

ANNUAL REPORT 1998



Svenska Handelsbanken



THE ANNUAL GENERAL MEETING OF SVENSKA HANDELSBANKEN

will be held at the *Grand Hôtel's Winter Garden*, Royal entrance, Stallgatan 4, Stockholm, at 10.00 a.m. on Tuesday, 27 April 1999.

Notice of attendance at Annual General Meeting

Shareholders wishing to attend the Meeting must

- be recorded in the register of shareholders kept by Värdepapperscentralen VPC AB (Swedish Central Securities Depository and Clearing Organisation), on or before Friday, 16 April 1999, and
- give notice of attendance to the Chairman's office at the Head Office of the Bank, Kungsträdgårdsgatan 2, 106 70 Stockholm, telephone +46 8 701 19 84, by 3 p.m. on Thursday, 22 April 1999.

Any shareholders whose shares are nominee-registered must also, in order to be entitled to take part in the Meeting, request a temporary entry in the register of shareholders kept by VPC. Shareholders must notify the nominee about this well before 16 April 1999, when this entry must have been effected.

Dividend

The Board of Directors recommends that the record day for the dividend be Friday, 30 April 1999.

If the Annual General Meeting votes in accordance with this recommendation, VPC expects to be able to send the dividend to shareholders on Friday, 7 May 1999.

Publication dates for interim reports

January – March	26 April 1999
January – June	24 August 1999
January – September	26 October 1999

Svenska Handelsbanken AB (publ)
Registered no. 502007-7862
www.handelsbanken.se



ANNUAL REPORT 1998

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Handelsbanken highlights

Performance for the Handelsbanken Group

	1998 SEK m	1997 SEK m	Change %
Net interest income	11 152	11 169	0
Commission, net	3 408	3 337	2
Net result on financial operations	1 520	593	156
Other income	757	716	6
Total income	16 837	15 815	6
Staff costs	4 579	4 150	10
Other expenses	4 228	3 543	19
Total expenses	8 807	7 693	14
Profit before loan losses	8 030	8 122	- 1
Loan losses	319	302	6
Operating profit	7 711	7 820	- 1
Minority interests	- 22	- 19	16
Appropriations	505	532	- 5
Taxes	- 2 168	- 2 326	- 7
Profit for the year	6 026	6 007	0
Total assets	926 450	859 466	8
Number of employees	8 546	8 184	4
Number of branches in Sweden	480	485	
Number of branches in other Nordic countries	33	30	



DEFINITIONS

ADJUSTED SHAREHOLDERS' EQUITY PER ORDINARY SHARE. Shareholders' equity as reported in the balance sheet adjusted for the capital part of the difference between the book value and market value of interest-bearing securities which are classified as financial fixed assets divided by the number of ordinary shares after full conversion of convertible subordinated notes. An adjustment has been made where preference and index share capital is calculated at current redemption value.

BAD DEBTS. A non-performing loan, or a loan where other circumstances lead to doubt concerning its value and where the value of the collateral does not cover the principal amount and the accrued interest by a satisfactory margin. Net bad debts are bad debts minus the reserve for possible loan losses.

BAD DEBT RESERVE RATIO. Reserve for possible loan losses as a percentage of gross bad debts.

CAPITAL BASE. The capital base is the sum of tier 1 (primary) and tier 2 (supplementary) capital. Tier 1 capital comprises shareholders' equity less goodwill plus 72% (1994 70%) of untaxed reserves in the parent company. Tier 2 capital includes subordinated loans with some reduction when the residual maturity is under five years. This part of the supplementary capital may not exceed 50% of tier 1 capital. With specific permission from the Government or, following authorisation by the Government, from the Financial Supervisory Authority, other instruments may also be included in tier 1 or tier 2 capital. However, tier 2 capital must never exceed tier 1 capital. The capital base is obtained by reducing the total of tier 1 and tier 2 capital by the book value of holdings in insurance and banking operations not included in the Consolidated Accounts.

In order to cover the capital requirement on the market risks, subordinated loans with an original maturity of at least two years can be included in the capital base.

CAPITAL RATIO. Capital ratio or the total capital ratio is the capital base in relation to risk-weighted volume. The Act on Capital Adequacy and Large Exposures of Credit Institutions and Securities Companies stipulates that it should be at least 8%.

DIRECT YIELD. Dividend per ordinary share divided by the share price at year-end.

