m	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Risk class						
1	500,444	1,678	-	-2	-2	-
2	505,582	3,102	-	-9	-4	-
3	356,159	3,038	-	-9	-5	-
4	115,576	2,844	-	-16	-5	-
5	20,657	3,565	-	-7	-9	-
6	2,990	657	-	-2	-5	-
7	14,519	2,762	-	-2	-10	-
8	73	224	-	0	-6	-
9	2,017	2,405	-	-4	-9	-
Defaults	-	-	1,103	-	-	-79
Standardised approach	6	-	-	0	-	-
Total	**1,518,023**	**20,275**	**1,103**	**-51**	**-55**	**-79**

NOTE 2 Cont.

Balance sheet items that are subject to impairment testing, broken down by risk class 2020	Gross			Provisions		
SEK m	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Risk class						
1	444,343	1,226	-	-3	-2	-
2	474,104	2,181	-	-10	-4	-
3	354,922	3,166	-	-11	-4	-
4	118,829	2,726	-	-15	-5	-
5	20,936	2,446	-	-6	-8	-
6	3,391	418	-	-2	-5	-
7	15,776	2,814	-	-3	-6	-
8	166	475	-	0	-7	-
9	2,677	3,232	-	-5	-13	-
Defaults	-	-	609	-	-	-90
Standardised approach	1	-	96	0	-	0
Total	**1,435,145**	**18,684**	**705**	**-55**	**-54**	**-90**

Loans to the public subject to impairment testing under IFRS 9, broken down by risk class

Loans to the public that are subject to impairment testing, broken down by risk class 2021	Gross			Provisions		
SEK m	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Risk class						
1	500,444	1,678	-	-2	-2	-
2	499,082	3,102	-	-9	-4	-
3	352,318	3,038	-	-9	-5	-
4	112,616	2,844	-	-16	-5	-
5	20,657	3,565	-	-7	-9	-
6	2,990	657	-	-2	-5	-
7	14,519	2,762	-	-2	-10	-
8	73	224	-	0	-6	-
9	2,017	2,405	-	-4	-9	-
Defaults	-	-	1,103	-	-	-79
Standardised approach	6	-	-	0	-	-
Total	**1,504,722**	**20,275**	**1,103**	**-51**	**-55**	**-79**

Loans to the public that are subject to impairment testing, broken down by risk class 2020	Gross			Provisions		
SEK m	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Risk class						
1	442,343	1,226	-	-3	-2	-
2	466,188	2,181	-	-10	-4	-
3	351,922	3,166	-	-11	-4	-
4	116,965	2,726	-	-15	-5	-
5	20,836	2,446	-	-6	-8	-
6	3,292	418	-	-2	-5	-
7	15,766	2,814	-	-3	-6	-
8	157	475	-	0	-7	-
9	2,668	3,232	-	-5	-13	-
Defaults	-	-	609	-	-	-90
Standardised approach	1	-	96	0	-	0
Total	**1,420,138**	**18,684**	**705**	**-55**	**-54**	**-90**

NOTE 2 Cont.

CALCULATION OF EXPECTED CREDIT LOSSES

The impairment rules presented in IFRS 9 apply to financial assets at amortised cost, financial assets at fair value through other comprehensive income, as well as committed loan offers, financial guarantees and other commitments. This section provides descriptions of the processes and methods applied in the Handelsbanken Group's model-based calculations of provisions for expected credit losses (ECL).

The calculation of expected credit losses is undertaken at agreement level, whereby the characteristics of the agreement and the counterparty govern the classification and quantification of the provision requirement. The assessment can be either a model-based calculation or manually calculated, with the choice of method mainly dependent on whether the agreement is deemed to be credit-impaired.

For information pertaining to the recognition and measurement of expected credit losses and for definitions, refer to note 1, section 11. Credit losses.

Model-based calculations for agreements in Stage 1 and Stage 2

Handelsbanken's Group-wide, central process for model-based calculations of expected credit losses incorporates a number of different processes and methods which support the quantification of the provision requirement in Stage 1 and Stage 2.

The model-based calculations factor in historical, current and forward-looking data. Historical data forms the basis for the structure of the model and parameters applied, current data comprises the prevailing balances on the reporting date (as included in the calculation requirements) and forward-looking data refers to the macroeconomic scenarios used to calculate future risk parameters and exposures.

The models use the same historical risk data as the IRB models, meaning that the accounting of provisions and calculations of capital requirements are based on the same basic loss history. Similar to how the risk rating system affects capital adequacy calculations, the internal rating (from which the risk rating derives) is a significant part of the models for calculating expected credit losses. The calculations are primarily affected by the risk parameters: probability of default (PD), exposure at default (EAD) and loss given default (LGD). The expected credit loss in a future period is obtained by multiplying the present value of the EAD by the PD and by the LGD. In contrast to the calculation of credit losses in the Capital Requirements Regulation, which also uses the risk parameters PD, EAD and LGD, the estimation of expected credit losses pursuant to IFRS 9 is based on current forward-looking assessments.

Macroeconomic information

The calculations regarding model-based assessments of significant increases in credit risk and expected credit losses are undertaken with the application of models for the respective risk parameters (PD, EAD and LGD). In order to ensure that the calculations take into account non-linear aspects, three forward-looking macroeconomic scenarios are used in the models (one neutral, one negative and one positive). Each scenario includes significant macroeconomic risk factors, such as unemployment, GDP, property prices, key rates and central bank rates and inflation, by country. The significant macroeconomic risk factors have been identified from an assessment of the Bank's historical data and the relation to the risk parameters is estimated using the same historical material. The various scenarios are used to adjust the risk parameters in question. Each macroeconomic scenario represents a probability determined by the Bank. These probabilities are currently set at 70 per cent for the neutral scenario and 15 per cent for the positive and negative scenarios. Expected credit losses are recognised as a probability-weighted average of the expected credit losses for the respective scenarios.

All of the macroeconomic scenarios have been produced by the Bank's economic research unit, which is responsible for all economic research conducted by Handelsbanken, whether for internal or external use. These macroeconomic scenarios comprise region-specific, 30-year forecasts for Sweden, Norway, Finland, Denmark, the UK, the eurozone and the US, together with a global forecast. A change in the macroeconomic scenarios, or in the probability weightings applied, affects both the assessment of significant increases in credit risk and the estimated expected credit losses. The scenarios are updated on a quarterly basis by the Bank's economic research unit and are presented for approval to the relevant decision-makers before being applied in the ECL calculations.

Significant increase in credit risk

A significant increase in credit risk reflects the risk of default and is a measurement by which the agreement's relative change in credit risk since initial recognition is measured. For calculating significant increases in credit risks, the same underlying models are used at Handelsbanken as those used for the calculation of expected credit losses, with consideration given to historical, current and forward-looking information. Collateral is not taken into account in the assessment. At each reporting date, the Group-wide, central, model-based process begins for all agreements with an assessment of whether there has been a significant increase in the credit risk since initial recognition (start date of the agreement). This assessment then determines whether the agreement is expected to incur a credit loss within 12 months after the reporting date (Stage 1) or during the agreement's remaining lifetime (Stage 2). An important aspect which affects the size of the provision for credit losses is therefore which factors and thresholds are defined as triggers for the transfer of assets from Stage 1 to Stage 2. The Bank's definition of a significant increase in credit risk, which is decisive in the transfer of agreements to Stage 2, is based on both qualitative and quantitative factors. The quantitative indicator which is primarily used to assess the change in credit risk is the relative change, between the instrument's initial recognition and up to the most recent reporting date, in the probability of default (PD) during the agreement's remaining lifetime. In cases where it has required an unreasonable expense or effort to establish the PD in conjunction with the initial recognition of an instrument, changes in the counterparty's or the agreement's internal rating or risk rating since initial recognition have been used to assess significant change in the credit risk. For agreements recognised initially on or after 1 January 2018, the forecasts regarding the risk of default are based on three scenarios. For agreements recognised before 1 January 2018, the same criteria are applied, but using a scenario based on the Bank's most recently published economic research at the time of initial recognition.

The main criterion when assessing whether an agreement is deemed to have incurred a significant increase in credit risk that requires its transfer to Stage 2, according to Handelsbanken's definition, is that the estimated remaining probability of default (PD) on the reporting date is greater than a multiple of 2.5 times the corresponding probability of default upon initial recognition. The threshold level of 2.5 is based on statistical analysis of the Bank's historical data and compares the increase in the remaining risk that the counterparty will default with the corresponding estimated risk upon the initial recognition of the agreement. In addition, there are other qualitative factors which the Bank has assessed as entailing a significant increase in credit risk, such as the counterparty having payments that are more than 30 days overdue, or the counterparty having been granted forbearance measures as the result of a deteriorated credit rating.

If a significant increase in credit risk has arisen since initial recognition, a provision is recognised which corresponds to the expected credit losses for the entirety of the remaining lifetime and the financial instrument is transferred to Stage 2. The model is symmetrical, meaning that if the financial instrument's credit risk decreases and there is therefore no longer a significant increase in credit risk since initial recognition, the financial asset is transferred back to Stage 1.

Models for risk parameters and expected lifetime

The risk parameters PD, LGD and EAD are calculated for every agreement and future point in time, based on statistical models. As far as possible, these models are founded on relationships between the significant risk factors and relevant risk outcomes identifiable in the Bank's own loss history. The majority of risk parameters which are quantified are based on approximately ten years of internal data. In cases where the Bank lacks sufficient information due to, for example, too few defaults, the data is complemented with external information. The historical outcomes are analysed with regard to the covariation in agreement-specific, counterparty-specific and region-specific risk factors, such as product type, internal rating, length of customer relationship, collateral type,

NOTE 2 Cont.

loan-to-value ratio, unemployment and GDP growth. The risk factors identified as significant for a specific risk parameter are included in the model and the historical correlation is quantified.

Probability of default (PD)
PD refers to the probability that a customer or an agreement will go into default at a given point in time during the asset's remaining lifetime. 12-month PD refers to the probability of default during the coming 12-month period. Lifetime PD refers to the probability of default during the asset's remaining lifetime (up to a maximum of 30 years). The future PDs are forecast on the reporting date, using forward-looking macroeconomic scenarios and current agreement and counterparty information. The forecast risk of default takes into account the development of scenarios and the probability of migrations between different states over time. The models calculate annual migration and default probabilities, whereby the migration model presents a probability that the agreement will belong to a particular state with a given risk of default in the future. The agreement's expected PD for a given year is calculated as the probability-weighted PD over all conceivable states and scenarios. Expected PD for the remaining lifetime is based on the annual expected default forecasts and the probability that the agreement will be subject to early repayment. The degradation of an economic outlook based on forecast macroeconomic risk factors for each scenario, or an increase in the probability that the negative scenario will be realised, results in a higher PD.

Exposure at default (EAD)
EAD refers to the expected credit exposure at default. On the reporting date, future exposure at default is forecast on the basis of current repayment plans, the probability of early repayment and the expected utilisation of, for example, credit facilities, financial guarantees and loan commitments. EAD is forecast on an annual basis and comprises the amount at which losses and recoveries take place in conjunction with future defaults.

Expected lifetime
An instrument's expected lifetime is relevant to both the assessment of significant increase in credit risk, which takes into account changes in PD during the expected remaining lifetime, and the measurement of expected credit losses for the asset's expected remaining lifetime. The expected lifetime is considered when calculating the remaining PD, by weighing the forecast annual PD values during the agreement's contractual duration against the probability that the agreement will not be subject to early repayment before defaulting.

The probability of the agreement being subject to early repayment is based on statistical analysis and on the Bank's internal history for approximately the past ten years, and is included as a component of the model for EAD. Potential risk factors in the form of agreement, counterparty and macroeconomic risk factors have been assessed in the analysis. The risk factors identified as significant are included in the model. In several cases, no significant risk factors for early repayment are identified other than counterparty type and rating. These risk factors are, however, affected by forward-looking macroeconomic scenarios, which means that early repayment is indirectly dependent on forward-looking macroeconomic scenarios.

For mortgage loans with an interest-rate fixing period of three months or less, a 30-year maturity from the reporting date is applied, meaning that the expected lifetime is, in practice, defined by the behaviour-based statistical model.

Loss given default (LGD)
LGD reflects the financial loss which the Bank expects to incur in the event of default. The most important risk factors when calculating LGD are the value and type of collateral, and the characteristics of the counterparty. Forward-looking macroeconomic risk factors are reflected in the LGD calculations through their impact on the value of collateral and the loan-to-value ratio. The quantification of the loss is divided between a probability that the counterparty recovers without causing the Bank any financial loss, and a recovery rate if the counterparty does not recover. The recovery rate is affected by the loan-to-value ratio, in that a higher loan-to-value ratio is associated with a lower recovery rate. The market value of the collateral is included in the majority of LGD models. The collateral value of properties, and thus the loan-to-value ratio and the recovery rate, is affected by the price trend for the property, whereby an expected decline in real estate values pushes up the loan-to-value ratio and the expected loss given default.

Geographical breakdown of lending in Sweden

Geographical breakdown of lending in Sweden	Stockholm		Västra Götaland		Skåne		Other counties	
Proportion of lending, %	2021	2020	2021	2020	2021	2020	2021	2020
Single-family housing	29.2	29.6	14.4	14.3	13.4	13.2	43.0	42.9
Housing co-operative apartments	60.3	61.4	11.4	11.2	9.3	8.9	19.0	18.5
Private market	**39.9**	**40.4**	**13.4**	**13.2**	**12.0**	**11.8**	**34.7**	**34.6**
Multi-family dwelling	33.2	34.2	16.5	16.4	13.6	13.0	36.7	36.4
Offices and commercial buildings	27.8	27.6	14.8	15.5	11.9	11.4	45.5	45.5
Corporate market	**32.0**	**32.7**	**16.1**	**16.2**	**13.2**	**12.6**	**38.7**	**38.5**
Total	37.2	37.8	14.3	14.2	12.4	12.1	36.1	35.9

Loans to the public that are subject to impairment testing, geographical breakdown

Loans to the public Geographical breakdown 2021 SEK m	Gross			Provisions			Net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Sweden	1,284,485	16,459	900	-32	-43	-57	1,301,712
Norway	113,383	2,460	93	-3	-4	-2	115,927
Denmark	50,077	320	58	-13	-4	-11	50,427
Finland	56,777	1,036	52	-3	-4	-9	57,849
Total	**1,504,722**	**20,275**	**1,103**	**-51**	**-55**	**-79**	**1,525,915**

Loans to the public Geographical breakdown 2020 SEK m	Gross			Provisions			Net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Sweden	1,224,486	14,904	570	-34	-42	-65	1,239,819
Norway	94,712	2,622	33	-3	-4	-1	97,359
Denmark	47,974	387	75	-15	-5	-15	48,401
Finland	52,966	771	27	-3	-3	-9	53,749
Total	**1,420,138**	**18,684**	**705**	**-55**	**-54**	**-90**	**1,439,328**

NOTE 2 Cont.

Loans to the public that are subject to impairment testing, broken down by sector and industry

Loans to the public Broken down by sector and industry 2021 SEK m	Gross			Provisions			Net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Private individuals	1,023,416	12,836	1,010	-28	-22	-61	1,037,151
Housing co-operative associations	245,091	512	11	-3	0	-7	245,604
Property management	208,618	5,099	50	-8	-13	-7	213,739
Manufacturing	228	29	-	0	0	-	257
Retail	806	75	7	-1	-2	-1	884
Hotel and restaurant	503	254	0	-1	-4	0	752
Passenger and goods transport by sea	9	3	-	0	0	-	12
Other transport and communication	510	35	-	0	-1	-	544
Construction	1,030	126	-	-1	-1	-	1,154
Electricity, gas and water	639	1	-	0	0	-	640
Agriculture, hunting and forestry	15,287	839	6	-6	-7	0	16,119
Other services	2,727	297	12	-2	-5	-1	3,028
Holding, investment and insurance companies, mutual funds, etc.	1,035	59	2	-1	0	-2	1,093
Sovereigns and municipalities	4,116	71	-	0	0	-	4,187
Other corporate lending	707	39	5	0	0	0	751
Total	**1,504,722**	**20,275**	**1,103**	**-51**	**-55**	**-79**	**1,525,915**

Loans to the public Broken down by sector and industry 2020 SEK m	Gross			Provisions			Net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Private individuals	961,307	12,694	587	-32	-13	-63	974,480
Housing co-operative associations	225,302	678	18	-4	-1	-7	225,986
Property management	205,077	3,261	56	-8	-18	-17	208,351
Manufacturing	216	32	0	0	0	0	248
Retail	728	99	6	-1	-2	0	830
Hotel and restaurant	526	307	0	-1	-4	0	828
Passenger and goods transport by sea	9	4	-	0	0	-	13
Other transport and communication	565	47	-	0	-1	-	611
Construction	959	203	-	-1	-3	-	1,158
Electricity, gas and water	811	1	-	0	0	-	812
Agriculture, hunting and forestry	13,564	836	8	-5	-8	0	14,395
Other services	2,526	336	1	-2	-4	-1	2,856
Holding companies, investment companies and insurance companies, mutual funds, etc.	1,034	44	2	-1	0	-2	1,077
Sovereigns and municipalities	4,719	71	-	0	0	-	4,790
Other corporate lending	2,795	71	27	0	0	0	2,893
Total	**1,420,138**	**18,684**	**705**	**-55**	**-54**	**-90**	**1,439,328**

Loans to the public that are subject to impairment testing, geographical breakdown by sector and industry

Loans to the public Geographical breakdown by sector and industry 2021 SEK m	Sweden	Norway	Denmark	Finland	Total
Private individuals	881,775	86,858	49,837	18,681	1,037,151
Housing co-operative associations	195,280	24,850	-	25,474	245,604
Property management	200,280	3,801	304	9,354	213,739
Manufacturing	249	-	-	8	257
Retail	724	65	81	14	884
Hotel and restaurant	739	4	6	3	752
Passenger and goods transport by sea	12	-	-	-	12
Other transport and communication	392	13	13	126	544
Construction	1,051	50	40	13	1,154
Electricity, gas and water	293	-	-	347	640
Agriculture, hunting and forestry	16,040	61	18	0	16,119
Other services	2,518	163	82	265	3,028
Holding, investment and insurance companies, mutual funds, etc.	860	61	28	144	1,093
Sovereigns and municipalities	789	-	-	3,398	4,187
Other corporate lending	710	1	18	22	751
Total loans to the public	**1,301,712**	**115,927**	**50,427**	**57,849**	**1,525,915**
of which total provisions for expected credit losses (Stage 1–3)	*-132*	*-9*	*-28*	*-16*	*-185*

NOTE 2 Cont.

Loans to the public Geographical breakdown by sector and industry 2020 SEK m	Sweden	Norway	Denmark	Finland	Total
Private individuals	836,772	72,253	46,939	18,516	974,480
Housing co-operative associations	184,650	21,231	-	20,105	225,986
Property management	195,682	2,877	331	9,461	208,351
Manufacturing	240	-	2	6	248
Retail	706	34	83	7	830
Hotel and restaurant	812	4	9	3	828
Passenger and goods transport by sea	13	-	-	-	13
Other transport and communication	434	25	18	134	611
Construction	1,074	35	36	13	1,158
Electricity, gas and water	435	-	-	377	812
Agriculture, hunting and forestry	14,306	67	21	1	14,395
Other services	2,416	104	70	266	2,856
Holding companies, investment companies and insurance companies, mutual funds, etc.	853	57	29	138	1,077
Sovereigns and municipalities	471	-	-	4,319	4,790
Other corporate lending	955	672	863	403	2,893
Total loans to the public	**1,239,819**	**97,359**	**48,401**	**53,749**	**1,439,328**
of which total provisions for expected credit losses (Stage 1–3)	*-141*	*-8*	*-35*	*-15*	*-199*

Loan-to-value

Loan-to-value (LTV) is lending as a proportion of the market value of the collateral. The latest valuation is mainly used as the market value when compiling the LTVs. Handelsbanken continuously checks the market values for properties: residential properties at least every three years and commercial properties every year. Lending in Sweden, which accounts for 85 per cent (86) 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 year-end, lending was divided as follows: single-family housing, housing co-operative apartments and owner-occupied apartments 66.3 per cent (66.2); multi-family dwellings 25.9 per cent (26.0) and offices and commercial property 7.8 per cent (7.8). Lending to the largest customer category corresponded to 0.52 per cent (0.55) of the entire portfolio. There were 31 (29) customers or customer categories with loans of SEK 1 billion or more.

Loan-to-value analysis, Stadshypotek Sweden

31 December

	2021			2020		
Loan-to-value ratio	Private market	Corporate market	Total	Private market	Corporate market	Total
0–60%	93.0	98.3	94.8	91.4	98.2	93.7
61–75%	5.0	1.6	3.8	6.0	1.7	4.6
>75%	2.0	0.1	1.4	2.6	0.1	1.7

Validation of IFRS 9 models and model-based calculations

The models and the risk parameters used in these are validated on an annual basis, and ensure that the model-based calculations demonstrate a good forecasting accuracy and identify unexpected deviations between forecasts and the most recent available outcomes. Validation takes place at several aggregation levels and encompasses all significant risk parameters, as well as the weighted estimated expected credit losses at the individual and aggregate levels. The validation is reported to the Chief Credit Officer, the CRO and the CFO. The principles for the evaluation and validation of the models are determined by the Bank's Group Risk Control, and the validation is carried out or reviewed by a party independent of the model development process. The observations made in the 2021 validation related to the methodology applied, and it is not deemed that these will result in any material effects on the calculated provisions that have not already been taken into account. The observations will be addressed as part of the development activities during 2022.