I/E RATIO. Total income in relation to total expenses. The I/E ratio is computed before and after loan losses incl. changes in value of property taken over.

INTEREST SPREAD. Difference between the average interest rate on all assets and the average interest rate on all liabilities.

LOAN LOSS RATIO. Loan losses and changes in value of property taken over as a percentage of the opening balance for the period for lending to the general public, lending to credit institutions (excl. banks), property taken over and credit guarantees.

NET EARNINGS PER ORDINARY SHARE. The result for the period after appropriations and tax divided by the number of ordinary shares. An adjustment has been made to take into account preference shares, index shares and full conversion of convertible subordinated notes.

NON-PERFORMING LOANS. Loans where interest, repayments or overdrafts have been due for payment for more than 60 days.

OPERATING PROFIT PER ORDINARY SHARE. Operating profit after deduction of minority interest and after standard tax

(30% 1993, 28% since 1994) divided by the number of ordinary shares. An adjustment has been made to take into account preference shares, index shares and full conversion of convertible subordinated notes.

P/E RATIO. The share price at year-end divided by net earnings per ordinary share.

PROBLEM LOANS. The total of bad debts (net) and reduced rate loans.

PROFITABILITY. See Return on equity.

PROPORTION OF BAD DEBTS. Bad debts (net) in relation to total lending to the general public and credit institutions (excl. banks).

REDUCED RATE LOANS. Loans for which the interest rate has been reduced relative to market rates.

RETURN ON EQUITY. The result for the period after appropriations and tax in relation to average shareholders' equity adjusted for rights issues, dividend and also including minority interest.

RETURN ON TOTAL ASSETS. Operating profit before tax in relation to average total assets.

RISK-WEIGHTED VOLUME. The risk-weighted volume is determined by the assets and off-balance-sheet items being placed in varying risk classes, in accordance with the Act on Capital Adequacy and Large Exposures of Credit Institutions and Securities Companies. The volumes are weighted taking into account the assessed risk such that they are included in the risk-weighted volume by 0%, 20%, 50% or 100%.

TIER 1 CAPITAL RATIO. Primary capital in relation to risk-weighted volume. (See Capital base and Risk-weighted volume.)

Result per business area

SEK m	Branch offices	Handelsbanken Markets	Handelsbanken Asset Management	Handelsbanken Finans	Handelsbanken Liv ¹⁾	Stads-hypotek Bank	Handelsbanken Central Treasury	Other	Total 1998	Total 1997
Net interest income	9 480	679	59	464	5	48	616	- 199	11 152	11 169
Commission, net	1 938	753	399	201	54	61	- 4	6	3 408	3 337
Net result on financial operations	388	1 069	11	- 1	22	0	21	10	1 520	593
Other income	23	32	16	20	1	1	0	664	757	716
Total income	11 829	2 533	485	684	82	110	633	481	16 837	15 815
Income includes net internal remuneration	1 069									
Net internal remuneration has been deducted from income	—	402	455	39	125	48	—	—		
Total expenses	5 409	2 101	185	429	62	83	16	522	8 807	7 693
Result before loan losses	6 420	432	300	255	20	27	617	- 41	8 030	8 122
Loan losses	394	- 100	—	25	—	—	—	—	319	302
Operating result	6 026	532	300	230	20	27	617	- 41	7 711	7 820
Return on equity, %	20.3	9.4	46.7	19.2	5.2	37.2	29.9		18.6	20.1

The net amount of received/paid remunerations between the business areas is included in/ deducted from the income categories for the business areas. The net amount of received/paid remuneration is shown above. The internal remuneration is credited to the business area which is responsible for the customer and reduces the income of the unit paying the remuneration. The remuneration is intended to cover expenses and also to distribute the profit arising on market terms.

Expenses include the distribution of costs made internally within the Group for services rendered by business support operations.

Return on shareholders' equity for the business areas is computed after standard tax while it is reported after appropriations and full tax for the whole Group. The shareholders' equity, on which the calculation of return on equity is based, is mainly distributed in accordance with the requirements of the Act on Capital Adequacy.

"Other" includes capital gains, dividends, amortisation of goodwill and Group adjustments.

1) Handelsbanken Liv Fondförsäkrings AB (unit-linked) and commission income from the mutual company are included under the business area "Handelsbanken Liv".