MANUAL CALCULATIONS FOR AGREEMENTS IN STAGE 3

Assets in Stage 3 are tested for impairment at the individual level using a manual calculation (with the exception of a small portfolio of homogeneous claims which have a model-calculated provision in Stage 3). This testing is carried out on a regular basis and in conjunction with every reporting date by the local branch with business responsibility (unit with customer and credit responsibility) and is decided by the regional credit committee or central credit department.

Impairment testing is carried out when there are objective circumstances which indicate that the counterparty will not be able to fulfil their contractual obligations, according to the definition of default. Such objective circumstances could be, for example, late payment or non-payment, a change in the internal rating, or if the borrower is declared bankrupt.

Impairment testing involves an estimation of future cash flows and the value of the collateral (including guarantees). Consideration is normally given to at least two forward-looking scenarios for expected cash flows, based on the counterparty's repayment capacity and the value of the collateral. The outcome of these scenarios is probability-weighted and discounted with the loan's original effective interest rate. The scenarios used can take into account both macroeconomic and agreement-specific factors, depending on what is deemed to affect the individual counterparty's repayment capacity and the value of the collateral. The assessment takes into account the specific characteristics of the individual counterparty. An impairment loss is recognised if the estimated recoverable amount is less than the carrying amount.

GOVERNANCE AND INTERNAL CONTROLS

For calculating the expected credit losses on agreements in Stage 1 and Stage 2, Handelsbanken has a Group-wide, central process using internally developed statistical models (model-based calculation). Manual calculation is used for agreements in Stage 3. The description below primarily refers to the model-calculated provisions for expected credit losses.

NOTE 2 Cont.

This process is covered by a number of internal controls, which are described below. The various stages of the process also entail different approvals and adoptions, creating a governance structure, which is also described below.

Verification of input data in reports

On each reporting date, the information which constitutes the basis for the calculations of expected credit losses is checked for correctness and completeness. This is carried out in the form of automatic reconciliation of loaded data from delivery sources. Furthermore, a reasonability assessment is undertaken, whereby system balances are compared with the balances recorded on the previous reporting date. The balances which are ultimately used are then reconciled against the volumes recorded in the general ledger.

Models

Before a new quantitative model is included in the overall model system, it is subject to validation and must be approved for use by Handelsbanken's Chief Credit Officer. On the reporting date, only this model system can be used for calculations, meaning that only approved models are usable.

The quantitative models which form the basis for the calculations of expected credit losses involve several assumptions and assessments. Examples include the assumption that the quantifiable aspects of relationships between macroeconomic risk factors and risk parameters in historical data are representative for future events, and the assumption that an agreement's expected lifetime can be based on historical behavioural data. Furthermore, a selection of the most significant macroeconomic risk factors is made on the basis of the individual macroeconomic risk factors' demonstrative ability on individual risk parameters. The selection of the macroeconomic risk factors and specification of the model are based on achieving a balance between simplicity, demonstrative ability and stability. All assumptions and discretionary decisions are presented to the Bank's Chief Credit Officer for approval.

Any expert-assessed calculations in model-calculated agreements in Stage 1 and Stage 2 or in manually calculated agreements in Stage 3 require the approval of Handelsbanken's Chief Credit Officer before they are applied.

Macroeconomic scenarios

The macroeconomic scenarios are produced by the Bank's economic research unit, based on instructions issued by Handelsbanken's Chief Credit Officer. These instructions specify the desired macroeconomic risk factors, geographical areas to be included, and the number of scenarios and probability-weighting between them.

Before every reporting date, the current macroeconomic scenarios are presented to Handelsbanken's Chief Credit Officer and CFO, who approve the scenarios for use in the reporting process. The approved macroeconomic scenarios are then automatically loaded into the reporting flow.

Size of the provisions

The total calculated provisions in Stage 1 and Stage 2 require the approval of the Bank's Chief Credit Officer. Estimated provisions in Stage 3 are proposed by the Handelsbanken branch with business responsibility (unit with customer and credit responsibility) and are approved by either a regional credit committee or central unit, depending on the size of the provision. Credit provisions in Stage 3 which are approved at regional level are reviewed or quality controlled by a central unit. In addition, Handelsbanken's Group Risk Control submits an independent review on every reporting date of a selection of the credit provisions in Stage 3 which are approved centrally.

The role of the control functions

Handelsbanken's Group Risk Control determines the validation principles and ensures that models are validated. An independent review is conducted on every reporting date of a selection of the credit provisions in Stage 3 which are approved centrally. Handelsbanken's Group Audit function reviews the estimations of expected credit losses as part of its assignment to independently examine internal governance and control, and to evaluate the reliability of the Group's financial reporting.

Credit losses

Credit losses totalled SEK 4 million (-9). The credit loss ratio was 0.00 per cent (0.00) of total lending. The largest credit loss attributable to a single customer or customer category was SEK 1.0 million (4.2). The ten largest credit losses totalled SEK 3 million (23). Credit losses are reported in note 8 on page 42.

Repossessed property:

At 31 December 2021, there was no repossessed property (-).

COUNTERPARTY RISK

Counterparty risk arises when Stadshypotek has entered into derivative agreements, such as forward rate contracts, swaps or options, with a counterparty and there is a risk that this counterparty will not be able to meet its obligations. Counterparty risk is regarded as a credit risk where the market value of the contract determines the size of the exposure. Since November 2013, all Stadshypotek's derivative agreements are entered into with Handelsbanken as the counterparty, which means that the parent company assumes this type of credit risk. Some of the credit limits available in the parent company are thus intended to cover any counterparty risks derived from Stadshypotek's transactions in derivatives. If Stadshypotek were again to enter into derivative agreements with an external counterparty, these would be restricted by means of credit limits established as part of the standard credit process at Handelsbanken and assigned to Stadshypotek.

MARKET RISK

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

Interest rate risk

At Stadshypotek, interest rate risk is measured and limits set as the absolute total of the changes in fair value per currency in the case of instantaneous parallel shifts of one percentage point for all interest rates. This risk measure includes both items at market value and not at market value and it is therefore not appropriate to assess the effects on the balance sheet and income statement. The risk measure includes items measured at market value and items not measured at market value, and is therefore not appropriate when assessing the impact on the balance sheet and income statement. Nor does it take into account Stadshypotek's opportunities to adapt to changed interest rate levels.

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 bonds to finance one lending transaction. Since one of the bonds has a shorter maturity than the lending and the other a longer maturity, the resultant interest rate risks for the two borrowing items balance each other out, so that they are 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 borrower never has to pay more than a pre-determined maximum rate of interest. This commitment is hedged with interest rate options on terms corresponding to this lending. Since September 2019, this product has been closed for new lending.

The equity capital is placed in lending with a fixing period averaging 1.5 years (1.5). The daily interest rate risk on equity capital must not deviate from the risk limit specified by the Board.

Foreign exchange risk

The foreign exchange risk arising on all short-term funding in foreign currencies is eliminated by matching currency swaps. Stadshypotek has outstanding bonds issued in EUR and GBP under the EMTCN programme and in USD under the US Medium Term Covered Bond Programme, all of which were converted into Swedish kronor using cross-currency interest rate swaps. The aim is that the business should not at any point be exposed to foreign exchange risk as the result of funding in markets outside Sweden. 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 without being 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. 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 debt instruments. The maturity structure of the funding is well-diversified and adapted so that Handelsbanken's liquidity at Group level is in balance.

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

Stadshypotek's liquidity situation is regularly stress-tested. The stress tests focus on the short-term effects in the case of certain assumptions of relevance to its operations, for example disruptions in the market for covered bonds. Group Risk Control conducts stress tests that focus on long-term disruptions for the entire Group, taking Stadshypotek's liquidity requirements into consideration.

The maturity analysis shows cash flows for the contracted payment commitments that are due for payment at the latest within the stated time intervals, including interest flows. Assets, liabilities and interest flows are also shown that mature in the time intervals corresponding to the contractual maturity dates. Interest flows for lending are matched in time with the liabilities that funded the lending. The total outstanding amount of these commitments does not necessarily represent future funding requirements.

For derivative instruments, cash flows are reported net for interest rate swaps and gross for instruments where gross cash flows are paid or received, such as cross-currency interest rate swaps. Loans to the public are reported as maturing in the time interval over five years remaining to maturity. Repayments according to plan during the current interest rate adjustment period and fixed interest flows are reported on their respective maturity dates.

The tables below show the interest rate fixing periods for Stadshypotek's assets and liabilities

Interest rate fixing periods for Stadshypotek's assets and liabilities

31 December 2021 SEK m	Up to 3 mths	3–6 mths	6–12 mths	1–5 yrs	>5 yrs	Total
ASSETS						
Loans to credit institutions	13,301	-	-	-	-	13,301
Loans to the public	731,776	85,680	129,815	552,858	25,786	1,525,915
Total	**745,077**	**85,680**	**129,815**	**552,858**	**25,786**	**1,539,216**
LIABILITIES						
Due to credit institutions	428,129	63,840	82,132	243,066	5,949	823,116
Issued securities	70,345	22,123	66,251	401,566	92,322	652,607
Total	**498,474**	**85,963**	**148,383**	**644,632**	**98,271**	**1,475,723**
Off-balance sheet items, nominal amount	-186,884	15,432	12,850	107,737	53,837	2,972
Difference between assets and liabilities, including off-balance sheet items	59,719	15,149	-5,718	15,963	-18,648	66,465

Interest rate fixing periods for Stadshypotek's assets and liabilities

31 December 2020 SEK m	Up to 3 mths	3–6 mths	6–12 mths	1–5 yrs	>5 yrs	Total
ASSETS						
Loans to credit institutions	15,007	-	-	-	-	15,007
Loans to the public	704,054	69,459	124,827	518,861	22,127	1,439,328
Total	**719,061**	**69,459**	**124,827**	**518,861**	**22,127**	**1,454,335**
LIABILITIES						
Due to credit institutions	354,507	26,016	13,475	30,707	343,862	768,567
Issued securities	98,608	0	68,573	377,291	77,611	622,083
Total	**453,115**	**26,016**	**82,048**	**407,997**	**421,473**	**1,390,650**
Off-balance sheet items, nominal amount	-179,691	-6,025	24,552	111,006	54,493	4,335
Difference between assets and liabilities, including off-balance sheet items	86,255	37,418	67,331	221,869	-344,852	68,020

NOTE 2 Cont.

The tables below show the maturities for Stadshypotek's assets and liabilities

Maturities for assets and liabilities 31 December 2021 SEK m	Up to 3 mths	3–12 mths	1–5 yrs	>5 yrs	Total
Loans to credit institutions	13,301	-	-	-	13,301
Loans to the public	10,314	24,533	75,207	1,415,861	1,525,915
Total	**23,615**	**24,533**	**75,207**	**1,415,861**	**1,539,216**
Due to credit institutions	125,557	128,983	551,633	16,943	823,116
Issued securities	7,446	107,288	449,983	87,890	652,607
Total	**133,003**	**236,271**	**1,001,616**	**104,833**	**1,475,723**

Derivatives 31 December 2021 SEK m	Up to 3 mths	3–12 mths	1–5 yrs	>5 yrs	Total
Total derivatives inflow	255	23,435	55,380	22,988	102,058
Total derivatives outflow	-110	-20,902	-55,184	-24,992	-101,188
Net	**145**	**2,533**	**196**	**-2,004**	**870**

Maturities for assets and liabilities 31 December 2020 SEK m	Up to 3 mths	3–12 mths	1–5 yrs	>5 yrs	Total
Loans to credit institutions	15,007	-	-	-	15,007
Loans to the public	11,083	28,011	95,073	1,305,161	1,439,328
Total	**26,090**	**28,011**	**95,073**	**1,305,161**	**1,454,335**
Due to credit institutions	92,021	157,562	257,356	261,628	768,567
Issued securities	48,894	79,440	418,357	75,393	622,083
Total	**140,914**	**237,002**	**675,713**	**337,021**	**1,390,650**

Derivatives 31 December 2020 SEK m	Up to 3 mths	3–12 mths	1–5 yrs	>5 yrs	Total
Total derivatives inflow	13,255	14,823	62,636	25,215	115,929
Total derivatives outflow	-11,626	-11,683	-57,838	-25,246	-106,391
Net	**1,630**	**3,140**	**4,799**	**-31**	**9,538**

OPERATIONAL RISKS

Operational risk is defined as the risk of loss due to inadequate or failed internal processes, human error, malfunctioning systems, or external events. The definition includes legal risk.

Most of Stadshypotek's business is conducted within the framework of a number of individual outsourcing agreements that the company has with Handelsbanken. Responsibility for the identification, management and control of operational risk is an integrated part of managerial responsibility at all levels of the operations. In accordance with guidelines issued by the Chief Executive, an annual evaluation of operational risk is carried out for the purposes of identifying operational risks and quantifying the losses that may arise. Risk indicators – which were implemented in 2015 – are one method of identifying operational risks at an early stage. Risk Control at Stadshypotek reports operational risk to the Board and to Handelsbanken's Group Risk Control on a quarterly basis. In addition, Risk Control carries out an overall review of the company's operational risks annually. The results of these reviews are reported to the Board and the manager responsible for operational risk at the parent company.

SENSITIVITY ANALYSIS

A calculation has been performed as to how a change in the lending margin, the lending volume, the investment yield on own funds, the credit loss ratio and changes in market interest rates would affect the operating profit, on the assumption that everything else is unchanged. This is based on the balance sheet at the end of 2021.

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 148 million (140). However, 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 or decrease in lending volume, an interval is specified, since loans which are added to or deducted from the loan portfolio may have a different margin than the portfolio on average. The calculations comprise interest rate margins ranging from 0.7 per cent to 1.2 per cent. Based on these assumptions, an increase or decrease of the lending volume by one percentage point affects net interest income positively/negatively by SEK 104–178 million (98–168).

Investment yield on own funds

Equity is invested in fixed-term lending with an average maturity of 1.5 years (1.5). In the case of an increase or decrease in the investment yield on own funds of 0.10 percentage points, net interest income is positively/negatively affected by SEK 58 million (67).

Market rate

The net interest income effect when market rates change is measured as the change in net interest income over a twelve-month period in the case of a general increase of market rates by one percentage point. This effect reflects the differences in interest rate adjustment periods and the breakdown of volumes into assets, liabilities and derivatives, based on the assumption that the size of the balance sheet remains constant. The net interest income effect at year-end was SEK 582 million (585).

NOTE 2 Cont.

Credit loss ratio
In the case of an increase/decrease of the credit loss ratio by 0.01 percentage point, credit losses are negatively/positively affected by SEK 153 million (144).

ECONOMIC CAPITAL
Stadshypotek applies a model for economic capital (EC), which is a vital component in planning to ensure that Stadshypotek has sufficient capital at all times in relation to all risks in the company.

Economic capital is calculated with a time horizon of one year and a confidence level that reflects an acceptable level of risk and desired rating. The Board has determined that the calculation of economic capital must be made with a 99.97 per cent confidence level, which captures an event which is extremely unfavourable for Stadshypotek. EC is the difference between the outcome in an average year with positive results and the outcome at a 99.97 per cent confidence level. Diversification effects between the different types of risk are taken into account when calculating EC. Since the risks are partly independent of each other, the capital requirement for all risks is lower than the sum of the economic capital for each individual risk.

The capital and other financial resources which form a buffer that can absorb negative outcomes are called available financial resources (AFR). AFR comprises Stadshypotek's equity, adjusted for intangible assets, but including tier 1 loans with a supplement for perpetual subordinated loans, and also the profit/loss before tax for the next twelve months.

Credit risk is calculated using simulated outcomes of default for all Stadshypotek's counterparties and exposures. Market risks comprise interest rate risk in the business operations. The non-financial risks comprise business risk and operational risk. Business risk is related to unexpected variations in earnings which may arise. For example, this may arise if demand or competition changes unexpectedly, thus resulting in lower volumes and squeezed margins.

The Board stipulates that the AFR/EC ratio should be in excess of 120 per cent. All calculations show that Stadshypotek is well capitalised in relation to its total risks.

CAPITAL PLANNING
Stadshypotek's capital policy – most recently adopted by the Board in 2021 – states the guidelines for capital planning.

The capital requirement is a function of Stadshypotek's risks, expected development, the regulations and target ratios, Stadshypotek's model for economic capital and also of stress tests. The capital planning is divided into short-term and mid- to long-term forecasting. The part of capital planning that comprises short-term forecasts up to two years ahead principally focuses on assessing existing performance and the development of the capital requirement. This forecasting is necessary to enable continual adaptation of the size and composition of own funds. Capital planning is performed through an ongoing analysis of changes in volume, risk and performance, and by monitoring events that may affect the capital requirements and capital level. Short-term forecasting includes all sub-components that make up Stadshypotek's own funds and, in addition to the regulatory minimum requirements and buffers, the capital requirement includes Pillar 2 of the regulations's own funds and, in addition to the regulatory minimum requirements and buffers, the capital requirement includes a Pillar 2 requirement, the leverage ratio requirement and the minimum requirement for own funds and eligible liabilities (MREL). The analysis is based on a cautious basic scenario for how the existing earnings capacity can cope with various changes in volume, which may affect the development of the capital requirement and own funds, in order to adapt the composition and size of own funds when necessary.

The part of capital planning that comprises mid- to long-term forecasts aims to ensure compliance with statutory capital requirements and that Stadshypotek's AFR at all times covers by a good margin all risks calculated according to the economic capital model.

The objective is to forecast the expected performance and judge whether Stadshypotek's resistance is satisfactory in various scenarios. The planning period is at least five years. Various scenarios and stress tests are performed as part of the forecasting work. A basic scenario forms the foundation of the capital forecast. This scenario is obtained from expected performance in the next five years regarding profit, volume growth and financial assumptions such as credit losses and performance on the fixed income market. The basic scenario is then compared to the outcomes in a number of business cycle and crisis scenarios. The stress scenarios have been established following analysis of the historical links between the impacts of various macroeconomic variables on the financial markets and have been selected by using the scenarios expected to have the greatest adverse impact on Stadshypotek. The result of the internal capital adequacy assessment is reported annually to the Board.

STADSHYPOTEK'S TARGET RATIOS FOR REGULATORY CAPITAL
The targets for Stadshypotek's capitalisation are set annually by the Board. A cornerstone of the internal capital requirement assessment regarding regulatory capital is the combination of stress and scenario analyses concerning Stadshypotek's situation, examined from both the long-term and short-term perspective. The scenarios used are based primarily on Stadshypotek's internal risk tolerance and on requirements expressly stipulated in regulations or issued by public authorities. In addition to the internal assessment of the capital requirement, the Swedish Financial Supervisory Authority has communicated that the target figures of Swedish banks must not be lower than the total capital requirement calculated by the Supervisory Authority, regardless of the banks' internal calculations. Stadshypotek has taken this into consideration when setting the target ratios for its regulatory capital. The Board has decided that common equity tier 1 capital, tier 1 capital and the total capital ratio under normal circumstances should be at least one percentage point higher than the overall capital requirement announced by the Swedish Financial Supervisory Authority. Furthermore, the Board has established that the leverage ratio must, under normal circumstances, exceed the capital requirement communicated by the Swedish Financial Supervisory Authority by at least 0.1 percentage points.

NOTE 3 Net interest income

SEK m	2021	2020
Interest income according to the effective interest method		
Loans to the public	20,756	21,857
Loans to credit institutions	215	240
Total interest income	**20,971**	**22,097**
Interest expense		
Due to credit institutions	-2,576	-3,298
Issued securities	-3,568	-4,373
Derivative instruments[1]	828	878
Government fees	-707	-654
Other interest expenses	0	-10
Total interest expenses	**-6,023**	**-7,457**
of which interest expenses according to the effective interest method	*-5,316*	*-6,803*
Net interest income	**14,948**	**14,640**

[1] Net interest income from derivative instruments related to Stadshypotek's funding may have both a positive and a negative impact on interest expenses.

During the year, the average interest rate on loans to the public was 1.40 per cent (1.56).

During the year, the average funding rate (due to credit institutions and issued securities) was 0.43 per cent (0.56).

The interest income is entirely attributable to assets recognised at amortised cost. Total interest expenses on liabilities recognised at amortised cost for 2021 were SEK 6,144 million (7,671).

NOTE 4 Net fee and commission income

SEK m	2021	2020
Fee and commission income		
Loans and deposits	10	11
Other	3	3
Total fee and commission income	**13**	**14**
Fee and commission expense		
Securities	-41	-42
Payment service providers	0	0
Other	0	-
Total fee and commission expenses	**-41**	**-42**
Net fee and commission income	**-28**	**-28**

NOTE 5 Net gains/losses on financial transactions

SEK m	2021	2020
Amortised cost	**108**	**47**
of which loans	*204*	*175*
of which issued securities	*-96*	*-128*
Fair value through profit or loss, mandatory, including foreign exchange effects	**2**	**5**
Trading, derivatives, foreign exchange effect, etc.	*2*	*5*
Hedge accounting	**-22**	**16**
of which net/gains losses, fair value hedges	*-22*	*17*
of which ineffective portion of cash flow hedges	*0*	*-1*
Total	**88**	**68**

Loans at amortised cost refers to early redemption charges for loans and receivables which have been repaid ahead of time. Issued securities refers to realised price differences when repurchasing bonds. The profit/loss item 'Net gains/losses, fair value hedges' includes the net result of unrealised and realised changes in the fair value of financial assets which are subject to hedge accounting. Interest income and interest expenses for hedging instruments are recognised under net interest income. Changes in the value of hedging instruments in cash flow hedges which exceed the changes in the value of hedged future cash flows are recognised under 'ineffective portion of cash flow hedges'.

NOTE 6 Staff costs

SEK m	2021	2020
Salaries and fees	-49	-54
Social security costs	-16	-17
Pension costs	-36	-17
of which special payroll tax	*-7*	*-3*
Provision to profit-sharing scheme	-2	-
Other staff costs	3	0
Total staff costs	**-100**	**-88**

The average number of employees in the company during the year was 57 (64). Of these employees, 40 per cent (35) were women and 60 per cent (65) were men.

Stadshypotek has pension obligations under the BTP2 agreement which are guaranteed through insurance with Pensionskassan SHB, försäkringsförening (pension fund).

These obligations are reported according to the IAS 19 rules for defined benefit plans, whereby the company under common control shares the risks related to the pension obligations, since the pension fund's assets are not allocated among the employers who have insurance with the pension fund. According to these rules, Stadshypotek reports the insurance charges which are debited for the period as an expense.

The pension fund does not debit charges calculated on the basis of the IAS 19 definition of defined benefit net expense for pensions. The charges are debited in accordance with the rules in the statutes for the pension fund with the purpose of debiting charges corresponding to an expense for pension benefits accrued during the period. The rules do not take into account actuarial gains and losses which have occurred. Nor do they take into account fluctuations in real return. Fees to the pension fund for 2022 are expected to amount to SEK 10 million.

The pension fund's obligations totalled SEK 7,281 million at 31 December 2021 (7,704), based on prudent assumptions, where the discount rate has been set in accordance with the principles in FFFS 2008:23 (Regulations governing insurance companies' choice of interest rate for calculation of technical provisions). The fair value of the pension fund's assets was SEK 17,085 million at 31 December 2021 (15,600). The breakdown of the pension fund's assets is shown in the table on the next page.

NOTE 6 Cont.

Pensionskassan's (pension fund) plan assets	2021	2020
Shares and fund shares listed on an active market	10,720	11,677
Unlisted shares and fund shares	565	359
Interest-bearing securities listed on an active market	5,378	3,029
Unlisted interest-bearing securities	0	0
Other plan assets	422	535
Total	**17,085**	**15,600**

Further information about the defined benefit pension plan can be found in note G8 of the 2021 Annual Report for Handelsbanken.

EMPLOYEE BENEFITS

Stadshypotek takes a long-term view of its staff's employment. Remuneration must be on market terms, so that Stadshypotek is able to attract, retain and develop skilled staff, and ensure good management succession. Stadshypotek generally has a low risk tolerance, which is also reflected in its attitude towards remuneration. Fixed remuneration consists primarily of a basic salary, customary employee benefits and pension. There are no exceptions to this principle of a fixed salary, although termination benefits may be paid. Salaries are set locally and are based on salary-setting factors known in advance: the nature and level of difficulty of the work, competencies, performance and results achieved, leadership, the market, and the employee as a cultural ambassador for the Handelsbanken Group. The independent control functions monitor and analyse the remuneration system, and report material risks and deficiencies to the Board.

Total remuneration is defined as that which Stadshypotek pays directly or indirectly to an employee as part of their employment, such as cash salary, other cash remuneration, customary salary benefits, company car and pension provisions. As of 1 March 2020, all new employees and employees younger than 25 years of age accrue pension in a defined contribution plan. Persons employed before 1 March 2020 are not affected and remain covered by the defined benefit pension plan. The Board decides on the level of remuneration paid to individuals in Stadshypotek's executive management and control functions who are employees of Stadshypotek.

Remuneration policy

The principles for Stadshypotek's system of remuneration are established in a remuneration policy decided by the Board. The Board of Stadshypotek has a designated member who is involved in the preparation of supporting documentation considered by the Board when deciding levels of remuneration. Stadshypotek's remuneration policy is reviewed annually or whenever necessary. Stadshypotek's remuneration policy is based on a risk analysis produced by the risk control function at Stadshypotek, which is independent of the business operations. Risk Control and Compliance must identify, monitor, analyse and report on material risks associated with the remuneration policy.

TERMS AND REMUNERATION OF EXECUTIVE OFFICERS

For the Chief Executive, remuneration is paid in the form of a fixed salary, customary salary benefits and pension provisions. Decisions regarding the remuneration paid to the Chief Executive are taken by Stadshypotek's Board.

The Chief Executive received a fixed salary and remuneration amounting to SEK 2.6 million, including benefits of SEK 0.1 million, during the year.

There are no agreements involving termination benefits for the Chief Executive. The Chief Executive has a defined benefit pension under the BTP agreement with a retirement age of 65. The pension is fully earned by the age of retirement. If the employment is terminated before reaching the retirement age, a paid-up policy is disbursed covering the retirement pension amount already accrued.

Board member Michael Bertorp received a fee of SEK 285 thousand (285). No fees were paid to other members of the Board. The year's pension cost for the Chief Executive totalled SEK 0.8 million (1.9). For other members of the company's management team, remuneration is paid in the form of a fixed salary, customary salary benefits and a pension provision in accordance with the terms of the applicable collective agreement, the occupational pension plan for the Swedish banks (BTP2). The year's pension cost for other members of the company's management team was SEK 2.3 million (2.6).

At the end of 2021, loans to executive officers at Stadshypotek were as follows:

SEK m	2021	2020
To the Chief Executive and other executive officers in the company's senior management team	28	24
To other Board members (excluding Chief Executive)	63	36

The loans concerned were granted to 12 (11) individuals and all were secured by pledged collateral. Stadshypotek's interest income for loans to the above-mentioned categories totals SEK 0.8 million (0.5). Executive officers who are employed by Stadshypotek are subject to the same credit terms as other employees. The discount on the interest rate for credits is determined on the basis of the government borrowing rate set annually by the Swedish Tax Authority, plus one percentage point. The discount on the interest rate is taxed in connection with monthly salary payments and constitutes a basis for employer's contributions for Stadshypotek. Interest payable on credits exceeding SEK 2.5 million is determined by applying normal commercial terms. All credits are subject to the customary credit assessment.

Gender balance, number	2021		2020	
	Men	Women	Men	Women
The Board	4	2	3	3
Executive officers[1]	3	3	3	3

[1] Employees of Stadshypotek. In addition, two people are employed by Handelsbanken.

Remuneration to other members of the company's senior management and to risk-takers

Fixed salary and other benefits to other members of the company's management team, including risk-takers, totalled SEK 6.2 million (7.0).

NOTE 7 Other administrative expenses

SEK m	2021	2020
Cost of premises	-7	-8
External IT costs	-192	-171
Communication	-1	-1
Travel and marketing	-10	-8
Purchased services[1]	-1,545	-1,483
Other costs	-55	-52
Total	**-1,810**	**-1,723**
of which expenses for operating leases	*-7*	*-8*

[1] Purchased services mainly comprise remuneration to Handelsbanken for services ordered by Stadshypotek and performed by the branch operations. Purchased services also includes remuneration to Handelsbanken for IT services ordered by Stadshypotek, as well as funding services.

Contracted irrevocable future operating lease charges, broken down by maturity SEK m	2021	2020
Within 1 year	-5	-8
Between 1 and 5 yrs	-21	-37
Over 5 yrs	-4	-7
Total	**-30**	**-52**

Operating leases are mainly related to agreements that are normal for the operations regarding rental expenses.

Remuneration to auditors and audit companies SEK m	2021	2020
Ernst & Young AB, audit assignments	-2.0	-2.3
Ernst & Young AB, audit activities in addition to the audit assignment	-0.3	-0.3
Total	**-2.3**	**-2.6**

NOTE 8 Credit losses

SEK m	2021	2020
Expected credit losses on balance sheet items		
The year's provision Stage 3	-7	-32
Reversal of Stage 3 provisions to Stage 1 or Stage 2	5	7
Total expected credit losses in Stage 3	**-2**	**-25**
The year's net provision Stage 2	-1	-6
The year's net provision Stage 1	3	6
Total expected credit losses in Stage 1 and Stage 2	**2**	**0**
Total expected credit losses on balance sheet items	**0**	**-25**
Expected credit losses on off-balance sheet items		
The year's net provision Stage 3	-	-
The year's net provision Stage 2	0	-
The year's net provision Stage 1	0	0
Total expected credit losses on off-balance sheet items	**0**	**0**
Write-offs		
Actual credit losses for the year[1]	-17	-16
Utilised share of previous provisions in Stage 3	11	8
Total write-offs	**-6**	**-8**
Recoveries	10	24
Net credit losses	**4**	**-9**
of which loans to the public	*4*	*-9*

[1] Of the year's actual credit losses, SEK -12m (-14) is subject to enforcement activities.

SEK m	2021	2020
Model-based provision in Stage 1 and Stage 2		
Update of macroeconomic assumptions	6	2
Covid-19-exposed loans from Stage 1 to Stage 2	1	-1
Change in risk of default in included portfolio (net rating changes)	5	-7
Effect of changed exposure (existing, new and terminated exposures)	6	2
Other	-14	27
Total expected credit losses in Stage 1 and Stage 2	**4**	**23**
Expert-based provision relating to Covid-19		
Provisions for stress of exposed industries	-30	-27
Reduction, based on 80% probability of stress	5	4
Expert-based calculation of provisions, net	**-25**	**-23**
Change in expert-bases calculation regarding provision related to Covid-19	**-2**	**-23**
Total expected credit losses in Stage 1 and Stage 2	**2**	**0**

The macroeconomic scenarios were updated prior to the fourth quarter based on the prevailing market conditions. The probability weighting of 15 per cent/70 per cent/15 per cent for a negative/neutral/positive scenario was unchanged during the period. The selection of macroeconomic risk factors is unchanged. Only marginal changes to the provision requirement have taken place during the period. In order to incorporate the estimated impact of the Covid-19 pandemic from factors not deemed to have been considered in the model, an expert-based calculation has been made at aggregate level to adjust the model-based calculations for selected sub-portfolios. A stressed scenario for these sub-portfolios has been compared to the model-based calculations as at 31 December 2021, with the difference constituting the expert-based calculation.

The process for the impairment testing of agreements in Stage 3 has not changed due to the Covid-19 pandemic, but remains as before with the customary procedure for individual assessment.

NOTE 8 Cont.

Key figures, credit losses Loans to the public	2021	2020
Credit loss ratio, accumulated, %	0.00	0.00
Total reserve ratio, %	0.01	0.01
Reserve ratio Stage 1, %	0.00	0.00
Reserve ratio Stage 2, %	0.28	0.29
Reserve ratio Stage 3, %	7.02	12.72
Proportion of loans in Stage 3, %	0.07	0.05

Items on and off the balance sheet that are subject to impairment testing 2021 SEK m	Gross			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balance sheet items						
Loans to credit institutions	13,301	-	-	-	-	-
Loans to the public	1,504,722	20,275	1,103	-51	-55	-79
Total	**1,518,023**	**20,275**	**1,103**	**-51**	**-55**	**-79**
Off-balance sheet items						
Contingent liabilities	4	0	-	0	-	-
of which guarantee commitments	-	-	-	-	-	-
of which obligations	*4*	*0*	-	*0*	*0*	-
Total	**1,518,027**	**20,275**	**1,103**	**-51**	**-55**	**-79**

Balance sheet and off-balance sheet items that are subject to impairment testing 2020 SEK m	Gross			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balance sheet items						
Loans to credit institutions	15,007	-	-	-	-	-
Loans to the public	1,420,138	18,684	705	-55	-54	-90
Total	**1,435,145**	**18,684**	**705**	**-55**	**-54**	**-90**
Off-balance sheet items						
Contingent liabilities	6	-	-	0	0	-
of which guarantee commitments	-	-	-	-	-	-
of which obligations	*6*	-	-	-	-	-
Total	**1,435,151**	**18,684**	**705**	**-55**	**-54**	**-90**

CHANGE ANALYSIS

Change in the provision for expected credit losses, loans to the public 31 December 2021 SEK m	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	**-55**	**-54**	**-90**	**-199**
Derecognised assets	6	12	8	26
Write-offs	0	0	11	11
Remeasurements due to changes in credit risk	-16	-4	2	-18
Changes due to update in the methodology for estimation	0	0	0	0
Foreign exchange effect, etc.	-1	0	0	-1
Purchased or originated assets	-7	-2	-1	-10
Transfer to Stage 1	-2	6	0	4
Transfer to Stage 2	10	-26	0	-16
Transfer to Stage 3	14	13	-9	18
Provision at end of year	**-51**	**-55**	**-79**	**-185**

NOTE 8 Cont.

Change in the provision for expected credit losses, loans to the public
31 December 2020

SEK m	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	**-56**	**-54**	**-72**	**-182**
Derecognised assets	5	8	10	23
Write-offs	0	0	8	8
Remeasurements due to changes in credit risk	-16	15	-10	-11
Changes due to update in the methodology for estimation	0	0	0	0
Foreign exchange effect, etc.	0	1	1	2
Purchased or originated assets	-9	-3	0	-12
Transfer to Stage 1	-3	7	0	4
Transfer to Stage 2	15	-38	0	-23
Transfer to Stage 3	9	10	-27	-8
Provision at end of year	**-55**	**-54**	**-90**	**-199**

The provision for expected credit losses regarding off-balance sheet items was SEK 0 million in 2021 (0).
The provision for expected credit losses regarding balance sheet items, with the exception of loans to the public, was SEK 0 million in 2021 (0).

The change analysis shows the net effect on the provision for the stage in question for each explanatory item during the period. The transfer rows present the effect on the provision for the stated stage of transfers between stages, as well as between collective and individual assessment within the same stage. The amounts stated in the transfer rows and for 'Purchased or originated assets' demonstrate the expected credit loss calculated for the stated stage at the end of the period. The effects of other explanatory items on the provision are presented in the stage applying at the start of the period. 'Changes due to update in the methodology for estimation' demonstrates the effect on the provision of changes in the models and parameters applied to calculate the expected credit loss for the stated stage. Where applicable, the provision amount is adjusted for future updates in the methodology which are known at the reporting date. In 2020, the estimated provision amount was adjusted due to planned updates to the methodology for estimation. These adjustments are recognised together with other adjustments under 'Remeasurement due to change in credit risk'. The explanatory items are identified at customer level by lender and country.

Change in gross volumes, balance sheet items that are subject to impairment testing
2021

SEK m	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	**1,435,145**	**18,684**	**705**	**1,454,534**
Derecognised assets	-81,669	-2,285	-206	-84,160
Write-offs	-2	-1	-10	-13
Remeasurement due to changed credit risk	32,922	-399	-22	32,501
Changes due to update in the methodology for estimation	0	0	0	0
Foreign exchange effect, etc.	8,813	225	2	9,040
Purchased or originated assets	126,360	1,128	11	127,499
Transfer to Stage 1	15,025	-15,004	-21	0
Transfer to Stage 2	-18,238	18,328	-90	0
Transfer to Stage 3	-333	-401	734	0
Volume at end of year	**1,518,023**	**20,275**	**1,103**	**1,539,401**

Change in gross volumes, balance sheet items that are subject to impairment testing
2020

SEK m	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	**1,364,200**	**19,584**	**882**	**1,384,666**
Derecognised assets	-79,125	-2,639	-212	-81,976
Write-offs	-5	-2	-8	-15
Remeasurement due to changed credit risk	31,963	413	-206	32,170
Changes due to update in the methodology for estimation	0	0	0	0
Foreign exchange effect, etc.	-12,098	-335	-5	-12,438
Purchased or originated assets	130,992	1,133	2	132,127
Transfer to Stage 1	15,867	-15,849	-18	0
Transfer to Stage 2	-16,472	16,590	-118	0
Transfer to Stage 3	-177	-211	388	0
Volume at end of year	**1,435,145**	**18,684**	**705**	**1,454,534**

NOTE 8 Cont.

Change in gross volumes, loans to the public that are subject to impairment testing 2021 SEK m	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	**1,420,138**	**18,684**	**705**	**1,439,527**
Derecognised assets	-80,628	-2,284	-206	-83,118
Write-offs	-1	-1	-12	-14
Remeasurement due to changed credit risk	33,595	-397	-21	33,177
Changes due to update in the methodology for estimation	0	0	0	0
Foreign exchange effect, etc.	8,802	225	2	9,029
Purchased or originated assets	126,360	1,128	11	127,499
Transfer to Stage 1	15,025	-15,004	-21	0
Transfer to Stage 2	-18,236	18,325	-89	0
Transfer to Stage 3	-333	-401	734	0
Volume at end of year	**1,504,722**	**20,275**	**1,103**	**1,526,100**

Change in gross volumes, loans to the public that are subject to impairment testing 2020 SEK m	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	**1,352,656**	**19,584**	**882**	**1,373,122**
Derecognised assets	-79,099	-2,639	-212	-81,950
Write-offs	-5	-2	-8	-15
Remeasurement due to changed credit risk	30,680	413	-206	30,887
Changes due to update in the methodology for estimation	0	0	0	0
Foreign exchange effect, etc.	-12,076	-335	-5	-12,416
Purchased or originated assets	128,764	1,133	2	129,899
Transfer to Stage 1	15,867	-15,849	-18	0
Transfer to Stage 2	-16,472	16,590	-118	0
Transfer to Stage 3	-177	-211	388	0
Volume at end of year	**1,420,138**	**18,684**	**705**	**1,439,527**

Change in gross volume, off-balance sheet items that are subject to impairment testing 2021 SEK m	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	**6**	**-**	**-**	**6**
Derecognised assets	-2	-	-	-2
Write-offs	-	-	-	-
Remeasurement due to changed credit risk	-3	0	-	-3
Changes due to update in the methodology for estimation	-	-	-	-
Foreign exchange effect, etc.	0	0	-	0
Purchased or originated assets	3	-	-	3
Transfer to Stage 1	0	0	-	0
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Volume at end of year	**4**	**0**	**-**	**4**

Change in gross volume, off-balance sheet items that are subject to impairment testing 2020 SEK m	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	**21**	**-**	**-**	**21**
Derecognised assets	-5	-	-	-5
Write-offs	-	-	-	-
Remeasurement due to changed credit risk	-15	-	-	-15
Changes due to update in the methodology for estimation	-	-	-	-
Foreign exchange effect, etc.	0	-	-	0
Purchased or originated assets	5	-	-	5
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Volume at end of year	**6**	**-**	**-**	**6**

NOTE 8 Cont.

SENSITIVITY ANALYSIS 2021

The calculation of expected credit losses applies forward-looking information in the form of macroeconomic scenarios. The expected credit loss is a probability-weighted average of the calculated forecasts over three scenarios. The forecast in the neutral scenario is assigned a weighting of 70 per cent (70), while an upturn in the economy is assigned a weighting of 15 per cent (15) and a downturn in the economy a weighting of 15 per cent (15). These have formed the basis for the calculation of expected credit losses in Stage 1 and Stage 2 as at 31 December 2021.