Quarterly performance of the Handelsbanken Group

SEK m	1998:4	1998:3	1998:2	1998:1	1997:4
Net interest income	2 708	2 708	2 858	2 878	2 999
Commission, net	854	819	950	785	990
Net result on financial operations	519	392	341	268	183
Other	60	11	185	501	126
Total income	4 141	3 930	4 334	4 432	4 298
Staff costs	1 195	1 169	1 108	1 107	1 078
Other administrative expenses	1 043	804	886	810	893
Depreciations and write-downs	184	164	171	166	190
Total expenses	2 422	2 137	2 165	2 083	2 161
Profit before loan losses	1 719	1 793	2 169	2 349	2 137
Loan losses	108	77	69	65	123
Operating profit	1 611	1 716	2 100	2 284	2 014
Minority interests	- 5	- 6	- 6	- 5	- 7
Pension provisions	56	151	149	149	108
Taxes	- 535	- 420	- 586	- 627	- 635
Result for the period	1 127	1 441	1 657	1 801	1 480

Key figures for the Handelsbanken Group

	1998	1997	1996	1995	1994
Profit before loan losses, SEK m	8 030	8 122	8 525	7 437	6 916
Loan losses, SEK m	319	302	1 806	2 392	2 809
Operating profit, SEK m	7 711	7 820	6 719	5 045	4 107
Total assets, SEK m	926 450	859 466	571 123	506 554	405 852
Shareholders' equity, SEK m	34 431	32 362	27 557	25 955	22 771
Return on shareholders' equity, %	18.6	20.1	19.8	14.9	10.9
Income/expenses ratio before loan losses	1.91	2.06	2.41	2.24	2.21
Income/expenses ratio after loan losses	1.84	1.98	1.86	1.60	1.48
Interest spread, %	0.99	1.06	1.39	1.42	1.82
Loan loss ratio, %	0.05	0.05	0.60	0.84	0.96
Bad debt reserve ratio, %	58.8	52.6	65.2	61.0	51.6
Proportion of bad debts, %	0.5	0.6	0.8	1.1	1.8
Capital ratio, %	9.8	10.4	12.2	14.2	13.7
Tier 1 capital ratio, %	6.3	6.2	10.0	10.3	9.3
Return on total assets, %	0.85	0.95	1.20	1.01	1.00
Operating profit per ordinary share, SEK	23.17	23.50	20.25	15.36	12.41
Net earnings per ordinary share, SEK	25.22	25.15	21.32	15.38	10.14
Dividend per ordinary share, SEK	8.00	6.50	5.00	3.75	3.00
Adjusted shareholders' equity per ordinary share, SEK	142.69	134.01	114.47	110.03	96.72
Adjusted share price, ordinary A, on 31 Dec, SEK	342	272	194	128	91
Average number of employees	8 546	8 184	7 398	7 395	7 101
Number of branches in Sweden	480	485	480	488	487
Number of branches in other Nordic countries	33	30	24	19	11

*Key figures 1994 are not adjusted for changes in accounting principles and reclassifications made in 1996.
Dividend 1998 in accordance with the Board's recommendation.
See also Key figures per share, page 81, and Profit and Loss Accounts and Balance Sheets, pages 82–83.*

The group chief executive's comments

The 1990s have been a successful decade for Handelsbanken. Our profitability lead has increased substantially. The profit for 1998 means that for the 27th year running, we have achieved our goal. Our return on equity is superior to any other major Nordic bank and we also have the best result in kronor terms: SEK 7.7 billion.

The word "economy" means management of scarce resources. A company that delivers better goods or services while using less of society's scarce resources is making a better contribution to society. That company has higher productivity and in the long run this is the only way to increase the wealth of society.

Handelsbanken's task is to deliver financial services. If we can do this better than other companies while simultaneously using less of society's scarce resources – i.e. with lower costs than our competitors – we are making a better contribution to society.

Our fundamental goal

We aim to make a better contribution by providing superior services to our customers and doing so at lower costs. If we do this, we will also achieve superior profitability. *Therefore, our goal is to have higher profitability than the average of other banks in our domestic market. By profitability we mean return on equity after tax.*

In the past, when our domestic market was Sweden, we compared ourselves with other Swedish banks. During the 1990s – when we have expanded in the other Nordic countries and these countries have become our domestic market – the comparison has been extended to include banks in the other Nordic countries. At some time in the future when Sweden is a member of EMU, it may be relevant to extend our profitability comparison to include other banks in the monetary union.

The goal of achieving higher return on equity is directly linked to the profit-sharing system, Oktogonen. Each year that we achieve our goal, a third of the extra profit is allocated to the Bank's employees. The money is disbursed when each individual employee retires.



Arne Mårtensson

There is, however, an upper limit on how much can be allocated in a single year. The ceiling is 25% of the dividend distributed to the shareholders. This limit was brought in as recently as 1988 to prevent allocations to the Oktogonen Foundation from becoming unreasonably large from the shareholders' perspective.

Our 1998 result of SEK 7.7 billion and our return on equity of 18.6% mean that for the twenty-seventh year running we have achieved our goal. Not only did we meet the target of being better than the average, we actually had the highest return on equity of the major Nordic banks and also the best result in actual figures.

During the 1990s, our profitability lead has increased significantly. A clear indication of this is that the allocation to the Oktogonen Foundation has hit its contribution ceiling every year but one.

Better service and...

Our method of creating higher profitability is to try to offer our customers better service while having lower costs than our competitors. This is why we regularly benchmark our service levels against those of our competitors. Once again we were the major Swedish bank with the most satisfied customers, both corporate and private, according to the official survey, Svenskt Kundindex. This survey is organised by the Swedish Institute for Quality, Statistics Sweden, and research departments at the Stockholm School of Economics and the Service Research Center at the University of Karlstad. These surveys have been carried out since 1989 using the same model. Throughout the 1990s, Handelsbanken has been the major Swedish bank with the greatest proportion of satisfied private customers. We have also had the most satisfied corporate customers every year but one.

Another important sign of the quality of service we provide is the complaints ratio. Throughout the 1990s, our proportion of complaints about the Swedish banks

was considerably less than our share of the banking market. Before the acquisition of Stadshypotek, our share of the lending market was some 15% and our share of complaints to the National Board for Consumer Complaints was usually around 10%. Following the acquisition of Stadshypotek in 1997, our share of the lending market in Sweden went up to 30%. In the same year, our proportion of the complaints was 14%. During 1998, this figure has fallen to 8%. This trend is very pleasing and is the result of our endeavours to improve the way we treat customers. We aim to treat customers in such a way that no reasons for them to complain will arise. When a complaint does arise, we aim to listen to the customer and solve the problem at the branch office so that the customer does not find it necessary to take the complaint to a higher level. We have been very successful in this respect in 1998.

...lower costs

During 1998, our costs were 1% of our total assets. The average for our Nordic competitors is 1.8%. Thus our cost level is almost half that of our competitors. This is in spite of the fact that our costs increased by as much as 14% in 1998. This increase was temporary and due to substantial IT investments. These were new workstations for our branch offices, new systems for our trading operations and new systems at our subsidiary, Handelsbanken Finans. We also made large investments ahead of the start of EMU and for the year 2000. Some of these investments have been completed or will be completed during 1999, and thus our IT costs will be lower this year.

Low sensitivity to market turbulence – a conscious strategy

1998 was a very turbulent year for the world's banks. The crises in Asia and Russia and the volatility of the securities markets caused bank profits to fall in many parts of the world. Handelsbanken came out of this relatively unscathed. The reason is that we have made a conscious attempt to decrease our sensitivity to various types of market turbulence. Relative to our size, we have very low exposure to the emerging markets. We have almost no claims on Russia and our claims on Latin America are only 7% of the outstanding claims of the Swedish banks, which are small in any case in an international perspective. Our sensitivity to turbulence on the equity markets is also low. Our own holdings of listed shares are very small and we do not have a property insurance operation investing by tradition in listed shares. Furthermore – contrary to popular belief – our sensitivity to interest rates is small. Most of our investment portfolio in bonds was sold off in connection with our purchase of Stadshypotek in 1997. The properties which were taken over during the Swedish financial crisis and gathered in two property companies, Näckebro and Balder, have been distributed to the shareholders. In terms of interest rate risk, property holdings are comparable to holdings of fixed-rate bonds. Traditionally, we also have a low risk profile in our trading operation.