Macroeconomic risk factors	Minimum			Average			Maximum		
2021	Negative	Neutral	Positive	Negative	Neutral	Positive	Negative	Neutral	Positive
GDP growth									
Sweden	4.38	-0.55	1.06	4.38	3.85	2.06	4.38	6.85	3.56
UK	6.70	-0.19	0.38	6.70	5.20	1.30	6.70	7.61	2.78
Norway	3.92	-0.28	0.06	3.92	3.85	1.06	3.92	5.86	2.56
Denmark	4.18	-1.65	0.72	4.18	2.64	1.72	4.18	5.65	3.22
Finland	3.51	-1.39	0.80	3.51	3.00	1.80	3.51	6.01	3.30
Eurozone	5.18	0.00	0.91	5.18	4.39	1.91	5.18	7.44	3.41
USA	5.52	0.04	1.57	5.52	4.22	2.57	5.52	7.66	4.17
Unemployment index									
Sweden	8.81	9.88	10.41	8.81	7.56	7.16	8.81	6.58	6.36
UK	4.80	6.84	8.40	4.80	4.50	4.80	4.80	3.34	3.40
Norway	3.13	4.52	5.33	3.13	2.30	2.23	3.13	1.90	1.93
Denmark	5.10	6.52	7.46	5.10	4.19	4.06	5.10	3.42	3.36
Finland	7.78	9.24	9.90	7.78	7.00	6.50	7.78	5.94	5.70
Eurozone	7.87	10.24	10.90	7.87	7.70	7.50	7.87	6.93	6.90
USA	5.46	6.72	7.05	5.46	4.08	3.55	5.46	3.41	2.95
Key rate									
Sweden	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.50
UK	0.10	0.10	0.10	0.10	0.50	0.50	0.10	0.75	1.00
Norway	0.50	0.00	0.00	0.50	1.25	1.50	0.50	1.75	2.00
Denmark	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.30
Finland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25
Eurozone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25
USA	0.13	0.13	0.13	0.13	0.13	0.63	0.13	0.38	1.13
Property price index, commercial properties									
Sweden	11.14	-12.68	-6.97	11.14	9.10	6.30	11.14	16.99	15.62
UK	12.43	-9.95	-5.04	12.43	0.71	-0.74	12.43	5.66	1.14
Norway	2.52	-13.68	-8.53	2.52	4.07	-0.11	2.52	8.92	6.38
Denmark	6.28	-9.70	-6.55	6.28	4.69	2.62	6.28	9.28	8.81
Finland	6.04	-12.66	-5.35	6.04	7.62	5.65	6.04	14.81	13.62
Eurozone	0.71	-14.46	-6.82	0.71	4.25	3.02	0.71	9.74	10.48
USA	5.52	4.22	2.57	-2.86	1.36	-4.48	5.52	4.22	2.57
Property price index, residential properties									
Sweden	17.27	-4.98	0.83	17.27	5.01	1.73	17.27	11.11	2.15
UK	12.94	-6.25	-0.70	12.94	4.03	3.09	12.94	9.36	5.40
Norway	7.17	-5.30	4.44	9.97	2.99	1.48	12.47	8.35	2.62
Denmark	10.84	-3.40	-0.14	13.00	3.57	1.54	14.17	8.70	3.15
Finland	0.91	0.18	-0.29	1.42	3.50	2.50	4.71	3.80	1.63
Eurozone	-4.42	3.56	2.95	3.56	2.63	2.40	6.35	2.14	2.10

Effect on the provision in Stage 1 and Stage 2 of the alternative scenarios, as a percentage of the weighted provision.

2021	Percentage increase of provision in negative scenario	Percentage decrease of provision in positive scenario
Total	17.80	-8.52
Sweden	19.55	-9.62
Norway	13.27	-6.10
Denmark	16.13	-7.34
Finland	12.97	-5.36

NOTE 8 Cont.

SENSITIVITY ANALYSIS 2020

The calculation of expected credit losses pursuant to IFRS 9 applies forward-looking information in the form of macroeconomic scenarios. The expected credit loss is a probability-weighted average of the calculated forecasts over three scenarios.

The forecast in the normal scenario (Base case) is assigned a weighting of 60 per cent, while the two alternative scenarios, reflecting an upturn and downturn in the economy, are assigned a weighting of 15 and 25 per cent respectively. The following table presents the maximum, minimum and average annual forecasts for some of the central risk factors by home market and scenario for the next five years.

Macroeconomic risk factors	Minimum			Average			Maximum		
2020	Negative	Neutral	Positive	Negative	Neutral	Positive	Negative	Neutral	Positive
GDP growth									
Sweden	-1.70	2.00	1.70	1.74	2.51	3.14	3.20	3.90	4.90
UK	-1.29	1.58	1.28	1.52	2.19	2.81	3.08	2.80	4.99
Norway	-0.05	1.60	1.30	1.40	2.11	2.74	2.20	3.64	6.04
Denmark	-1.65	1.48	1.18	1.16	1.89	2.52	2.16	2.75	4.63
Finland	-1.27	1.55	1.25	1.05	1.78	2.39	2.06	2.52	4.82
The Netherlands and Europe	0.66	1.30	1.00	1.43	2.15	2.77	1.90	4.40	6.79
USA	0.05	2.00	1.70	1.88	2.56	3.19	2.60	3.77	6.17
Other countries	1.89	3.50	3.20	3.45	3.82	4.33	4.01	5.10	7.19
Unemployment index									
Sweden	9.10	6.90	6.55	9.84	7.64	6.90	10.81	8.90	7.71
UK	6.60	4.35	4.25	7.61	5.21	4.58	8.60	6.50	5.32
Norway	4.10	2.75	2.60	4.66	2.95	2.69	5.46	3.30	2.80
Denmark	7.70	5.50	5.20	8.18	5.96	5.40	8.68	6.60	5.50
Finland	8.70	6.70	6.50	9.58	7.39	6.68	10.35	8.23	7.25
The Netherlands and Europe	10.00	8.00	7.90	11.04	8.79	8.15	11.85	9.31	8.54
USA	6.80	4.30	3.70	7.70	5.17	4.14	8.80	6.28	5.00
Other countries	7.60	6.00	5.80	9.58	7.10	6.46	12.02	8.50	7.22
Key rate									
Sweden	0.00	0.00	0.00	0.00	0.15	0.32	0.00	0.50	0.70
UK	0.10	0.10	0.10	0.10	0.21	0.38	0.10	0.50	0.70
Norway	0.00	0.00	0.00	0.00	0.40	0.57	0.00	0.75	0.95
Denmark	0.05	0.05	0.05	0.05	0.09	0.26	0.05	0.25	0.45
Finland	0.00	0.00	0.00	0.00	0.05	0.22	0.00	0.25	0.45
The Netherlands and Europe	0.00	0.00	0.00	0.00	0.05	0.22	0.00	0.25	0.45
USA	0.13	0.13	0.13	0.13	0.28	0.45	0.13	0.63	0.83
Other countries	1.80	1.80	1.80	2.02	2.22	2.39	2.25	3.00	3.20
Property price index, commercial properties									
Sweden	-22.93	-1.36	1.81	-5.15	1.37	4.44	5.78	3.57	5.76
UK	-14.82	-2.50	2.08	-1.42	1.49	4.09	6.70	5.70	5.70
Norway	-21.07	-2.53	0.94	-3.11	1.46	3.01	8.01	4.41	4.66
Denmark	-17.98	-2.45	0.60	-4.44	0.60	2.19	4.39	3.02	3.38
Finland	-21.25	-2.25	3.11	-3.49	1.98	3.91	7.20	5.14	4.81
The Netherlands and Europe	-21.27	-4.37	0.62	-4.44	0.65	2.61	5.41	3.59	4.23
USA	2.00	0.20	2.00	2.56	0.58	2.56	3.77	1.59	3.77
Other countries	0.66	1.30	1.00	1.43	2.15	2.77	1.90	4.40	6.79
Property price index, residential properties									
Sweden	-4.91	1.35	1.22	0.30	2.47	3.40	5.11	4.19	6.30
UK	-9.88	-2.48	0.15	-3.17	-0.91	1.08	0.42	0.80	2.10
Norway	-4.98	2.05	3.02	2.42	3.67	4.63	5.97	4.46	9.28
Denmark	-7.45	0.40	0.41	-0.26	1.27	2.66	3.95	2.22	6.06
Finland	-0.54	1.53	1.88	1.08	1.78	2.28	1.95	1.92	2.92
The Netherlands and Europe	-4.42	2.00	1.70	1.29	2.52	2.86	3.56	3.56	6.35
USA	-4.42	2.00	1.70	1.29	2.52	2.86	3.56	3.56	6.35
Other countries	-4.42	2.00	1.70	1.29	2.52	2.86	3.56	3.56	6.35

The below table shows the percentage increase or decrease in the provision for expected credit losses in Stage 1 and Stage 2 at 31 December 2020 if the negative/positive scenarios are allocated probabilities of 100 per cent.

2020	Percentage increase of provision in negative scenario	Percentage decrease of provision in positive scenario
Total	16.62	-8.49
Sweden	17.59	-9.14
Norway	13.57	-3.54
Denmark	15.65	-8.36
Finland	11.11	-6.39

NOTE 8 Cont.

Sensitivity analysis, significant increase in credit risk
The table below shows how the provision in Stage 1 and Stage 2 is affected if the threshold applied for the ratio between the residual credit risk calculated at the time of reporting and the date of initial recognition was set 0.5 points lower or higher than the applied threshold of 2.5. A reduction of 0.5 to the threshold value would increase the number of loans transferred from Stage 1 to Stage 2 and would also entail an increase in the provision for expected credit losses. A reduction of 0.5 to the threshold value would have the opposite effect. The company uses both quantitative and qualitative indicators to assess significant increases in credit risk. Further information is provided in note 2 under the heading "Credit risk".

2021 Threshold value	Change in total provision for Stage 1 and Stage 2
2	5.11%
2.5	0.00%
3	-3.56%

2020 Threshold value	Change in total provision for Stage 1 and Stage 2
2	4.90%
2.5	0.00%
3	-3.69%

Credit exposure by PD intervals

Balance sheet items broken down by PD intervals	Gross volume		
PD value	Stage 1	Stage 2	Stage 3
0.00 to <0.15	1,345,356	5,994	-
0.15 to <0.25	144,550	2,038	-
0.25 to <0.50	12,556	1,392	-
0.50 to <0.75	6,946	428	-
0.75 to <2.50	4,101	2,243	-
2.50 to <10.00	4,461	7,795	-
10.00 to <100	53	385	-
100 (defaults)	-	-	1,103
Total	**1,518,023**	**20,275**	**1,103**

Loans to the public, breakdown by PD intervals	Gross volume		
PD value	Stage 1	Stage 2	Stage 3
0.00 to <0.15	1,333,308	5,996	-
0.15 to <0.25	143,503	2,038	-
0.25 to <0.50	12,465	1,392	-
0.50 to <0.75	6,895	427	-
0.75 to <2.50	4,071	2,240	-
2.50 to <10.00	4,428	7,797	-
10.00 to <100	52	385	-
100 (defaults)	-	-	1,103
Total	**1,504,722**	**20,275**	**1,103**

Off-balance sheet items broken down by PD intervals	Gross volume		
PD value	Stage 1	Stage 2	Stage 3
0.00 to <0.15	4	0	-
0.15 to <0.25	0	0	-
0.25 to <0.50	0	0	-
0.50 to <0.75	0	0	-
0.75 to <2.50	0	0	-
2.50 to <10.00	0	0	-
10.00 to <100	0	0	-
100 (defaults)	-	-	0
Total	**4**	**0**	**0**

There was no repossessed property at 31 December 2021 or at 31 December 2020.

NOTE 9 Taxes

Deferred tax assets SEK m	2021	2020
Other	73	0
Total	**73**	**0**

Deferred tax liabilities SEK m	2021	2020
Hedging instruments	251	708
Total	**251**	**708**
Net deferred tax liabilities	**178**	**708**

2021 Change in deferred taxes	Opening balance	Recognised in income statement	Recognised in other comprehen-sive income	Closing balance
Hedging instruments	708	-	-457	251
Other	-	-73	-	-73
Total	**708**	**-73**	**-457**	**178**

2020 Change in deferred taxes	Opening balance	Recognised in income statement	Recognised in other comprehen-sive income	Closing balance
Hedging instruments	617	-	91	708
Total	**617**	**-**	**91**	**708**

Tax expenses recognised in the income statement SEK m	2021	2020
Current tax		
Tax expense for the year	-2,712	-2,752
Adjustment of tax relating to prior years	-83	-9
Deferred tax		
Changes in temporary differences	73	0
Total	**-2,722**	**-2,761**
Tax rate	20.6%	21.4%
Tax calculated on the profit for the year, before tax	**-2,694**	**-2,748**
Difference	**-28**	**-13**
The difference is due to the tax effect for the following items		
Various non-deductible expenses	-1	-9
Adjustment of tax relating to prior years	-83	-9
Other	56	5
Total	**-28**	**-13**

NOTE 10 Loans to credit institutions

SEK m	2021	2020
Loans in Swedish kronor		
Banks	9,221	6,671
Total	**9,221**	**6,671**
Loans in foreign currency		
Banks	4,080	8,336
Total	**4,080**	**8,336**
Total loans to credit institutions	**13,301**	**15,007**
of which accrued interest income	*-*	*-*

Average volumes SEK m	2021	2020
Loans to credit institutions in Swedish kronor	5,704	4,295
Loans to credit institutions in foreign currency	4,129	4,871
Total	**9,833**	**9,166**

NOTE 11 Loans to the public

SEK m	2021	2020
Loans in Swedish kronor		
Household	921,445	874,258
Corporate	380,399	365,702
Total	**1,301,844**	**1,239,960**
Loans in foreign currency		
Household	156,208	140,697
Corporate	68,048	58,870
Total	**224,256**	**199,567**
Provision for expected credit losses	-185	-199
Total loans to the public	**1,525,915**	**1,439,328**
of which accrued interest income	*1,190*	*1,237*

Average volumes SEK m	2021	2020
Loans to the public in Swedish kronor	1,269,048	1,204,763
Loans to the public in foreign currency	212,914	198,943
Total	**1,481,962**	**1,403,705**

NOTE 12 Shares and participating interests in Group companies

SEK m	2021	2020
Shares in Group companies	0	0

Group companies	Corporate identity no.	Domicile	Number of shares	Ownership share, %	Carrying amount, SEK '000 2021	2020
Svenska Intecknings Garanti AB Sigab	556432-7285	Stockholm	1,000	100	100	100

NOTE 13 Derivative instruments

SEK m	Nominal amount/maturity Up to 1 year	1–5 yrs	Over 5 yrs	Nominal amount 31 Dec 2021	31 Dec 2020	Positive market values 31 Dec 2021	31 Dec 2020	Negative market values 31 Dec 2021	31 Dec 2020
Derivatives for fair value hedges									
Interest rate-related contracts									
Options	697	364	-	1,061	2,823	1	0	-	-
Swaps	-	33,455	41,512	74,967	47,008	570	1,402	818	23
Amounts set off	-	-	-	-	-	-	-	-	-
Total	**697**	**33,819**	**41,512**	**76,028**	**49,831**	**571**	**1,402**	**818**	**23**
Derivatives for cash flow hedges									
Interest rate-related contracts									
Swaps	40,435	109,782	12,325	162,542	215,594	3,690	7,442	83	171
Currency-related contracts									
Swaps	20,999	50,701	21,986	93,686	105,545	2,962	3,111	1,527	2,223
Amounts set off	-	-	-	-	-	-	-	-	-
Total	**61,434**	**160,483**	**34,311**	**256,228**	**321,139**	**6,652**	**10,553**	**1,610**	**2,394**
Total derivatives	**62,131**	**194,302**	**75,823**	**332,256**	**370,970**	**7,223**	**11,955**	**2,428**	**2,417**
of which OTC derivatives not settled by CCP	*62,131*	*194,302*	*75,823*	*332,256*	*370,970*	*7,223*	*11,955*	*2,428*	*2,417*

Currency breakdown of market values	Positive market values 31 Dec 2021	31 Dec 2020	Negative market values 31 Dec 2021	31 Dec 2020
SEK	-44,340	-53,977	25,422	36,252
USD	11,463	269	-	-10,288
EUR	32,151	58,417	-44,746	-33,934
GBP	7,949	7,246	-	-
NOK	-	-	21,752	10,387
Total	**7,223**	**11,955**	**2,428**	**2,417**

Derivative contracts are reported gross on the balance sheet and in the notes. Stadshypotek AB (publ) only has derivative transactions with its parent company, Svenska Handelsbanken AB (publ).

HEDGE ACCOUNTING

The table shows derivatives acting as hedging instruments for interest rate risk and foreign exchange risk in cash flow hedges at the respective year-end.

Risk category and type of hedge accounting 31 December 2021 SEK m	Up to 1 year	1–5 yrs	Over 5 yrs
CASH FLOW HEDGE			
Interest rate risk			
Interest rate swaps pay fixed interest and receive variable interest			
Nominal amount	3,000	17,750	-
Average fixed interest rate, %	0.20	0.25	-
Interest rate swaps receive fixed interest and pay variable interest			
Nominal amount	37,435	92,032	12,325
Average fixed interest rate, %	2.68	1.02	1.96
Foreign exchange risk			
Interest rate swaps pay variable interest in SEK and receive variable interest in foreign currencies			
Currency-related derivatives EUR/SEK			
Nominal amount, SEK	9,791	43,148	1,028
Average exchange rate at time of acquisition SEK/EUR	9.328	10.050	10.305
Foreign exchange derivatives, USD/SEK			
Nominal amount, SEK	11,208	-	-
Average exchange rate at time of acquisition SEK/USD	8.868	-	-
Currency-related derivatives GBP/SEK			
Nominal amount, SEK	-	7,553	-
Average exchange rate at time of acquisition SEK/GBP	-	11.025	-
Foreign exchange derivatives, EUR/NOK			
Nominal amount, SEK	-	-	20,958
Average exchange rate at time of acquisition NOK/EUR	-	-	10.422

NOTE 13 Cont.

The table shows derivatives acting as hedging instruments for interest rate risk and foreign exchange risk in cash flow hedges at the respective year-end.

Risk category and type of hedge accounting 31 December 2020 SEK m	**Up to 1 year**	**1–5 yrs**	**Over 5 yrs**
CASH FLOW HEDGE			
Interest rate risk			
Interest rate swaps pay fixed interest and receive variable interest			
Nominal amount	-	20,000	750
Average fixed interest rate, %	-	0.19	1.63
Interest rate swaps receive fixed interest and pay variable interest			
Nominal amount	55,604	112,385	26,856
Average fixed interest rate, %	1.05	1.60	1.32
Foreign exchange risk			
Interest rate swaps pay variable interest in SEK and receive variable interest in foreign currencies			
Currency-related derivatives EUR/SEK			
Nominal amount, SEK	24,147	39,517	13,880
Average exchange rate at time of acquisition SEK/EUR	8.276	8.717	9.522
Foreign exchange derivatives, USD/SEK			
Nominal amount, SEK	-	10,652	-
Average exchange rate at time of acquisition SEK/USD	-	8.868	-
Currency-related derivatives GBP/SEK			
Nominal amount, SEK	-	7,195	-
Average exchange rate at time of acquisition SEK/GBP	-	11.025	-
Foreign exchange derivatives, EUR/NOK			
Nominal amount, SEK	-	10,154	-
Average exchange rate at time of acquisition NOK/EUR	-	10.762	-

The table shows amounts attributable to hedging instruments, and to ineffectiveness in hedge accounting at the respective year-end.

Risk category and type of hedge accounting		**Carrying amount hedging instruments**								
31 December 2021 SEK m	**Nominal amount hedging instruments**	**Assets**	**Liabilities**	**Balance sheet item in which a hedging instrument is included**	**Change in fair value used to calculate in-effectiveness for 2021**	**Change in the value of hedging instruments recognised in other com-prehensive income**	**Ineffec-tiveness recognised in the income statement**	**Income statement items which include ineffective-ness**	**Reclassi-fied from the hedge reserve to the income statement**	**Income statement items which include the reclassifica-tion**
CASH FLOW HEDGE										
Interest rate risk										
Interest rate swaps pay fixed interest and receive variable interest	20,750	1	79	Derivatives	94	94	0	Net gains/losses on financial transactions		
Interest rate swaps receive fixed interest and pay variable interest	141,792	3,689	4	Derivatives	-2,332	-2,332	0	Net gains/losses on financial transactions	-116	Net gains/losses on financial transactions
Foreign exchange risk										
Currency-related derivatives SEK/EUR	53,967	1,957	589	Derivatives	158	158	-	Net gains/losses on financial transactions		-
Currency-related derivatives SEK/USD	11,208	247	-	Derivatives	3	3	-	Net gains/losses on financial transactions		-
Currency-related derivatives SEK/GBP	7,553	758	-	Derivatives	-8	-8	-	Net gains/losses on financial transactions		-
Foreign exchange derivatives, EUR/NOK	20,958	-	938	Derivatives	-15	-15	-	Net gains/losses on financial transactions		-
Total	**256,228**	**6,652**	**1,610**		**-2,100**	**-2,100**	**0**		**-116**	

NOTE 13 Cont.

The table shows amounts attributable to hedging instruments, and to ineffectiveness in hedge accounting at the respective year-end.

Risk category and type of hedge accounting 31 December 2020 SEK m	Nominal amount hedging instruments	Carrying amount hedging instruments		Balance sheet item in which a hedging instrument is included	Change in fair value used to calculate ineffectiveness for 2020	Change in the value of hedging instruments recognised in other comprehensive income	Ineffectiveness recognised in the income statement	Income statement items which include ineffectiveness	Reclassified from the hedge reserve to the income statement	Income statement items which include the reclassification
		Assets	Liabilities							
CASH FLOW HEDGE										
Interest rate risk										
Interest rate swaps pay fixed interest and receive variable interest	20,750	0	171	Derivatives	-90	-90	0	Net gains/losses on financial transactions		-
Interest rate swaps receive fixed interest and pay variable interest	194,845	7,442	0	Derivatives	838	837	1	Net gains/losses on financial transactions	115	Net gains/losses on financial transactions
Foreign exchange risk										
Currency-related derivatives SEK/EUR	77,544	3,071	1,114	Derivatives	-56	-56	-	Net gains/losses on financial transactions		-
Currency-related derivatives SEK/USD	10,652	0	866	Derivatives	-14	-14	-	Net gains/losses on financial transactions		-
Currency-related derivatives SEK/GBP	7,195	40	-	Derivatives	-3	-3	-	Net gains/losses on financial transactions		-
Foreign exchange derivatives, EUR/NOK	10,154	-	243	Derivatives	-6	-6	-	Net gains/losses on financial transactions		-
Total	**321,140**	**10,553**	**2,394**		**669**	**668**	**1**		**115**	

The tables show hedged items at the respective year-end.

Risk category and type of hedge accounting 31 December 2021 SEK m	Change in fair value used to calculate ineffectiveness	Hedge reserve	Of which amounts remaining in the hedge reserve from hedges where hedge accounting is no longer applied.
CASH FLOW HEDGE			
Interest rate risk			
Issued securities at fixed interest rate	-2,332	1,691	669
Loans to the public at fixed interest rate	94	-47	-
Foreign exchange risk			
Issued securities at fixed interest rate in EUR	158	-380	-
Issued securities at variable interest rate in GBP	-8	-20	-
Issued securities at fixed interest rate in USD	3	-6	-
Issued securities at fixed interest rate in NOK	-15	-21	-
Total	**-2,100**	**1,217**	**669**
Tax	433	-251	-138
Total	**-1,667**	**966**	**531**

Risk category and type of hedge accounting 31 December 2020 SEK m	Change in fair value used to calculate ineffectiveness	Hedge reserve	Of which amounts remaining in the hedge reserve from hedges where hedge accounting is no longer applied.
CASH FLOW HEDGE			
Interest rate risk			
Issued securities at fixed interest rate	838	4,147	784
Loans to the public at fixed interest rate	-90	-141	-
Foreign exchange risk			
Issued securities at fixed interest rate in EUR	-56	-539	-
Issued securities at variable interest rate in GBP	-14	-18	-
Issued securities at fixed interest rate in USD	-3	-10	-
Issued securities at fixed interest rate in NOK	-6	-6	-
Total	**669**	**3,433**	**784**
Tax	-138	-708	-162
Total	**531**	**2,725**	**622**

NOTE 13 Cont.

The table shows derivatives acting as hedging instruments for interest rate risk in fair value hedges at the respective year-end.

Risk category and type of hedge accounting 31 December 2021 SEK m	Up to 1 year	1–5 yrs	Over 5 yrs
Fair value hedges			
Interest rate risk			
Interest rate swaps receive fixed interest and pay variable interest			
Nominal amount	-	33,455	41,512
Average fixed interest rate, %	-	0.25	0.39

The table shows amounts attributable to hedging instruments, and to ineffectiveness in hedge accounting at the respective year-end.

Risk category and type of hedge accounting 31 December 2021 SEK m	Nominal amount hedging instruments	Carrying amount hedging instruments Assets	 Liabilities	Balance sheet item in which a hedging instrument is included	Change in fair value used to calculate ineffec-tiveness for 2021	Change in value of hedged items recognised in the income statement	Ineffectiveness recognised in the income statement the income statement	Income statement items which include ineffectiveness
FAIR VALUE HEDGES								
Interest rate risk								
Interest rate swaps receive fixed interest and pay variable interest	74,967	570	818	Derivatives	-1,568	1,546	-22	Net gains/losses on financial transactions
Total	**74,967**	**570**	**818**		**-1,568**	**1,546**	**-22**	
FAIR VALUE PORTFOLIO HEDGES								
Interest rate risk								
Interest rate options (cap)	1,061	1	-	Derivatives	8	-8	0	Net gains/losses on financial transactions
Total	**1,061**	**1**	**-**		**8**	**-8**	**0**	

Risk category and type of hedge accounting 31 December 2020 SEK m	Nominal amount hedging instruments	Carrying amount hedging instruments Assets	 Liabilities	Balance sheet item in which a hedging instrument is included	Change in fair value used to calculate ineffec-tiveness for 2020	Change in value of hedging instru-ments recognised in other compre-hensive income	Ineffectiveness recognised in the income statement the income statement	Income statement items which include ineffectiveness
FAIR VALUE HEDGES								
Interest rate risk								
Interest rate swaps receive fixed interest and pay variable interest	47,008	1,402	-	Derivatives	333	316	17	Net gains/losses on financial transactions
Total	**47,008**	**1,402**	**-**		**333**	**316**	**17**	
FAIR VALUE PORTFOLIO HEDGES								
Interest rate risk								
Interest rate options (cap)	2,823	0	-	Derivatives	13	-13	0	Net gains/losses on financial transactions
Total	**2,823**	**0**	**-**		**13**	**-13**	**0**	

NOTE 13 Cont.

The below tables show hedged items at the respective year-end.

Risk category and type of hedge accounting	Carrying amount hedged item		Accumulated fair value adjustment included in the carrying amount of the hedged item					
31 December 2021 SEK m	Assets	Liabilities	Assets	Liabilities	Balance sheet item in which the hedged item is included	Change in value used to calculate ineffectiveness for 2021	Accumulated amount of adjustments to fair value hedges remaining on the balance sheet for hedged items which are no longer adjusted for changes in fair value	Balance sheet item in which the accrued amount is included
FAIR VALUE HEDGES								
Interest rate risk	-	76,420	-	-1,118	Issued securities	1,546	33	Issued securities
Total		**76,420**	**-**	**-1,118**		**1,546**	**33**	
FAIR VALUE PORTFOLIO HEDGES								
Interest rate risk	1,008				Loans to the public			
Interest rate risk	4	-	-	-	Value change of interest-hedged item in portfolio hedge	-8	-	-
Total	**1,012**	**-**	**-**	**-**		**-8**	**-**	**-**

Risk category and type of hedge accounting	Carrying amount hedged item		Accumulated fair value adjustment included in the carrying amount of the hedged item					
31 December 2020 SEK m	Assets	Liabilities	Assets	Liabilities	Balance sheet item in which the hedged item is included	Change in value used to calculate ineffectiveness for 2020	Accumulated amount of adjustments to fair value hedges remaining on the balance sheet for hedged items which are no longer adjusted for changes in fair value	Balance sheet item in which the accrued amount is included
FAIR VALUE HEDGES								
Interest rate risk	-	49,694	-	316	Issued securities	-467	50	Issued securities
Total		**49,694**	**-**	**316**		**-467**	**50**	
FAIR VALUE PORTFOLIO HEDGES								
Interest rate risk	2,746				Loans to the public			
Interest rate risk	12	-	-	-	Value change of interest-hedged item in portfolio hedge	-13	-	-
Total	**2,758**	**-**	**-**	**-**		**-13**	**-**	**-**

NOTE 14 Offsetting of financial instruments

Derivatives SEK m	2021	2020
Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements		
Gross amount	7,223	11,955
Amounts set off	-	-
Carrying amount on the balance sheet	**7,223**	**11,955**
Related amounts not offset on the balance sheet		
Financial instruments, netting arrangements	-2,428	-2,417
Total amounts not set off on the balance sheet	**-2,428**	**-2,417**
Net amount	**4,795**	**9,538**
Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements		
Gross amount	-2,428	-2,417
Amounts set off	-	-
Carrying amount on the balance sheet	**-2,428**	**-2,417**
Related amounts not offset on the balance sheet		
Financial instruments, netting arrangements	7,223	11,955
Total amounts not set off on the balance sheet	**7,223**	**11,955**
Net amount	**4,795**	**9,538**

The above information refers to reported financial instruments that are covered by legally binding netting agreements. All financial instruments that are subject to netting agreements have been entered into with the parent company Svenska Handelsbanken AB (publ) as the counterparty.

NOTE 15 Intangible assets

Internally developed software SEK m	2021	2020
Cost of acquisition at beginning of year	151	133
Cost of acquisition of additional intangible assets	3	29
Disposals and retirements	-	-11
Cost of acquisition at end of year	**154**	**151**
Accumulated depreciation and impairment at beginning of year	-30	-13
Disposals and retirements	-	11
Amortisation for the year according to plan	-27	-13
Impairment for the year	-	-15
Accumulated amortisation and impairment losses at end of year	**-57**	**-30**
Carrying amount	**97**	**121**

NOTE 16 Property and equipment

Equipment SEK m	2021	2020
Cost of acquisition at beginning of year	3	3
Cost of additional acquisition for the year	0	0
Disposals and retirements	-	-
Cost of acquisition at end of year	**3**	**3**
Accumulated depreciation and impairment at beginning of year	-3	-3
Disposals and retirements	-	-
Amortisation for the year according to plan	0	0
Impairment for the year	-	-
Accumulated amortisation and impairment losses at end of year	**-3**	**-3**
Carrying amount	**0**	**0**

The cost of acquisition for tangible non-current assets depreciated in full in 2021 totalled SEK 3 million (3).

NOTE 17 Other assets

SEK m	2021	2020
Claims on investment banking settlements	-	-
Accounts receivable	33	32
Other	115	297
Total	**148**	**329**

NOTE 18 Prepaid expenses and accrued income

SEK m	2021	2020
Accrued income	52	56
Prepaid expenses	3	1
Total	**55**	**57**

NOTE 19 Due to credit institutions

SEK m	2021	2020
Due in Swedish kronor		
Banks	667,356	615,431
Total	**667,356**	**615,431**
Due in foreign currency		
Banks	155,760	153,136
Total	**155,760**	**153,136**
Total due to credit institutions	**823,116**	**768,567**
of which accrued interest expenses	*809*	*680*

Average volumes SEK m	2021	2020
Due to credit institutions in Swedish kronor	649,806	564,301
Due to credit institutions in foreign currency	154,705	157,082
Total	**804,511**	**721,383**

NOTE 20 Issued securities

	2021		2020	
SEK m	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Bonds[1]				
Bonds in Swedish kronor	511,128	497,923	475,201	457,480
Bonds in foreign currency	141,479	140,835	146,882	146,705
Total	**652,607**	**638,758**	**622,083**	**604,185**
of which accrued interest expense	*3,424*		*3,326*	

Change analysis SEK m	2021	2020
Issued securities at beginning of year	**622,083**	**634,565**
Issued	157,159	121,778
Repurchased	-51,594	-70,187
Matured	-75,769	-54,160
Foreign exchange effects, etc.	728	-9,913
Issued securities at end of year	**652,607**	**622,083**

Average volumes SEK m	2021	2020
Swedish kronor	487,439	486,516
Foreign currency	142,835	155,511
Total	**630,274**	**642,027**

[1] For a list of bonds, see page 85.

NOTE 21 Other liabilities

SEK m	2021	2020
Liabilities on investment banking settlements	-	-
Group contributions provided	11,000	11,400
Other	69	46
Total	**11,069**	**11,446**

NOTE 22 Accrued expenses and deferred income

SEK m	2021	2020
Accrued expenses	9	9
Deferred income	13	38
Total	**22**	**47**

NOTE 23 Pledged assets and commitments

Assets pledged for own debt SEK m	2021	2020
Liquid funds on a blocked account	5,000	5,000
of which pledged for covered bonds	*5,000*	*5,000*
Loans to the public[1]	692,211	661,950
of which pledged for covered bonds	*692,211*	*661,950*
Total	**697,211**	**666,950**

[1] The cover pool comprises loans against mortgages in single-family housing, multi-family dwellings and housing co-operative apartments with a loan-to-value ratio of up to 75 per cent of the market value as well as public credits plus additional collateral in the form of cash funds on a blocked account. A separate specification is kept of the assets and the covered bonds, and also derivatives relating to these. In the event of the company's insolvency, pursuant to the Swedish Right of Priority Act, the holders of Stadshypotek's covered bonds have prior rights to the assets registered as collateral. If, at the time of a bankruptcy decision, the assets in the cover pool fulfil the terms of the Act, these must instead be kept separate from the bankruptcy estate's other assets and liabilities. In this event, the holders of the bonds must receive contractual payments under the terms of the bond for the period until maturity.

Commitments SEK m	2021	2020
Committed credit offers	1,302	644
Repurchase agreement	8,077	2,253
Issued interest rate options, nominal value	1,007	2,739
Future lease payments	30	52
Total	**10,416**	**5,688**

NOTE 24 Related party disclosures

Related parties – claims and liabilities SEK m	2021	2020
Loans to credit institutions	13,301	15,007
Derivative instruments	7,223	11,955
Other assets	80	97
Total	**20,604**	**27,059**
Due to credit institutions	823,116	768,567
Issued securities	14,003	-
Derivative instruments	2,428	2,417
Other liabilities	11,040	11,428
Total	**850,587**	**782,407**
Commitments	8,077	2,253
Derivatives, nominal amounts	332,256	370,970

Related parties – income and expenses SEK m	2021	2020
Interest income	216	240
Interest expenses [1]	-1,763	-2,421
Fee and commission income	3	3
Fee and commission expense	-10	-10
Other income	6	5
Other administrative expenses	-1,721	-1,634
Total	**-3,269**	**-3,817**

[1] Interest expenses from derivative instruments related to Stadshypotek's funding may have both a positive and a negative impact on interest income and interest expenses.

The business operations of Stadshypotek are highly decentralised. The basic principle is that organisation and working methods are determined by Handelsbanken's branches, which are responsible for all the business of individual customers. One consequence of this approach is that Stadshypotek's lending operations are run via Handelsbanken's Swedish branch operations and the lending operations in Stadshypotek's branches in Norway, Denmark and Finland are run via Handelsbanken's branch operations in the respective countries. Stadshypotek's funding needs are managed by Handelsbanken's Treasury Department. The services performed by Handelsbanken on behalf of Stadshypotek are regulated in outsourcing agreements between the parties.

Most of the inter-company transactions are thus with the parent company, Handelsbanken. The services purchased by Stadshypotek from the parent company, which are included in other administrative expenses, consist primarily of sales compensation, IT services and the treasury function. Stadshypotek's branches outside Sweden make payments to Handelsbanken's branches in the respective countries for services rendered by them on behalf of Stadshypotek. In addition, inter-company transactions consist of funding from the parent company, derivative transactions and lending to the parent company.

Pension premiums paid to Pensionskassan SHB Försäkringsförening are reported in note 6. Note 6 also contains information about loans granted to executive officers as well as disclosures relating to the terms and conditions of executive officers and other remuneration.

All amounts stated in the tables above refer to transactions with the parent company.

NOTE 25 Segment reporting

Segment reporting should reflect how the company's management monitors the business operations, which in the case of Stadshypotek corresponds to the geographical organisational structure.
For definitions of key figures, see pages 87 and 88.

Income statement 2021 SEK m	Sweden	Norway	Denmark	Finland	Eliminations	Stadshypotek AB
Net interest income	12,813	1,080	501	554	-	14,948
Net fee and commission income	-37	0	-	9	-	-28
Net gains/losses on financial transactions	79	6	-	3	-	88
Other income	2	-	-	-	-	2
Total income	**12,857**	**1,086**	**501**	**566**	**-**	**15,010**
General administrative expenses						
Staff costs	-99	-	-1	-	-	-100
Other administrative expenses	-1,647	-91	-36	-36	-	-1,810
Depreciation, amortisation and impairment losses of property, equipment and intangible assets	-27	-	-	-	-	-27
Total expenses before credit losses	**-1,773**	**-91**	**-37**	**-36**	**-**	**-1,937**
Profit before credit losses	**11,084**	**995**	**464**	**530**	**-**	**13,073**
Net credit losses	3	0	1	0	-	4
Operating profit	**11,087**	**995**	**465**	**530**	**-**	**13,077**
Profit before taxes	**11,087**	**995**	**465**	**530**	**-**	**13,077**

Key figures 2021	Sweden	Norway	Denmark	Finland	Stadshypotek AB
Return on total assets, %	0.65	0.71	0.71	0.76	0.69
Net interest margin, %	0.95	0.98	0.98	0.99	0.99
C/I ratio before credit losses, %	13.8	8.4	7.4	6.4	12.9
C/I ratio after credit losses, %	13.8	8.4	7.1	6.4	12.9
Credit loss ratio, %	0.00	0.00	0.00	0.00	0.00

Balance sheet 31 December 2021 SEK m	Sweden	Norway	Denmark	Finland	Eliminations	Stadshypotek AB
Loans to the public, Household						
Gross lending, Household	921,445	86,703	50,455	19,050	-	1,077,653
Expected credit losses, Household	-85	-6	-28	-11	-	-130
Total loans to the public, Household	**921,360**	**86,697**	**50,427**	**19,039**	**-**	**1,077,523**
Loans to the public, Corporate						
Gross lending, Corporate	380,399	29,233	-	38,815	-	448,447
Expected credit losses, Corporate	-47	-3	-	-5	-	-55
Total loans to the public, Corporate	**380,352**	**29,230**	**-**	**38,810**	**-**	**448,392**
Total loans to the public	**1,301,712**	**115,927**	**50,427**	**57,849**	**-**	**1,525,915**
Average loans to the public for the period Jan–Dec 2021	*1,269,048*	*107,548*	*49,435*	*55,931*	*-*	*1,481,962*
Total assets	**1,387,212**	**117,489**	**52,505**	**58,121**	**-67,984**	**1,547,343**
Average total assets for the period Jan–Dec 2021	*1,345,309*	*110,007*	*50,973*	*56,085*	*-57,782*	*1,504,592*

NOTE 25 Cont.

Income statement 2020

SEK m	Sweden	Norway	Denmark	Finland	Eliminations	Stadshypotek AB
Net interest income	12,723	924	517	476	-	14,640
Net fee and commission income	-36	0	-	8	-	-28
Net gains/losses on financial transactions	52	15	0	1	-	68
Other income	1	-	-	-	-	1
Total income	**12,740**	**939**	**517**	**485**	**-**	**14,681**
General administrative expenses						
Staff costs	-87	-	-1	-	-	-88
Other administrative expenses	-1,569	-79	-38	-37	-	-1,723
Depreciation, amortisation and impairment losses of property, equipment and intangible assets	-20	-	-	-	-	-20
Total expenses before credit losses	**-1,676**	**-79**	**-39**	**-37**	**-**	**-1,831**
Profit before credit losses	**11,064**	**860**	**478**	**448**	**-**	**12,850**
Net credit losses	-7	2	-3	-1	-	-9
Operating profit	**11,057**	**862**	**475**	**447**	**-**	**12,841**
Profit before taxes	**11,057**	**862**	**475**	**447**	**-**	**12,841**

Key figures 2020

	Sweden	Norway	Denmark	Finland	Stadshypotek AB
Return on total assets, %	0.68	0.69	0.71	0.65	0.70
Net interest margin, %	1.00	0.95	0.99	0.87	1.02
C/I ratio before credit losses, %	13.2	8.4	7.5	7.7	12.5
C/I ratio after credit losses, %	13.2	8.2	8.1	8.0	12.5
Credit loss ratio, %	0.00	0.00	0.00	0.00	0.00

Balance sheet
31 December 2020

SEK m	Sweden	Norway	Denmark	Finland	Eliminations	Stadshypotek AB
Loans to the public, Household						
Gross lending, Household	874,258	73,103	48,436	19,158	-	1,014,955
Expected credit losses, Household	-97	-6	-35	-8	-	-146
Total loans to the public, Household	**874,161**	**73,097**	**48,401**	**19,150**	**-**	**1,014,809**
Loans to the public, Corporate						
Gross lending, Corporate	365,702	24,264	-	34,606	-	424,572
Expected credit losses, Corporate	-44	-2	-	-7	-	-53
Total loans to the public, Corporate	**365,658**	**24,262**	**-**	**34,599**	**-**	**424,519**
Total loans to the public	**1,239,819**	**97,359**	**48,401**	**53,749**	**-**	**1,439,328**
Average loans to the public for the period Jan–Dec 2020	*1,204,762*	*94,319*	*49,851*	*54,773*	-	*1,403,705*
Total assets	**1,310,742**	**103,227**	**50,742**	**53,916**	**-51,024**	**1,467,603**
Average total assets for the period Jan–Dec 2020	*1,273,289*	*96,739*	*52,269*	*54,830*	*-42,700*	*1,434,427*

NOTE 26 Assets and liabilities by currency

The company's view of foreign exchange risk is shown in note 2.
The total value in Swedish kronor of the company's assets and liabilities broken down by currency is specified in the following table.