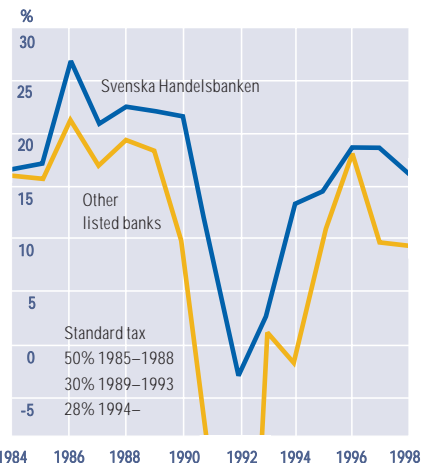
This is the background to the comparative stability which our results show over a long period in relation to other banks. Last year, a leading equity analyst in Sweden characterised the Handelsbanken share as “a flagship for widows and orphans.” In my opinion, this is praise indeed.

Cost effectiveness of some Nordic banking groups, 31 December 1998

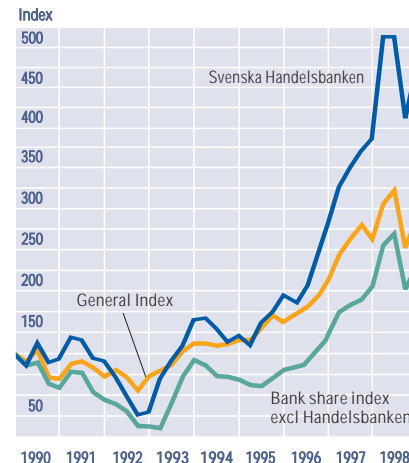
	Income/ expenses	Expenses expressed as a percentage of total assets
Handelsbanken	1.9	1.0
Den Danske Bank	1.6	1.3
MeritaNordbanken	1.6	1.9
Christiania Bank	1.6	2.0
FöreningsSparbanken	1.5	1.7
Unidanmark	1.5	1.6
Den norske Bank	1.5	2.1
SEB	1.4	2.0
Average excl. Handelsbanken	1.5	1.8

Excl. loans and adjusted for items which make comparison difficult.

Return on shareholders' equity after tax



Trend for Handelsbanken's ordinary shares





The branch is the Bank – not just another distribution channel

In 1998, for the first time, the Swedish banks reported profits broken down between business areas. We thus published that Handelsbanken's branch office network earns nearly 80% of the Group's profits. This is a great strength. The result of the branch office operation also shows much greater stability than other parts of the banking operation. Our well-run and cost-effective branch office operation is crucial for the profitability lead we have had for nearly three decades. At Handelsbanken, the branches are not just another distribution channel – the branches are the Bank. New technology is not a threat to the branches, but a tool that can be used to enhance their service to the customers, to improve cost levels and thereby raise profitability. For example, whenever a branch of Handelsbanken sells our Internet services to a customer, it lowers its cost for processing the customer's transactions. The branch improves its profitability. In this way, new technology is channelled via the branches and they become keen providers of technology-enhanced services. Thus, new technology is not a threat or a competitor but a means for branches to improve further their standard of service and cost-effectiveness.

100 000 Internet customers and leader in Edifact

Today, Handelsbanken has over 100 000 customers using the Bank's Internet services – making payments, accessing account information and trading shares and units in mutual funds. Fourteen percent of all share

transactions and ten percent of all payments at Handelsbanken are now carried out via the Internet. Our Internet service for corporate customers also started during the year and currently has 5 300 customers linked to it.

We have put a great deal of effort into making our Internet service as user-friendly as possible. I now pay all my own bills via our Internet service and in my opinion it is a very good service. In the past – as for many other chief executives – my secretary did this for me. The Internet has made my life more efficient and simpler in other respects as well, both at work and in my private life. These days, almost all my correspondence is by e-mail. I read the newspapers on the Internet when I am away from my office. I buy quite a few things – mainly books – via the Internet. When I go sailing, I download weather charts every day via the net. So the Internet even helps me to sail more safely and effectively.

Edifact is an international standard for electronic commerce between companies. Handelsbanken has a leading position in the Nordic countries in this field. In 1998, we handled some 43% of outgoing Edifact-based payment orders in Sweden.

Stadshypotek – our biggest-ever acquisition

The purchase of Stadshypotek in 1997 was the biggest acquisition in the history of the Bank and until then the biggest cash acquisition in Sweden. Naturally, operations in 1998 were characterised to a great extent by the work of integrating Stadshypotek with the Bank.