31 December 2021 SEK m	SEK	DKK	EUR	GBP	NOK	USD	Total
Assets							
Loans to credit institutions	9,221	2,072	252	0	1,756	0	13,301
Loans to the public	1,301,712	50,427	57,849	-	115,927	-	1,525,915
of which corporate	*380,352*	*0*	*38,810*	-	*29,230*	-	*448,392*
of which households	*921,360*	*50,427*	*19,039*	-	*86,697*	-	*1,077,523*
Derivatives	-44,340	-	32,151	7,949	-	11,463	7,223
Other assets	877	6	20	-	1	-	904
Total assets	**1,267,470**	**52,505**	**90,272**	**7,949**	**117,684**	**11,463**	**1,547,343**
Liabilities							
Due to credit institutions	667,356	51,491	40,502	-	63,767	-	823,116
Issued securities	511,128	-	92,138	7,943	30,002	11,396	652,607
Derivatives	25,422	-	-44,746	-	21,752	-	2,428
Other liabilities	11,317	-	3	-	-		11,320
Accrued expenses and deferred income	22	-	0	-	0	-	22
Total liabilities	**1,215,245**	**51,491**	**87,897**	**7,943**	**115,521**	**11,396**	**1,489,493**
Net foreign currency position	**52,225**	**1,014**	**2,375**	**6**	**2,163**	**67**	**57,850**
of which retained earnings and international branch profits for the year	-	*911*	*1,192*		*2,264*		*4,367*

31 December 2020 SEK m	SEK	DKK	EUR	GBP	NOK	USD	Total
Assets							
Loans to credit institutions	6,671	2,332	137	0	5,867	0	15,007
Loans to the public	1,239,819	48,401	53,749	-	97,359	-	1,439,328
of which corporate	*365,658*	-	*34,599*	-	*24,262*	-	*424,519*
of which households	*874,161*	*48,401*	*19,150*	-	*73,097*	-	*1,014,809*
Derivatives	-53,977	-	58,417	7,246	-	269	11,955
Other assets	1,273	9	30	-	1	-	1,313
Total assets	**1,193,786**	**50,742**	**112,333**	**7,246**	**103,227**	**269**	**1,467,603**
Liabilities							
Due to credit institutions	615,431	49,705	36,441	-	66,990	-	768,567
Issued securities	475,201	-	105,316	7,149	24,146	10,271	622,083
Derivatives	36,252	-	-33,934	-	10,387	-10,288	2,417
Other liabilities	12,154	-	-	-	-	-	12,154
Accrued expenses and deferred income	24	-	2	-	21	-	47
Total liabilities	**1,139,062**	**49,705**	**107,825**	**7,149**	**101,544**	**-17**	**1,405,268**
Net foreign currency position	**54,724**	**1,037**	**4,508**	**97**	**1,683**	**286**	**62,335**
of which retained earnings and international branch profits for the year	-	*937*	*1,401*		*1,361*		*3,699*

The net foreign currency positions reported in the table are due to differences in valuation principles between lending and funding at amortised cost and derivatives at fair value. Stadshypotek's risk management strategy means that inflows and outflows in foreign currency are matched.

NOTE 27 Classification of financial assets and liabilities

31 December 2021 SEK m	Fair value through profit or loss Mandatory	Fair value through profit or loss Fair value option	Fair value through profit or loss Derivatives identified as hedging instruments	Amortised cost	Total carrying amount	Fair value
Assets						
Loans to credit institutions				13,301	13,301	13,301
Loans to the public				1,525,915	1,525,915	1,527,055
Value change of interest-hedged item in portfolio hedge	4				4	4
Derivative instruments			7,223		7,223	7,223
Other assets	8			195	203	203
Total	**12**	**-**	**7,223**	**1,539,411**	**1,546,646**	**1,547,786**
Shares and participating interests in Group companies and associated companies						
Non-financial assets					697	
Total assets					**1,547,343**	
Liabilities						
Due to credit institutions				823,116	823,116	822,815
Issued securities				652,607	652,607	654,256
Derivative instruments			2,428		2,428	2,428
Other liabilities		8		11,083	11,091	11,091
Total	**-**	**8**	**2,428**	**1,486,806**	**1,489,242**	**1,490,590**
Non-financial liabilities					251	
Total liabilities					**1,489,493**	

31 December 2020 SEK m	Fair value through profit or loss Mandatory	Fair value through profit or loss Fair value option	Fair value through profit or loss Derivatives identified as hedging instruments	Amortised cost	Total carrying amount	Fair value
Assets						
Loans to credit institutions				15,007	15,007	15,007
Loans to the public				1,439,328	1,439,328	1,447,153
Value change of interest-hedged item in portfolio hedge	12				12	12
Derivative instruments			11,955		11,955	11,955
Other assets	4			383	387	387
Total	**16**	**-**	**11,955**	**1,454,718**	**1,466,689**	**1,474,514**
Shares and participating interests in Group companies and associated companies						
Non-financial assets					914	
Total assets					**1,467,603**	
Liabilities						
Due to credit institutions				768,567	768,567	766,253
Issued securities				622,083	622,083	631,557
Derivative instruments			2,417		2,417	2,417
Other liabilities		4		11,489	11,493	11,493
Total	**-**	**4**	**2,417**	**1,402,139**	**1,404,562**	**1,411,722**
Non-financial liabilities					708	
Total liabilities					**1,405,268**	

A description of the principles applied for measurement at fair value is given in note 1.

NOTE 28 Fair value measurement of financial instruments

Financial instruments reported at fair value 31 December 2021 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Value change of interest-hedged item in portfolio hedge			4	4
Derivative instruments		7,223		7,223
Other assets	8			8
Total	**8**	**7,223**	**4**	**7,235**
Liabilities				
Derivative instruments		2,428		2,428
Other liabilities		8		8
Total	**-**	**2,436**	**-**	**2,436**

Financial instruments reported at fair value 31 December 2020 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Value change of interest-hedged item in portfolio hedge			12	12
Derivative instruments		11,955		11,955
Other assets	4			4
Total	**4**	**11,955**	**12**	**11,971**
Liabilities				
Derivative instruments		2,417		2,417
Other liabilities		4		4
Total	**-**	**2,421**	**-**	**2,421**

Changes in the holdings of financial instruments reported at fair value in level 3 SEK m	31 Dec 2021	30 June 2021	31 Dec 2020
Value change of interest-hedged item in portfolio hedge			
Carrying amount at beginning of year	**12**	**12**	**25**
Acquisitions	0	0	0
Matured	-8	-5	-13
Unrealised value change in income statement	0	0	0
Carrying amount at end of year	**4**	**7**	**12**

Fair value of financial instruments measured at amortised cost 31 December 2021 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Loans to credit institutions		13,301		13,301
Loans to the public			1,527,055	1,527,055
Other assets			195	195
Total	**-**	**13,301**	**1,527,250**	**1,540,551**
Liabilities				
Due to credit institutions		822,815		822,815
Issued securities	585,556	68,700		654,256
Other liabilities			11,083	11,083
Total	**585,556**	**891,515**	**11,083**	**1,488,154**

Fair value of financial instruments measured at amortised cost 31 December 2020 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Loans to credit institutions		15,007		15,007
Loans to the public			1,447,153	1,447,153
Other assets			383	383
Total	**-**	**15,007**	**1,447,536**	**1,462,543**
Liabilities				
Due to credit institutions		766,253		766,253
Issued securities	576,743	54,814		631,557
Other liabilities			11,491	11,491
Total	**576,743**	**821,067**	**11,491**	**1,409,301**

NOTE 28 Cont.

VALUATION PROCESS

Stadshypotek's independent risk control is responsible for the existence of appropriate instructions and processes for fair value measurement of financial instruments. In general, the valuations are based on externally generated data as far as is possible, considering the circumstances in each case. In the case of model valuation, valuation models that are established in the market are always used. The models and input data which form the basis of the valuations are regularly validated by the independent risk control function to ensure that they are consistent with market practices and established financial theory. New and revised valuation models are always validated before they come into use.

Stadshypotek is also subject to the Handelsbanken Group's guidelines and instructions for valuation of financial instruments. Valuation matters which are of principle importance are discussed by the Handelsbanken Group's valuation committee, which includes representatives of both central and local risk control as well as financial functions. The valuation committee ensures that general instructions for valuation of financial instruments are consistently followed throughout the Handelsbanken Group and serve as support for decision-making in valuation and accounting matters.

PRINCIPLES FOR FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value is defined as the price at which an asset could be sold or a liability could be transferred in a normal transaction between independent market participants. For financial instruments traded on an active market, the fair value is the same as the quoted market price. An active market is one where quoted prices are readily and regularly available from a regulated market, execution venue, reliable news service or equivalent, and where the price information received can easily be verified by means of regularly occurring transactions. The current market price is generally the same as the current bid price for financial assets or the current asking price for financial liabilities.

For financial instruments where there is no reliable information about market prices, fair value is established using valuation models. The valuation models used are based on input data which essentially can be verified using market observations such as market rates. If necessary, an adjustment is made for other variables which a market participant would be expected to take into consideration when setting a price.

Stadshypotek's derivative contracts, including interest rate swaps and various types of linear currency derivatives, are valued using valuation models based on listed market rates and other market prices. The valuation of non-linear derivative contracts that are not actively traded is also based on a reasonable assumption of market-based input data such as volatility.

VALUATION HIERARCHY

In the tables, financial instruments at fair value have been categorised in terms of how the valuations have been carried out and the extent of market data used in the valuation. The categorisation is shown as levels 1–3 in the table. The categorisation is based on the valuation method used on the balance sheet date. Financial instruments which are valued at the current market price are categorised as level 1.

Financial instruments which are valued using valuation models essentially based on market data are categorised as level 2. Level 2 mainly includes interest-related and currency-related derivatives. Financial instruments which have been valued using valuation models essentially based on input data that is not possible to verify using external market information are categorised as level 3. Level 3 includes Value change of interest-hedged item in portfolio hedge.

PRINCIPLES FOR INFORMATION ABOUT THE FAIR VALUES OF FINANCIAL INSTRUMENTS CARRIED AT COST OR AMORTISED COST

More information about the fair values of financial instruments carried at cost or amortised cost is given in the table. These instruments essentially comprise lending and funding.

Lending

Calculating fair value for lending purposes is based on the current market rate with an adjustment for assumed credit and liquidity risk premiums on market terms. The premium is assumed to be the same as the average margin for new lending at the time of the measurement.

Funding and deposits

Issued securities have been valued at the current market price where this was available. Funding where market price information has not been found has been valued using a valuation model based on market data in the form of prices or interest rates for similar instruments.

Other interest-bearing financial assets and liabilities

For means of payment and short-term receivables and liabilities, the carrying amount is considered to be an acceptable estimate of the fair value. Short-term receivables and liabilities also include those with a maturity date or date for the next interest rate fixing falling within 30 days. Financial receivables and liabilities with a life of more than three months are discounted at the time the fair value is established.

Note 13 also reports the fair value of financial instruments reported at cost or amortised cost, categorised according to their respective valuation hierarchy.

NOTE 29 Disclosures on assets and liabilities held for sale and discontinued operations

Assets and liabilities in Stadshypotek's operations in Denmark and Finland constitute assets and liabilities held for sale and are classed as disposal groups in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. Moreover, the operations in Denmark and Finland constitute discontinued operations. For a description of the accounting policies, see note 1.

- The disposal group and discontinued operations in Denmark are comprised of Handelsbanken Kredit (Stadshypotek AB (publ) Denmark branch).
- The disposal group and discontinued operations in Finland are comprised of Stadshypotek AB (publ), branch operations in Finland (Handelsbanken Asuntoluottopankki).

Stadshypotek's parent company, Handelsbanken, has initiated a process to divest the units in Denmark and Finland. Stadshypotek's operations in Denmark and Finland are included in Handelsbanken's decision.

Assets and liabilities held for sale

Denmark SEK m	2021	2020
Assets		
Loans to the public	50,427	48,401
Other assets	-	-
Prepaid expenses and accrued income	-	-
Total	**50,427**	**48,401**
Liabilities		
Current tax liabilities	103	100
Other liabilities	0	0
Accrued expenses and deferred income	0	-
Total	**103**	**100**

Finland SEK m	2021	2020
Assets		
Loans to the public	57,849	53,749
Other assets	-	-
Prepaid expenses and accrued income	-	-
Total	**57,849**	**53,749**
Liabilities		
Current tax liabilities	29	14
Other liabilities	0	0
Accrued expenses and deferred income	0	2
Total	**29**	**16**
Total assets held for sale	**108,276**	**102,150**
Total liabilities held for sale	**132**	**116**

NOTE 29 Cont.

Discontinued operations

Denmark SEK m	2021	2020
Net interest income	**510**	**568**
Net fee and commission income	-	-
Net gains/losses on financial transactions	-	0
Other income	-	-
Total income	**510**	**568**
Staff costs	-1	-1
Other expenses	-1	-1
Depreciation, amortisation and impairment losses of property, equipment and intangible assets	-	-
Total expenses	**-2**	**-2**
Net credit losses	2	-6
Profit for the year attributable to discontinued operations, before taxes	**510**	**560**

Finland SEK m	2021	2020
Net interest income	**434**	**446**
Net fee and commission income	6	5
Net gains/losses on financial transactions	3	1
Other income	-	-
Total income	**443**	**452**
Staff costs	-	-
Other expenses	-1	-1
Depreciation, amortisation and impairment losses of property, equipment and intangible assets	-	-
Total expenses	**-1**	**-1**
Net credit losses	0	2
Profit for the year attributable to discontinued operations, before taxes	**442**	**453**

Cash flow statement, discontinued operations

Denmark SEK m	2021	2020
Cash flow from operating activities	-553	-740
Cash flow from investing activities	-	-
Cash flow from financing activities	-	-
Cash flow for the year from discontinued operations	**-553**	**-740**

Finland SEK m	2021	2020
Cash flow from operating activities	-2,573	-3,641
Cash flow from investing activities	-	-
Cash flow from financing activities	-	-
Cash flow for the year from discontinued operations	**-2,573**	**-3,641**

NOTE 30 Capital adequacy

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.

STATUTORY CAPITAL REQUIREMENT

According to the capital adequacy regulations, regulation no. 575/2013 EU (CRR), which came into force in the EU on 1 January 2014 and directive 2013/36/EU which was implemented in Sweden on 2 August 2014, Stadshypotek must have common equity tier 1 capital, tier 1 capital and total own funds which at least correspond to the individual requirements relative to the total risk-weighted exposure amount for credit risks, market risks and operational risks. In addition to maintaining capital according to the minimum requirement, Stadshypotek must hold common equity tier 1 capital to fulfil the requirement for a capital conservation buffer and a countercyclical capital buffer in line with the levels decided by the Swedish Financial Supervisory Authority.

The company must also perform an internal capital adequacy assessment. Stadshypotek's capital policy – most recently adopted by the Board in 2021 – states the guidelines for the internal capital adequacy assessment. Since 1 February 2016, the resolution authority, which is the National Debt Office in Sweden, must also establish a minimum requirement for own funds and eligible liabilities (MREL) for the Handelsbanken Group and also for Stadshypotek. In December 2021, the Swedish National Debt Office established a minimum requirement for Stadshypotek amounting to 3.84 per cent of total liabilities and own funds. In 2021, Stadshypotek met all the statutory minimum and buffer levels. Since 2018, Stadshypotek has been permitted to exclude structural hedges when calculating the capital requirement for foreign exchange risk in accordance with Article 352.2 of the Capital Requirements Regulation.

DESCRIPTION OF OWN FUNDS

Own funds consist of tier 1 capital and tier 2 capital. Tier 1 capital is divided into common equity tier 1 capital and other tier 1 capital. Common equity tier 1 capital mainly comprises equity and has been affected by the Board's proposal for appropriation of profits. Deductions for intangible assets are made from the common equity tier 1 capital.

A neutrality adjustment is made for the effect of cash flow hedges on equity. Institutions with permission to use internal ratings-based models (IRB institutions) must make a deduction for the difference between expected credit losses under the IRB method and the provisions recognised in the accounts for probable credit losses where the expected credit losses exceed the provisions made. The deduction is made from the common equity tier 1 capital.

Stadshypotek is included in Handelsbanken's consolidated situation. In general, Stadshypotek and its parent company are able to re-allocate capital between the companies, to the extent that is permitted by legislation, for example capital adequacy requirements and restrictions in corporate law. Stadshypotek sees no other material or legal obstacles to a rapid transfer of funds from own funds, or repayment of liabilities between Stadshypotek and its parent company.

DESCRIPTION OF THE CAPITAL REQUIREMENT

Credit risk – 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 Approach. 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 given default (LGD) and the exposure at default (EAD). The advanced IRB Approach has been applied for retail exposures (households and small companies) since 2007. Since 31 December 2010, the advanced IRB Approach has been applied for medium-sized companies, housing co-operative associations and property companies, and in 2013, Stadshypotek received the Financial Supervisory Authority's approval to extend its use of the advanced IRB Approach to large companies. As of Q2 2017, Stadshypotek applies the IRB Approach without own estimates of LGD and credit conversion factor (CCF) for sovereign exposures.

In 2017, Handelsbanken received approval from the Swedish Financial Supervisory Authority to use new models for calculation of the PD values for companies. These models estimate the long-term PD, including a margin of conservatism and a business cycle adjustment, at the portfolio level. This portfolio PD is then allocated among the various risk classes. Normally the portfolio PD will not vary from year to year, though the risk-class PD will, as the breakdown of counterparties among the risk classes varies over time. When the new models were implemented, the risk weights for companies increased, while the future variation of the risk weights – and accordingly the capital requirement – decreased.

The Swedish Financial Supervisory Authority has decided to approve the Finnish Supervisory Authority's decision to implement an average company-specific risk weight floor of 15 per cent for Finnish mortgage loan exposures. The Swedish Financial Supervisory Authority's decision has applied since 1 January 2018. On 31 December 2018, the Swedish Financial Supervisory Authority introduced a risk weight floor of 25 per cent for Swedish mortgage loan exposures under Pillar 1. Following the Financial Supervisory Authority of Norway's decision to introduce a risk weight floor for certain exposures in Norway, the Swedish Financial Supervisory Authority has resolved to recognise the Norwegian measures in Pillar 1.

Operational risk – Like its parent company, Stadshypotek uses the standardised approach which means that the capital requirement is calculated by multiplying a factor specified in the regulations by the average operating income during the last three years.

Market risk – Stadshypotek has no market risks that are reported according to the capital adequacy rules for market risk. For a description of risk management, see note 2, Risks and risk control, on page 28.

NOTE 30 Cont.

Transitional own funds

Presentation in accordance with the requirements of Commission Implementing Regulation (EU) No 1423/2013
The excluded lines are deemed not to be relevant for Stadshypotek at the time of publication.

	Own funds SEK m	2021	2020	Regulation (EU) No 575/2013 Article Reference
	Common equity tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	4,050	4,050	26.1, 27, 28, 29,
	of which share capital	*4,050*	*4,050*	*EBA list 26.3*
2	Retained earnings	33,452	33,956	26.1 c
3	Accumulated other comprehensive income (and any other reserves, to include unrealised gains and losses according to the applicable accounting standards)	1,027	2,629	26.1
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	1,621		26.2
6	**Common equity tier 1 (CET1) capital before regulatory adjustments**	**40,150**	**40,635**	
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments (negative amount)			34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-97	-121	36.1 b, 37
11	Fair value reserves related to gains or losses on cash flow hedges	-966	-2,725	33.1 a
12	Negative amounts resulting from the calculation of expected loss amounts	-377	-373	36.1 d, 40, 159
14	Gains or losses on liabilities measured at fair value resulting from changes in the institution's own credit standing			33 b
15	Defined benefit pension fund assets (negative amount)			36.1 e, 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)			36.1 f, 42
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			36.1 i, 43, 45, 47, 48.1 b, 49.1-49.3, 79
20a	Exposure amount of the following items which qualify for a risk weight of 1,250%, where the institution opts for the deduction alternative			36 (1) (k)
20c	*of which securitisation positions (negative amount)*			*36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258*
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)			36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)			48.1
23	*of which direct and indirect holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities*			36.1 i, 48.1 b
25	*of which deferred tax assets arising from temporary differences*			36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)			36.1 a
25b	Foreseeable tax charges relating to CET1 items (negative amount)			36.1 l
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)			36.1 j
28	**Total regulatory adjustments to common equity tier 1 capital (CET1)**	**-1,440**	**-3,219**	
29	**Common equity tier 1 capital**	**38,710**	**37,416**	
	Additional tier 1 capital: instruments			
30	Capital instruments and the related share premium accounts	13,200	8,300	51, 52
32	*of which classified as liabilities under applicable accounting standards*			
33	Amount of qualifying items referred to in Article 484.4 and the related share premium accounts subject to phase-out from AT1			486.3
36	**Additional tier 1 (AT1) capital before regulatory adjustments**			
	Additional tier 1 capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)			52 (1) (b), 56 (a), 57
40	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			56 (d), 59, 79
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)			56 e
43	**Total regulatory adjustments to additional tier 1 (AT1) capital**			
44	**Additional tier 1 capital**	**13,200**	**8,300**	
45	**Tier 1 capital (tier 1 capital = common equity tier 1 capital + additional tier 1 capital)**	**51,910**	**45,716**	
	Tier 2 capital: instruments and reserves			
46	Capital instruments and the related share premium accounts	4,500	13,400	62, 63
50	Credit risk adjustments			62 c and d
51	**Tier 2 (T2) capital before regulatory adjustments**	**4,500**	**13,400**	

Presentation in accordance with the requirements of Commission Implementing Regulation (EU) No 1423/2013

NOTE 30 Cont.