The result of this work has surpassed our expectations. The two organisations are now totally integrated. Of the 200 employees previously at Stadshypotek's head office, there are only 40 left. All the former 600 employees at Stadshypotek's regional operations have been transferred to Handelsbanken's branch office operations. At the time of the acquisition, we expected within five years to be able to save SEK 700 million of Stadshypotek's costs which amounted to just over SEK 1 billion. By the end of 1998, we had saved 400 million and we have a clear plan for the remaining 300 million. In 1998, Stadshypotek contributed SEK 1.7 billion to the Group result after all acquisition costs. It is unusual today for a company to be able to achieve a large positive result immediately from a cash acquisition. We also acquired the largest telebank in Sweden – Stadshypotek Bank with 340 000 customers.

At the time of the acquisition, we expected to lose a certain amount of business. Since the beginning of the 1990s, Stadshypotek had continuously lost business volumes in the important market for private customers. Here we have rapidly succeeded in reversing the trend and the loss of private customers ceased in the summer of 1998 as volumes increased. This was much better than expected. It shows that our 500 branches in Sweden have looked after the new customers well. We have also gained considerable new business in our normal banking operations. More than 400 000 of Stadshypotek's customers used other banks than Handelsbanken for their daily banking needs. Subsequently, almost 40 000 of them have changed to Handelsbanken. The work of persuading these new customers to move all their banking business to Handelsbanken is made very much easier due to the good reputation enjoyed by Handelsbanken today. According to a survey carried out during the year by the Swedish financial periodical *Privata Affärer*, Handelsbanken is the bank which most people would move to if they were going to change banks. As many as 31% said they would like to change to Handelsbanken. The second best bank had only half as many votes. This, combined with the hard work of our branches, has made the acquisition a success.

Continued expansion in the Nordic countries

Our expansion in the other Nordic countries continued during the year. We opened six new branches in these countries – three in Finland, two in Norway and one in Denmark. The new branches in Finland are in Pori, Oulu and Lappeenranta, and in Norway in Kristiansand and Tønsberg. In Denmark we started another branch in the Copenhagen area. This means that we now have 15 branches in Finland, 15 in Norway and 3 in Denmark. Today, Handelsbanken is the only bank with comprehensive banking operations in all four Nordic countries. With the exception of three towns



in Denmark, we now have branches in all towns in the Nordic countries with more than 85 000 inhabitants. We are also the only banking group with finance company operations in all four Nordic countries. We have almost 900 employees in the Nordic countries outside Sweden.

In 1998, Handelsbanken made a bid for Norwegian Fokus Bank. If it had taken place, the acquisition would have increased Handelsbanken's total assets by some 5% and the consolidated result by around 1% at the original bid price. In other words, it was not a crucial matter for Handelsbanken. When a competing bid was made at a price level which we considered to be too high, we withdrew our bid. Even though we would have made greater synergy gains than any other foreign bank because of our extensive Norwegian operations, we did not consider the transaction worth the extra money required for making a successful bid.

Biggest in the foreign exchange and money markets

During the year, our foreign exchange, money market and fixed income trading has undergone major restructuring. We have concentrated our market-making and interbank trading in Stockholm and London with support from our units in New York and Asia. At the same time, we have delegated more responsibility for customer sales to the regional bank's sales desks. This reorganisation has further increased our impact and professionalism at a time of increasing competition in the market.

We have now established – unnoticed – a very strong position in foreign exchange and money market trading. For the third year running, in the annual survey conducted by the leading periodical, Foreign Exchange and Money Markets, we have been acclaimed the best bank for Nordic currencies by major customers. Last year, we also became established as the largest bank for Swedish customer sales in the foreign exchange and money market. We are also the only Swedish bank on the Europanel which fixes Euribor rates. This panel includes the Swedish bank with the highest volume in the euro-zone money markets. The financial result of these operations, however, needs to be improved.

I am also pleased about the trend for our Investment Banking division. This includes corporate finance, equity research and equity trading. Operations, which are conducted in seven countries, have reported good results for several years. In 1998, the result improved even more in relation to 1997, a good year in itself, despite the turbulence on the global equity markets. This division has also started to co-operate successfully with our branch offices – not least in the field of equity-linked bonds where Handelsbanken is the clear market-leader.