Own funds SEK m		2021	2020	Regulation (EU) No 575/2013 Article Reference
	Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)			63 b i, 66 a, 67
55	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)			66d, 69, 79
57	**Total regulatory adjustments to tier 2 capital**			
58	**Tier 2 capital**	**4,500**	**13,400**	
59	**Total capital (total capital = tier 1 capital + tier 2 capital)**	**56,410**	**59,116**	
60	**Total risk-weighted assets**	**307,687**	**285,452**	
	Capital ratios and buffers			
61	Common equity tier 1 capital (as a percentage of the risk-weighted exposure amount)	12.6	13.1	92.2 a
62	Tier 1 capital (as a percentage of the risk-weighted exposure amount)	16.9	16.0	92.2 b
63	Total capital (as a percentage of the risk-weighted exposure amount)	18.3	20.7	92.2 c
64	Institution-specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus a systemically important institution buffer expressed as a percentage of the total risk-weighted exposure amount)	2.5	2.5	Capital Requirements Directive 128, 129, 130, 131, 133
65	*of which capital conservation buffer requirement*	*2.5*	*2.5*	
66	*of which countercyclical capital buffer requirement*	*0.0*	*0.0*	
67	*of which systemic risk buffer requirement*			
67a	*of which buffer for global systemically important institutions or other systemically important institutions*			Capital Requirements Directive 131
68	Common equity tier 1 capital available for use as a buffer (as a percentage of the risk-weighted exposure amount)	8.2	8.6	Capital Requirements Directive 128
	Amounts below the threshold for deductions (prior to determining the risk weight)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)			36.1 h, 46, 45, 56 c, 59, 60, 66 c, 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)			36 (1) (i), 45, 48
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)			36 (1) (c), 38, 48
	Applicable caps on the inclusion of provisions in tier 2 capital			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)			62
77	Cap for inclusion of credit risk adjustments in T2 under standardised approach			62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)			62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach			62
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements			484.3, 486.2, 486.5
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)			484.3, 486.2, 486.5
82	Current cap on AT1 instruments subject to phase-out arrangements			484.4, 486.3, 486.5
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)			484.4, 486.3, 486.5
84	Current cap on T2 instruments subject to phase-out arrangements			484.5, 486.4, 486.5
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)			484.5, 486.4, 486.5

Presentation in accordance with the requirements of Commission Implementing Regulation (EU) No 1423/2013

NOTE 30 Cont.

Capital instruments main features[1]	Common equity tier 1 capital	Tier 1 capital
Issuer	**Stadshypotek AB**	**Stadshypotek AB**
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)		
Governing law(s) of the instrument	Swedish law	Swedish law
Regulatory treatment		
Transitional CRR rules	Common equity tier 1 capital	Additional tier 1 capital
Post-transitional CRR rules	Common equity tier 1 capital	Additional tier 1 capital
Eligible at solo/(sub-)consolidated/solo & (sub)consolidated level	Individual and group	Individual and group
Instrument type (types to be specified by each jurisdiction)	Share	Tier 1 capital
Amount recognised in regulatory capital (currency in million, at most recent reporting date)	SEK 4,050 million	SEK 5,300 million
Nominal amount of instrument	SEK 4,050 million	SEK 5,300 million
Issue price	SEK 4,050 million	SEK 5,300 million
Redemption price	N/A	N/A
Accounting classification	Equity	Equity
Original date of issuance		19-12-27
Perpetual or dated	Perpetual	Perpetual
Original maturity date	N/A	N/A
Issuer call subject to prior supervisory approval	N/A	
Optional call date, contingent call dates and redemption amount	N/A	Stadshypotek is entitled to redeem or repay the loan only if the conditions stated in Article 77 of the CRR are met, but no sooner than 27 December 2024, and thereafter only on each subsequent interest payment date.
Subsequent call dates, if applicable	N/A	N/A
Coupons/dividends		
Fixed or floating dividend/coupons	N/A	Floating
Coupon rate and any related index	N/A	3-month STIBOR plus 335bp
Existence of dividend stopper	N/A	Yes
Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	Fully discretionary
Existence of step-up or other incentive to redeem	No	No
Non-cumulative or cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	N/A	N/A
If convertible, fully or partially	N/A	N/A
If convertible, conversion rate	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A
Impairment features	No	No
If impairment, impairment trigger(s)	N/A	N/A
If impairment, full or partial	N/A	N/A
If impairment, permanent or temporary	N/A	N/A
If temporary impairment, description of write-up mechanism	N/A	N/A
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Lowest	Subordinate to all senior funding
Non-compliant transitioned features	No	No
If yes, specify non-compliant features	N/A	N/A

1 N/A denotes not applicable.

Presentation in accordance with the requirements of Commission Implementing Regulation (EU) No 1423/2013.

NOTE 30 Cont.

Capital instruments main features[1]	Tier 1 capital	Tier 1 capital
Issuer	**Stadshypotek AB**	**Stadshypotek AB**
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)		
Governing law(s) of the instrument	Swedish law	Swedish law
Regulatory treatment		
Transitional CRR rules	Additional tier 1 capital	Additional tier 1 capital
Post-transitional CRR rules	Additional tier 1 capital	Additional tier 1 capital
Eligible at solo/(sub-)consolidated/solo & (sub)consolidated level	Individual and group	Individual and group
Instrument type (types to be specified by each jurisdiction)	Tier 1 capital	Subordinated loan
Amount recognised in regulatory capital (currency in million, at most recent reporting date)	SEK 3,000 million	SEK 4,900 million
Nominal amount of instrument	SEK 3,000 million	SEK 4,900 million
Issue price	SEK 3,000 million	SEK 4,900 million
Redemption price	SEK 3,000 million	SEK 4,900 million
Accounting classification	Equity	Equity
Original date of issuance	20-12-27	21-06-30
Perpetual or dated	Perpetual	Perpetual
Original maturity date	N/A	26-06-30
Issuer call subject to prior supervisory approval		Yes
Optional call date, contingent call dates and redemption amount	Stadshypotek is entitled to redeem or repay the loan only if the conditions stated in Article 77 of the CRR are met, but no sooner than 27 December 2025, and thereafter only on each subsequent interest payment date.	Stadshypotek is entitled to redeem or repay the loan only if the conditions stated in Article 77 of the CRR are met, but no sooner than 30 December 2026, and thereafter only on each subsequent interest payment date.
Subsequent call dates, if applicable	N/A	N/A
Coupons/dividends		
Fixed or floating dividend/coupons	Floating	Floating
Coupon rate and any related index	3-month STIBOR plus 285bp	3-month STIBOR plus 335bp
Existence of dividend stopper	Yes	Yes
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
Existence of step-up or other incentive to redeem	No	No
Non-cumulative or cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	N/A	N/A
If convertible, fully or partially	N/A	N/A
If convertible, conversion rate	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A
Impairment features	No	No
If impairment, impairment trigger(s)	N/A	N/A
If impairment, full or partial	N/A	N/A
If impairment, permanent or temporary	N/A	N/A
If temporary impairment, description of write-up mechanism	N/A	N/A
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to all senior funding	Subordinate to all senior funding
Non-compliant transitioned features	No	No
If yes, specify non-compliant features	N/A	N/A

[1] N/A denotes not applicable.

Presentation in accordance with the requirements of Commission Implementing Regulation (EU) No 1423/2013.

NOTE 30 Cont.

Capital instruments main features[1]	Tier 2 capital
Issuer	**Stadshypotek AB**
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	
Governing law(s) of the instrument	Swedish law
Regulatory treatment	
Transitional CRR rules	Tier 2 capital
Post-transitional CRR rules	Tier 2 capital
Eligible at solo/(sub-)consolidated/solo & (sub)consolidated level	Individual and group
Instrument type (types to be specified by each jurisdiction)	Subordinated loan
Amount recognised in regulatory capital (currency in million, at most recent reporting date)	SEK 4,500 million
Nominal amount of instrument	SEK 4,500 million
Issue price	SEK 4,500 million
Redemption price	SEK 4,500 million
Accounting classification	Equity
Original date of issuance	13-12-27
Perpetual or dated	Perpetual
Original maturity date	29-01-03
Issuer call subject to prior supervisory approval	Yes
Optional call date, contingent call dates and redemption amount	3 March 2024 Stadshypotek is entitled to renegotiate the terms and conditions or, if 5 years have passed since the disbursement, redeem the loan if, due to changes to the applicable regulations at the time of issue, fully or partially, the loan is not allowed to be included in regulatory own funds.
Subsequent call dates, if applicable	At each future interest due date, this being the third of the month after the end of each quarter
Coupons/dividends	
Fixed or floating dividend/coupons	Floating
Coupon rate and any related index	3-month STIBOR plus 200bp
Existence of dividend stopper	Yes
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
Existence of step-up or other incentive to redeem	No
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	N/A
If convertible, fully or partially	N/A
If convertible, conversion rate	N/A
If convertible, mandatory or optional conversion	N/A
If convertible, specify instrument type convertible into	N/A
If convertible, specify issuer of instrument it converts into	N/A
Impairment features	No
If impairment, impairment trigger(s)	N/A
If impairment, full or partial	N/A
If impairment, permanent or temporary	N/A
If temporary impairment, description of write-up mechanism	N/A
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to all senior funding
Non-compliant transitioned features	No
If yes, specify non-compliant features	N/A

[1] N/A denotes not applicable.

Presentation in accordance with the requirements of Commission Implementing Regulation (EU) No 1423/2013.

NOTE 30 Cont.

CAPITAL ADEQUACY ANALYSIS

Figures reported in this section refer to the minimum capital requirements under Pillar 1. On 1 January 2014, the European Capital Requirements Regulation (CRR) came into force, and on 2 August 2014, the CRD IV Directive was implemented in Sweden. Own funds and capital requirement are calculated in accordance with EU regulations. All references to CRD IV in this report refer to the new regulations in their entirety regardless of legislative form (regulation, directive, executive decree or national implementation).

Capital requirement 31 December SEK m	2021	2020
Credit risk according to standardised approach	0	10
Credit risk according to IRB Approach	22,818	21,077
Operational risk	1,797	1,749
Total capital requirement	**24,615**	**22,836**
Total own funds	**56,410**	**59,116**
Tier 1 capital	**51,910**	**45,716**

Capital adequacy analysis 31 December	2021	2020
Common equity tier 1 ratio, CRD IV	12.6%	13.1%
Tier 1 ratio, CRD IV	16.9%	16.0%
Total capital ratio, CRD IV	18.3%	20.7%
Risk exposure amount CRD IV, SEK m[1]	307,687	285,452
Own funds in relation to capital requirement according to Basel I floor		
Institution-specific buffer requirement	2.5%	2.5%
of which capital conservation buffer requirement	*2.5%*	*2.5%*
of which countercyclical capital buffer requirement	*0.0%*	*0.0%*
Common equity tier 1 capital available for use as a buffer	8.2%	8.6%

[1] On 31 December 2018, the Swedish Financial Supervisory Authority implemented a risk weight floor of 25 per cent for Swedish mortgage loan exposures.

Credit risks IRB	Exposure amount		Average risk weight, %		Risk-weighted exposure amount		Capital requirement	
SEK m	2021	2020	2021	2020	2021	2020	2021	2020
Sovereign, municipalities and central banks	**13,810**	**15,900**	**7.6%**	**7.3%**	**1,048**	**1,157**	**84**	**93**
Corporate	**469,791**	**441,667**	**7.6%**	**8.0%**	**35,852**	**35,404**	**2,868**	**2,832**
of which other lending, foundation approach	*635*	*566*	*12.4%*	*17.2%*	*79*	*97*	*6*	*8*
of which other lending, advanced approach	*469,156*	*441,101*	*7.6%*	*8.0%*	*35,773*	*35,307*	*2,862*	*2,825*
– large corporates	*894*	*1,233*	*35.7%*	*41.1%*	*319*	*507*	*26*	*41*
– medium-sized companies	*24,455*	*22,059*	*17.1%*	*17.3%*	*4,178*	*3,816*	*334*	*305*
– property companies	*198,871*	*192,512*	*12.4%*	*13.0%*	*24,592*	*24,933*	*1,967*	*1,995*
– housing co-operative associations	*244,937*	*225,297*	*2.7%*	*2.7%*	*6,685*	*6,052*	*535*	*484*
Household	**1,040,250**	**980,580**	**23.9%**	**23.1%**	**248,197**	**226,902**	**19,856**	**18,152**
of which risk weight floor for mortgage loans[1]	*967,347*	*837,634*	*25.0%*	*25.0%*	*237,566*	*209,408*	*19,005*	*16,753*
of which private individuals	*1,034,490*	*974,596*	*4.7%*	*3.2%*	*48,673*	*31,361*	*3,894*	*2,509*
of which small companies	*5,760*	*5,984*	*13.7%*	*9.6%*	*791*	*573*	*63*	*46*
Non credit-obligation asset exposures	*117*	*0*	*100.0%*	*100.0%*	*117*	*0*	*9*	*0*
Total	**1,523,968**	**1,438,147**	**18.7%**	**18.3%**	**285,214**	**263,463**	**22,818**	**21,077**

[1]The Swedish Financial Supervisory Authority has changed the methodology for the Swedish risk weight floor of 25%. This was previously a requirement under Pillar 2, but as of 31 December 2018, it constitutes a Pillar 1 requirement pursuant to Article 458 of the CRR. As of 2021, the Swedish Financial Supervisory Authority also includes the Norwegian risk weight floor for mortgages and for companies with property mortgages as a requirement under Pillar 1.

Capital requirement credit risks standardised approach[2]	2021				2020			
SEK m	Exposure value	Average risk weight, %	Risk-weighted exposure value	Capital requirement	Exposure value	Average risk weight, %	Risk-weighted exposure value	Capital requirement
Sovereign and central banks								
Municipalities								
Institutions	34,357	0.0%	0	0	35,690	0.0%	0.0	0
Corporate								
Household	1	35.0%	0	0	97	99.6%	96.0	8
Past due items								

NOTE 30 Cont.

Capital requirement credit risks standardised approach[2]	2021				2020			
SEK m	Exposure value	Average risk weight, %	Risk-weighted exposure value	Capital requirement	Exposure value	Average risk weight, %	Risk-weighted exposure value	Capital requirement
Other items	6	100.0%	6	0	33	100.0%	33.0	3
Total	**34,363**	**0.0%**	**6**	**0**	**35,820**	**0.4%**	**130.0**	**10**

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

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

EU OV1 – Overview of risk-weighted exposure amounts			Risk-weighted exposure amounts	Minimum capital requirement
			T	T
	1	Credit risk (excluding CCR)	285,220	22,818
Article 438 (c) and (d)	2	of which standardised approach	6	0
Article 438 (c) and (d)	3	of which foundation IRB Approach	1,245	100
Article 438 (c) and (d)	4	of which advanced IRB Approach	283,969	22,717
Article 438 (d)	5	of which the capital-related IRB Approach within the framework for the simplified risk-weighted approach or the IRB Approach	0	0
“Article 107	6	Counterparty credit risk	0	0
Article 438 (c) and (d)”	7	of which market valuation		
Article 438 (c) and (d)	8	of which original exposure		
Article 438 (c) and (d)	9	of which standardised approach		
	10	of which the method using internal models		
	11	of which risk exposure amount for contributions to the default fund of a CCP		
Article 438 (c) and (d)	12	of which creditworthiness adjustment	0	0
Article 438 (c) and (d)	13	Settlement risk		
Article 438 (e)	14	Non-trading book securitisation exposures (after cap)		
Article 449 o i)	15	of which IRB Approach		
	16	of which the internal formula approach		
	17	of which IRB Approach		
	18	of which standardised approach		
Article 438 (e)	19	Market risk	0	0
	20	of which standardised approach		
	21	of which the IRB approach		
Article 438 (e)	22	Large exposures		
Article 438 f	23	Operational risk	22,467	1,797
	24	Of which basic indicator approach		
	25	of which standardised approach	22,467	1,797
	26	Of which internal measurement approach		
Article 437.2, Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)		
Article 500	28	Adjustment of the minimum limit		
	29	**Total**	**307,687**	**24,615**

Exposure amount/exposure value by country broken down into volumes calculated according to the IRB Approach and the standardised approach	2021		2020	
SEK m	IRB approach	Standardised approach	IRB Approach	Standardised approach
Sweden	1,302,229	32,061	1,240,473	33,951
Denmark	49,629	799	47,588	837
Finland	57,676	188	53,392	373
Norway	114,434	1,314	96,694	660
Total	**1,523,968**	**34,363**	**1,438,147**	**35,821**

NOTE 30 Cont.

DETAILS OF MATURITY PERIODS FOR CAPITAL ADEQUACY

IRB-approved exposures broken down by maturity according to the Capital Requirements Regulation (M)
2021

SEK m	Exposure amount	Within 1 year	1 yr–2.5 yrs	2.5 yrs	2.5 yrs–5 yrs	= 5 yrs
Corporate exposures	469,791	90,854	42,982	638	42,270	293,047
Total	**469,791**	**90,854**	**42,982**	**638**	**42,270**	**293,047**

IRB-approved exposures broken down by maturity according to the Capital Requirements Regulation (M)
2020

SEK m	Exposure amount	Within 1 year	1 yr–2.5 yrs	2.5 yrs	2.5 yrs–5 yrs	= 5 yrs
Corporate exposures	441,667	86,697	38,933	570	40,533	274,934
Total	**441,667**	**86,697**	**38,933**	**570**	**40,533**	**274,934**

EXPOSURES APPROVED FOR THE IRB APPROACH

Exposures by sector and counterparty type, broken down into exposure classes	2021		2020	
SEK m		of which SME[1]		of which SME[1]
Retail exposures				
Private individuals	1,034,490		974,596	
Small companies	5,760		5,984	
Sovereign and municipal exposures	13,810		15,900	
Corporate exposures				
Housing co-operative associations	244,960	244,960	225,311	225,307
Property management	203,670	142,744	196,862	139,735
Manufacturing	126	126	96	96
Retail	485	485	398	397
Hotel and restaurant	480	480	480	420
Passenger and goods transport by sea	4	4	4	4
Other transport and communication	212	212	231	231
Construction	594	552	567	563
Electricity, gas and water	247	244	299	293
Agriculture, hunting and forestry	14,793	14,494	13,164	12,865
Other services	1,720	1,565	1,726	1,464
Holding companies, investment companies and insurance companies, mutual funds, etc.	1,565	1,388	1,186	913
Other corporate lending	933	932	1,342	1,288
Non credit-obligation asset exposures	**117**			
Exposures to institutions				
Securitisation positions				
Total IRB	**1,523,968**	**408,185**	**1,438,147**	**383,576**

[1] Small and medium-sized enterprises.

NOTE 30 Cont.

GEOGRAPHICAL SPREAD

IRB-approved exposures by country, broken down into corporate and retail exposures 2021

SEK m	Corporate exposures	Retail exposures: Private individuals	Retail exposures: Small companies	Sovereign and central banks	Municipalities
Sweden	411,518	881,580	5,154	570	3,290
Denmark	370	49,039	220		
Finland	28,941	18,501	284	709	9,241
Norway	28,962	85,370	102		
Total	**469,791**	**1,034,490**	**5,760**	**1,280**	**12,530**

Exposures calculated using the standardised approach by country, broken down by exposure class, details of capital requirement for exposure classes where there are exposures 2021

SEK m	Institutions	Corporate	Household	Other items
Sweden	32,061			0
Denmark	799			
Finland	187		1	0
Norway	1,309			5
Total	**34,357**		**1**	**6**

IRB-approved exposures by country, broken down into corporate and retail exposures 2020

SEK m	Corporate exposures	Retail exposures: Private individuals	Retail exposures: Small companies	Sovereign and central banks	Municipalities
Sweden	393,661	836,840	5,379	847	3,745
Denmark	371	46,969	248		
Finland	23,292	18,527	265	1,040	10,268
Norway	24,343	72,260	92		
Total	**441,667**	**974,596**	**5,984**	**1,887**	**14,013**

Exposures calculated using the standardised approach by country, broken down by exposure class, details of capital requirement for exposure classes where there are exposures 2020

SEK m	Institutions	Corporate	Household	Other items
Sweden	33,822		96	33
Denmark	837			
Finland	372		1	0
Norway	660			
Total	**35,690**		**97**	**33**

NOTE 30 Cont.

LEVERAGE RATIO

The table shows the leverage ratio at year-end 2021 and for the previous year. The exposures are specified for the categories balance sheet, derivative, securities funding and off-balance sheet exposures. The leverage ratio is calculated as tier 1 capital divided by total exposures. The leverage ratio has increased compared to the previous year.

LRCom: Leverage ratio – common disclosure		2021	2020
SEK m		Leverage ratio for exposure – Capital Requirements Directive	Leverage ratio for exposure – Capital Requirements Directive
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,540,119	1,455,648
2	(Asset amounts deducted in determining Tier 1 capital)	-1,440	-3,219
3	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures) (total of lines 1 and 2)**	**1,538,679**	**1,452,429**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	10,113	11,955
5	Add-on amounts for potential future exposure associated with all derivatives transactions (mark-to-market method)	8,342	6,516
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Except for the central counterparty part of trade exposures that are cleared with this counterparty)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivatives exposures (sum of lines 4 to 10)**	**18,455**	**18,471**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty's credit risk exposure for SFT exposures	-	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-	-
15	Exposures to intermediated transactions	-	-
EU-15a	(Exempted CCP leg of counterparty-cleared SFT exposures)	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**-**	**-**
	Other off-balance sheet items		
17	Off-balance sheet exposures at gross notional amount	9	8
18	(Adjustments for conversion to credit equivalent amounts)	-5	-5
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**3**	**3**
	Exempted exposures in accordance with Article 429(7) and 429(14) (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-31,836	-33,576
EU-19b	(Exposures exempted in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
	Capital and total exposure measures		
20	**Tier 1 capital**	**51,910**	**45,716**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**1,525,300**	**1,437,328**
	Leverage ratio		
22	Leverage ratio	3.40%	3.18%
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(13) of Regulation (EU) No 575/2013	0	0

NOTE 30 Cont.