High investment income in Handelsbanken Liv

At the beginning of 1998 our asset management operation was split off from Handelsbanken Markets and turned into a separate business area. During the year, operations have performed well. This division's responsibilities include management of our mutual funds and management of Handelsbanken Liv's large portfolio which performed very well during the year. Investment income was 18.7%, which is excellent considering the volatile markets of 1998.

A competitive level of investment income is important for Handelsbanken Liv's customers and for sales of new life insurance products. Sales have been very successful during the year. Premium income increased by 33% to over SEK 5 billion. In 1998, we had 12% of new premiums for life insurance policies. On the unit-linked side, our share was even higher – 13%.

The 1990s have been a successful decade for Handelsbanken. Our share price has increased more than twice as fast as the bank index excluding Handelsbanken and almost twice as fast as the general index. In general, that was true in 1998. We also feel that we are well equipped to meet a future with even tougher competition – which may be one of the consequences of EMU. Since we have the highest cost-effectiveness of the 30 largest banks in Europe, we believe that we will be able to compete successfully with any other bank. We are also absolutely determined to retain this position in the future.

The Bank's good results have led to a gradual strengthening of the capital structure. As a consequence, we are proposing to the Annual General Meeting that the index and preference shares be redeemed. Due to a change in the law in 1995, the existence of these share classes prevents us from carrying out new issues with preferential rights for the holders of ordinary shares. The strong performance of Handelsbanken's shares during the 1990s means that we are also proposing to the Annual General Meeting that each ordinary share be split into three, through a bonus issue and split procedure.

Finally, I would like to offer my warmest thanks to all the employees in the Handelsbanken Group for their great efforts during 1998. It is thanks to you that for the twenty-seventh year running we have succeeded in achieving our goal – higher return on equity than the average of other Nordic banks.

Stockholm, February 1999



ARNE MÅRTENSSON

Objectives, policy and organisation

OBJECTIVES AND PRINCIPLES

Handelsbanken's overall objective is to have a higher profitability than a weighted average of other listed Swedish, Norwegian and Finnish banks.

The quality of the Group's services should meet the expectations of demanding customers and we should charge a fair price for our services. Our cost level should be lower than in other banks.

Profitability must always be given higher priority than volume. When granting credits, this also means that we must never neglect the quality of our loan portfolio in favour of a large lending volume.

It is intended that higher profitability should benefit the shareholders via a higher dividend growth than the average for other Swedish banks.

We aim to have more satisfied customers than other banks.

We seek to employ young, well-educated staff and train them within the Group. As far as possible, managers should be recruited internally.

We aim to work in such a way that we are of benefit to our customers, the Bank itself and society as a whole.

We must work within the formal and ethical framework which applies to banking operations and take into account our responsibility for the environment.

POLICY

Overall customer responsibility close to the customer

The business operations of the Handelsbanken Group are strongly decentralised. The most important means of control are a fundamental corporate policy which is deeply rooted throughout the entire Group and an efficient financial control system.

The main concept is that our organisation and methods of work should be based on the branches' responsibility for individual customers and not on central units' responsibility for product areas or market segments.

For each individual customer there is an overall responsibility at one place in the Group, as close to the customer as possible – at the customer's branch. Responsibility for providing the customer with expert and co-ordinated services from all units in the Handelsbanken Group lies there, as does the responsibility for all loans held in the Group by individuals, companies or groups of companies. There too lies the responsibility for profitability within the Group for our overall business relationship with the customer.

This also means that the responsibility for the Group's marketing is held by the individual branch. We have no central marketing departments, we make no central marketing plans and we do not control the branches' marketing activities by giving central priority to customer categories or product areas. Product campaigns are rare.

For many years, Handelsbanken has consistently and successfully applied and developed this basic concept. It has proved to work flexibly and efficiently during major changes in the environment in which we work.

Universal bank

Handelsbanken aims to be a universal bank, i.e. we should cover the entire banking area – traditional corporate transactions, investment banking and trading, as well as consumer banking including life insurance.

Growth in the Nordic countries

With almost 500 branches, Handelsbanken is strong in the Swedish market.

Our policy for growth is to establish universal banking operations in the Nordic countries. We regard Norway, Denmark and Finland as natural domestic markets where we can apply Handelsbanken's experience in running profitable universal banking operations.

With our network of units located outside the Nordic countries, we are also able to provide our Nordic customers with first-class service in other parts of the world and to do Nordic-related business with international customers.