The table shows accounting assets and leverage ratio exposures at year-end 2021 and for the previous year. The total exposure measure for the leverage ratio has increased compared to the previous year.

	LRSum: Summary reconciliation of accounting assets and leverage ratio exposures	2021	2020
	SEK m	Applicable amount	Applicable amount
1	**Total assets as per published financial statements**	**1,547,342**	**1,467,603**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-	-
4	**Adjustments for derivative financial instruments**	**11,231**	**6,516**
5	**Adjustments for SFT exposures**	**-**	**-**
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	3	3
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-31,836	-33,576
EU-6b	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-	-
7	Other adjustments	-1,440	-3,219
8	**Leverage ratio total exposure measure**	**1,525,300**	**1,437,328**

LRSpl: Split-up of on-balance-sheet exposures (excluding derivatives, SFTs and exempted exposures)		2021	2020
SEK m		Leverage ratio for exposure – Capital Requirements Directive	Leverage ratio for exposure – Capital Requirements Directive
EU-1	Total on-balance-sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1,526,738	1,437,325
EU-2	Trading book exposures	493	-739
EU-3	Non-trading book exposures, of which:	1,526,244	1,438,064
EU-4	Covered bonds	-	-
EU-5	Exposures treated as sovereigns	4,715	15,900
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-	-
EU-7	Institutions	-	-
EU-8	Secured by mortgages of immovable properties	1,508,665	1,417,930
EU-9	Retail exposures	1,009	978
EU-10	Corporate	10,882	2,519
EU-11	Exposures in default	969	703
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	6	34

NOTE 30 Cont.

COUNTERCYCLICAL CAPITAL BUFFER

Amount of institution-specific countercyclical capital buffer		
SEK m	2021	2020
Total risk exposure amount	307,687	285,452
Institution-specific countercyclical capital buffer rate	0.1	0.0
Institution-specific countercyclical capital buffer requirement	203	84

Geographical breakdown of credit exposures relevant for the calculation of the countercyclical capital buffer 2021

The table shows a geographical breakdown of credit exposures relevant for the calculation of the countercyclical capital buffer. The capital requirement for the countercyclical capital buffer has increased compared to the previous year.

Geographical breakdown of credit exposures relevant for the calculation of the countercyclical capital buffer 2021	Breakdown by country			
SEK m	Sweden	Norway	Other countries	Total
General credit exposures				
Exposure value according to the standardised approach (SA)	0	5	1	**6**
Exposure value according to IRB Approach	1,294,077	114,950	101,014	**1,510,041**
Trading book exposure				
Sum of long and short positions in trading book				
Value of trading book exposure for internal models				
Securitisation exposures				
Exposure value according to the standardised approach (SA)				
Exposure value according to IRB Approach				
Own funds requirement				
of which general credit exposures	*20,249*	*1,499*	*977*	*22,725*
of which trading book exposures				
of which securitisation exposures				
Total	**20,249**	**1,499**	**977**	**22,725**
Own funds weighting	**89.1%**	**6.6%**	**4.3%**	**100.0%**
Countercyclical capital buffer	**0**	**187**	**427**	**614**

Geographical breakdown of credit exposures relevant for the calculation of the countercyclical capital buffer 2020	Breakdown by country			
SEK m	Sweden	Norway	Other countries	Total
General credit exposures				
Exposure value according to the standardised approach (SA)	129	0	1	**130**
Exposure value according to IRB Approach	1,231,946	97,142	93,159	**1,422,247**
Trading book exposure				
Sum of long and short positions in trading book				
Value of trading book exposure for internal models				
Securitisation exposures				
Exposure value according to the standardised approach (SA)				
Exposure value according to IRB Approach				
Own funds requirement				
of which general credit exposures	*19,415*	*618*	*962*	*20,995*
of which trading book exposures				
of which securitisation exposures				
Total	**19,415**	**618**	**962**	**20,995**
Own funds weighting	**92.5%**	**2.9%**	**4.6%**	**100.0%**
Countercyclical capital buffer	**78**	**2**	**4**	**84**

NOTE 30 Cont.

ENCUMBERED ASSETS

The table shows encumbered and non-encumbered assets. The information is presented as quarterly median values for the previous twelve months.

Encumbered and non-encumbered assets 2021 SEK m	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
Assets of the reporting institution	**682,518**	**-**	**847,178**	**-**
Equity instruments	-	-	-	-
Interest-bearing securities	-	-	-	-
of which covered bonds	-	-	-	-
of which securities backed by other assets (ABS)	-	-	-	-
of which issued by general governments	-	-	-	-
of which issued by financial corporations	-	-	-	-
of which issued by non-financial corporations	-	-	-	-
Other assets	682,518	-	847,178	-

Encumbered and non-encumbered assets 2020 SEK m	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
Assets of the reporting institution	**691,849**		**757,941**	
Equity instruments	-		-	
Interest-bearing securities	-	-	-	-
of which covered bonds	-	-	-	-
of which securities backed by other assets (ABS)	-	-	-	-
of which issued by general governments	-	-	-	-
of which issued by financial corporations	-	-	-	-
of which issued by non-financial corporations	-	-	-	-
Other assets	691,849		757,941	

COLLATERAL RECEIVED

The table shows collateral received. The information is presented as quarterly median values for the previous twelve months.

Collateral received 2021		Non-encumbered
SEK m	Fair value of encumbered collateral received or own interest-bearing securities issued	Fair value of collateral received or own interest-bearing securities issued available for encumbrance
Collateral received by the reporting institution	**-**	**-**
Approved credit limits	-	-
Equity instruments	-	-
Interest-bearing securities	-	-
of which covered bonds	-	-
of which securities backed by other assets (ABS)	-	-
of which issued by general governments	-	-
of which issued by financial corporations	-	-
of which issued by non-financial corporations	-	-
Loans and advances other than loans on demand	-	-
Other collateral received	-	-
Own debt securities issued other than own covered bonds or securities backed by other assets	-	-
Own covered bonds and asset-backed securities issued but not yet pledged	-	-
Total assets, collateral received and own interest-bearing securities issued	**682,518**	**-**

SOURCES OF ENCUMBRANCE

The table shows the sources of encumbrance. The information is presented as quarterly median values for the previous twelve months.

Sources of encumbrance 2021 SEK m	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own interest-bearing securities issued other than covered bonds and encumbered securities backed by other assets
Carrying amount of selected financial liabilities	**624,810**	**682,518**

Stadshypotek is part of the banking group led by Handelsbanken and the requirement for information according to Pillar 3 in CRR/CRD IV is fulfilled by Handelsbanken's information according to Pillar 3, which is available at handelsbanken.com.

NOTE 31 Material events after the balance sheet date

No material events have occurred after the balance sheet date.

NOTE 32 Proposed appropriation of profits

The Board proposes that the profits be carried forward to the next year. The Board's proposed appropriation of profits is shown on page 14.

Table of information items not disclosed under EBA/GL/2014/14

Description	Reasons for non-disclosure[1]	Reference to information which replaces non-disclosed information
The approved levels for risk to which the institution is exposed.	Limit levels regarding the Bank's risk tolerance are strictly confidential. The information relates to competitively significant business circumstances.	Key figures and risk measures on which the limit levels are based are stated in the report.

[1] Non-disclosed information is available to the supervisory authority.

Signatures of the Board and the Chief Executive

We hereby declare that the Annual Report has been prepared in accordance with generally accepted accounting practices for credit market companies in Sweden, that these accounts give a fair presentation of the company's financial position and performance, and that the statutory administration report provides a fair view of the company's operations, financial position and performance and describes material risks and uncertainties to which the company is exposed.

Stockholm, 7 February 2022

Göran Stille
Chair

Michael Bertorp
Board member

Martin Björnberg
Board member

Linda Hellström
Board member

Michael Sterne
Board member

Helena Håkansson
Employee representative,
Board member

David Haqvinsson
Chief Executive

Auditor's report

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

REPORT ON THE ANNUAL ACCOUNTS

Opinions

We have audited the annual accounts of Stadshypotek AB (publ) for the year 2021. The annual accounts of the company are included on pages 4–81 in this document.

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 of December 31, 2021 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts, and the corporate governance statement is in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the company.

Our opinions in this report on the annual accounts are consistent with the content of the additional report that has been submitted to the company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company.

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

KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Provision for expected credit losses

Detailed information and description of the area is presented in the annual accounts. Credit risk exposure and how it is handled is described in note 2 on page 28. The Company's reported expected credit losses are specified in note 11. Regarding the area relevant accounting policies, these can be found in note 1, section 11 on page 23.

Description of audit matter

As of 31 December 2021, lending to the public amounts to 1 525 915 MSEK which amounts to 98.6% of total assets. The total credit risk exposure, including off-balance commitments, amounts to 1 546 443 MSEK.

Provision for expected credit losses on lending to the public amounts to 185 MSEK for which 106 MSEK is based on model-based calculations (Stages 1 and 2) and 79 MSEK is based on manual calculations (Stage 3). The Company performs adjustments on the model-based calculations in Stages 1 and 2 to take into consideration factors which is not accounted for in the model.

Expected credit losses shall be measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and is based on past events, current conditions and forecasts of economic conditions. To make the provision the Company is required to make estimates and assumptions regarding, for example, criteria to identify a significant increase in credit risk and methods to calculate expected credit losses. Due to the complexity of the calculation and that it requires the Company to make estimates and assumptions provisioning for expected credit losses is considered a key audit matter.

How this matter has been considered in the audit

We have assessed whether the Company's assessment of probability of default, loss given default, exposure at default and expected credit loss as well as significant increase in credit risk is in accordance with IFRS 9.

We have tested the design and efficiency of key controls in both the credit process and credit decisions, credit review, rating classification as well as identifying and determining credits to be in default. We have also tested controls relating to input to model data and the general IT controls including the handling of authorization regarding these systems. Our assessment is that we can rely on controls when performing our audit.

Furthermore, we have on a sample basis challenged the Company's initial and current credit rating. We have tested that data used from supporting systems used in the model is complete and accurate. We have reviewed and assessed the model including the assumptions and parameters as well as assessed the outcome of the model validations which has been performed and reviewed the reasonableness of the macroeconomic data used. We have reviewed the reasonableness in the manual adjustments performed by the Company, including the adjustment made by the company in relation to Covid-19. In our audit we have used our internal model specialists to support us when performing the audit procedures.

We have also assessed the disclosures in the financial statements regarding credit risk are appropriate.

Other information than annual accounts
This document also contains other information than the annual accounts and is found on pages 1–3 and 82–89. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or mistake.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility
Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or mistake, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or mistake and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also report significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Stadshypotek AB (publ) for the year 2021 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND MANAGING DIRECTOR

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has 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.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with a starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. 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.

Ernst & Young AB, Hamngatan 26, 111 47 Stockholm, was appointed auditor of Stadshypotek AB by the general meeting of the shareholders on 29 March 2021 and has been the company's auditor since 28 March 2017.

Stockholm February 24, 2022
Ernst & Young AB

Jesper Nilsson
Authorized public accountant

Stadshypotek's bonds

Covered bonds, SEK Loan no.	Interest rate, %	Loan date	Interest due dates	Maturity date	Nominal amount, SEK '000
1586	4.50	2010-04-26	09-21	2022-09-21	62,947,000
1587	1.50	2017-10-09	06-01	2023-06-01	66,200,000
1588	1.50	2018-09-17	03-01	2024-03-01	67,950,000
1589	1.50	2019-06-10	12-03	2024-12-03	66,430,000
1590	1.00	2020-01-28	09-03	2025-09-03	67,360,000
1591	0.50	2020-10-16	06-01	2026-06-01	61,350,000
1592	1.00	2021-10-18	03-01	2027-03-01	24,450,000
1594	2.00	2018-06-28	09-01	2028-09-01	33,086,000
1598	1.50	2021-05-26	09-03	2031-09-03	1,750,000
2006	1.81	2014-11-18	11-25	2025-11-25	400,000
2017	3M STIBOR	2018-11-23	02-03, 05-03, 08-03, 11-03	2022-02-03	5,300,000
2018	3M STIBOR	2019-04-02	02-03, 05-03, 08-03, 11-03	2022-05-03	5,250,000
2019	3M STIBOR	2019-04-23	02-03, 05-03, 08-03, 11-03	2022-08-03	5,300,000
2020	3M STIBOR	2020-03-23	02-03, 05-03, 08-03, 11-03	2023-08-03	7,050,000
2021	3M STIBOR	2021-09-06	02-01, 05-01, 08-01, 11-01	2025-08-01	7,100,000
EMTNCB	3.25	2011-11-01	11-03	2026-11-03	2,000,000
Total					**483,923,000**

Covered bonds, foreign currency Currency	Amount	Interest rate, %	Loan date	Interest due dates	Maturity date	Nominal amount, SEK '000
EUR	1,000,000	0.0500	2016-06-13	06-20	2022-06-20	10,254,613
EUR	1,250,000	0.3750	2016-02-15	02-22	2023-02-22	12,818,266
EUR	500,000	0.3750	2017-02-14	02-21	2024-02-21	5,127,307
EUR	750,000	0.3750	2017-11-29	12-06	2024-12-06	7,690,960
EUR	1,000,000	0.5000	2018-07-04	07-11	2025-07-11	10,254,613
EUR	1,250,000	0.3750	2019-03-06	03-13	2026-03-13	12,818,266
EUR	500,000	0.1250	2016-09-27	10-05	2026-10-05	5,127,307
EUR	500,000	0.7500	2017-10-24	11-01	2027-11-01	5,127,307
EUR	1,000,000	0.0100	2020-11-17	11-24	2028-11-24	10,254,613
EUR	1,000,000	0.0100	2021-09-23	09-30	2030-09-30	10,254,613
EUR	100,000	1.4440	2018-04-16	04-19	2038-04-19	1,025,461
EUR	100,000	1.5445	2018-05-15	05-24	2038-05-24	1,025,461
GBP	650,000	SONIA	2018-01-04	01-11, 04-11, 07-11, 10-11	2023-01-11	7,939,914
NOK	5,000,000	3M NIBOR	2016-04-05	01-08, 04-08, 07-08, 10-08	2022-04-08	5,135,405
NOK	5,000,000	3M NIBOR	2018-03-22	03-21, 06-21, 09-21, 12-21	2023-06-21	5,135,405
NOK	5,000,000	3M NIBOR	2019-03-13	03-19, 06-19, 09-19, 12-19	2024-03-19	5,135,405
NOK	6,000,000	3M NIBOR	2020-06-16	03-24, 06-24, 09-24, 12-24	2025-06-24	6,162,486
NOK	8,000,000	3M NIBOR	2021-02-16	03-10, 06-10, 09-10, 12-10	2026-03-10	8,216,648
USD	1,250,000	2.5000	2017-03-29	04-05, 10-05	2022-04-05	11,330,562
Total						**140,834,612**

Senior Non-preferred Notes Currency	Interest rate, %	Loan date	Interest due dates	Maturity date	Nominal amount, SEK '000
SEK	3M STIBOR	2021-06-28	03-29, 06-29, 09-29, 12-29	2026-06-29	4,000,000
SEK	3M STIBOR	2021-12-09	03-13, 06-13, 09-13, 12-13	2027-12-13	5,000,000
SEK	3M STIBOR	2021-12-09	03-13, 06-13, 09-13, 12-13	2028-12-13	5,000,000
Total					**14,000,000**

Total bonds, SEK '000	Change in 2021	Nominal amount
Covered bonds, SEK	26,443,000	483,923,000
Covered bonds, foreign currency	-5,870,350	140,834,612
Senior Non-preferred Notes	14,000,000	14,000,000
Total	**34,572,650**	**638,757,612**

Calculation of key figures

For definitions, see page 87.

Return on equity SEK m	2021	2020	2019	2018	2017
Equity	**57,850**	**62,335**	**61,524**	**57,870**	**54,068**
Adjustment hedge reserve	-966	-2,726	-2,264	-699	-741
Return of Group contribution, net	8,734	8,960	7,388	5,772	8,034
Total adjusted equity	**65,618**	**68,569**	**66,648**	**62,943**	**61,361**
Adjusted equity, average [1]	**66,428**	**66,798**	**64,252**	**60,810**	**42,263**
Profit for the year	10,355	10,080	9,771	9,672	9,543
Return on equity, %	**15.6**	**15.1**	**15.2**	**15.9**	**22.5**

[1] Average closing balance for the past five quarters

Definitions

ALTERNATIVE PERFORMANCE MEASURES
Alternative Performance Measures (APMs) are financial measures of historical and future performance, financial position or cash flow that are defined in neither IFRS nor the Capital Requirements Regulation.

Stadshypotek uses APMs to describe the performance of the operations and to increase comparability between periods. These need not be comparable with similar key figures (performance measures) presented by other companies.

Proportion of loans in Stage 3
Net loans to the public Stage 3 in relation to gross loans to the public.

Return on total assets
Profit for the year in relation to average total assets.

Benchmark programme
Covered bonds are issued in the company's own name and as part of a joint funding programme. The bonds have a fixed coupon yield or a floating rate.

Mortgage loans
Lending in a mortgage institution.

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

Credit loss ratio expressed as a percentage of loans to the public
Credit losses on loans to the public in relation to loans to the public at the beginning of the period.

Net interest margin
Net interest income in relation to average total assets.

Reserve ratio Stage 1 loans to the public
Provisions Stage 1 loans to the public in relation to gross loans to the public Stage 1.

Reserve ratio Stage 2 loans to the public
Provisions Stage 2 loans to the public in relation to gross loans to the public Stage 2.

Reserve ratio Stage 3 loans to the public
Provisions Stage 3 loans to the public in relation to gross loans to the public Stage 3.

Earnings per share
Profit for the year attributable to holders of ordinary shares divided by the average number of outstanding shares. Where applicable, the dilution effect is taken into account.

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

Total reserve ratio, loans to the public
Total provisions loans to the public in relation to gross loans to the public.

KEY FIGURES DEFINED IN THE CAPITAL REQUIREMENTS REGULATION

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

Exposure amount
Exposure amount (exposure at default) is the amount which is subject to capital adequacy requirements. The amount is calculated taking into account interest rates and fees. Amounts relating to off-balance-sheet items are recalculated using a credit conversion factor (CCF). For derivatives, the exposure amount is calculated as positive MTM (mark-to-market) plus value change risk, i.e. the nominal amount multiplied by the upward adjustment factor.

Exposure value
Exposure value is the same as exposure amount. The concept of exposure value is used in the standardised approach for credit risk.

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

Capital requirement
The statutory capital requirement means that an institution which is subject to CRR must have a common equity tier 1 ratio of at least 4.5 per cent, a tier 1 ratio of at least 6 per cent and a total capital ratio of at least 8 per cent. This means that own funds for the respective ratio must be at least the stated percentage of the risk exposure amount. For definitions of the respective own funds amounts, see Common equity tier 1 capital, Tier 1 capital and Total capital. In addition to the general requirements, the supervisory authority may add institution-specific requirements in accordance with the second pillar of the regulations.

Credit conversion factor (CCF)
The factor that is used when calculating the exposure amount for unutilised overdraft facilities, committed loan offers, guarantees and other off-balance-sheet commitments.

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

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

Common equity tier 1 ratio
Common equity tier 1 capital in relation to risk-weighted exposure amount.

Tier 1 capital
Common equity tier 1 capital including additional tier 1 capital.

Tier 1 ratio
Tier 1 capital in relation to risk-weighted exposure amount.

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

Risk exposure amount
The capital requirement in accordance with CRR, multiplied by 12.5. The risk exposure amount is used in connection with market risk and operational risk.

Risk weight
A measure to describe the level of risk an exposure is expected to have according to the capital adequacy regulations.

Risk-weighted assets
Total risk exposure amounts. The statutory capital requirement is based on this.

Risk-weighted exposure amount
Exposure amount multiplied by risk weight. Risk-weighted exposure amounts are used in connection with credit risks, including counterparty risks.

Tier 2 capital
Tier 2 capital is a sub-component of own funds and comprises, among other things, subordinated loans and puttable financial instruments classified as equity which meet the requirements stated in Regulation (EU) No 575/2013 and can therefore be included in tier 2 capital.

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

Total risk-weighted exposure amount
Total risk exposure amount is the sum of risk exposure amount and risk-weighted exposure amount.

Facts about the company

Registered name: Stadshypotek AB (publ)
Corporate identity no: 556459-6715
Registration date: 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 to 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.

ADDRESSES

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