ORGANISATION

Handelsbanken's organisation is aimed at promoting the interplay between strong branches, highly-trained specialists and efficient support functions.

On the next page, the Handelsbanken Group's organisation is presented as a combined unit concentrating on the individual customer and with the individual branch office at the forefront.

The Handelsbanken Group's organisation 31 December 1998

**CENTRAL
HEAD OFFICE
AND SWEDISH
SUBSIDIARIES**
**REGIONAL
HEAD OFFICES**
BRANCHES
CUSTOMER
**CENTRAL
HEAD OFFICE**
GROUP MANAGEMENT
**OPERATIONAL
DEPARTMENTS**

Asset Management
Markets

**BUSINESS SUPPORT
DEPARTMENTS**

Administration
Asset Management
Auditing
Business Development
Control
Corporate Communi-
cations
Credits
Information Systems
Legal
Markets
Personnel
Treasury

SUBSIDIARIES

Handelsbanken Finans
Handelsbanken Fonder
Handelsbanken Liv
Stadshypotek
– Handelsbanken Hypotek
Stadshypotek Bank

**REGIONAL
HEAD OFFICES**
NORTHERN NORRLAND

Umeå

SOUTHERN NORRLAND

Gävle

STOCKHOLM CITY

Stockholm

CENTRAL SWEDEN

Stockholm

EASTERN SWEDEN

Linköping

WESTERN SWEDEN

Göteborg

SOUTHERN SWEDEN

Malmö

DENMARK

Copenhagen

FINLAND

Helsinki

NORWAY

Oslo

**BRANCHES
IN SWEDEN**

480

**THE OTHER NORDIC
COUNTRIES**

Denmark (3)
Finland (15)
Norway (15)

**UNITS
OUTSIDE THE NORDIC
COUNTRIES**

China
Estonia
France (2)
Germany (2)
Hong Kong
Luxembourg
Poland
Russia
Singapore
Spain
Switzerland
Taiwan
U.K. (3)
U.S.A.



See page 84 for addresses of branches and representative offices outside Sweden.

OUR STAFF

Many companies stress that the company's employees are its most important assets. This is particularly true of a service company which is as strongly decentralised as Handelsbanken.

Handelsbanken's basic philosophy, which focuses on the individual customer's requirements, demands that every employee takes responsibility for the customer relationship and the quality of the service offered. An overview of the Handelsbanken Group's range of services is also vital. This makes demands that are different from the traditional sale of products. We must make sure that we have employees and managers who understand and agree with Handelsbanken's basic philosophy and who are able to meet its demands.

For this reason, the Bank considers it very important that the right staff and managers are recruited. In this context, mention should be made of ever-increasing requirements and refined selection methods for recruiting new employees; a comprehensive programme for skills development in the banking profession; a well-tried system for annual appraisals for all staff in the Group; individual development plans for employees who are interested in and suitable for advancement within the Group; and an advanced programme for manager development. Almost all training is carried out within the Bank and 90% of all managers are recruited through internal promotion. Each employee is responsible for his/her skills and competence development. It is the responsibility of every manager to create the necessary conditions for development to take place.

A means of motivation for Handelsbanken's staff which has become more and more important over the years is the Bank's profit-sharing system which was started in 1973. The funds which have been allocated since then are managed on behalf of the employees by the Oktogonen Foundation. Apart from all employees in Sweden, the profit-sharing system also includes Handelsbanken's staff in Norway from 1995, and from 1997, staff in Finland.

However, we believe that the most important source of motivation and personal development can be found in the decentralised customer and profit responsibility itself. The Bank lays great emphasis on always keeping this basic philosophy alive in its daily work and making sure that it is applied in all activities.



“Our basic philosophy, which focuses on the customer's requirements, demands of every employee an interest in the customer's circumstances.”





BRANCHES IN THE NORDIC COUNTRIES


In **SWEDEN**, in 1998, a new branch was started in Lomma. Six branches were closed: Bjärnum, Boda Kyrkby, Burgsvik, Långshyttan, Lödöse and Stockholm Hamngatan. Operations were transferred to nearby branches. At the end of the year there were 480 branches in Sweden.

In **FINLAND**, three branches were started: Pori, Oulu and Lappeenranta. The total number of branches there is now 15.

In **NORWAY**, two branches were started: Kristiansand and Tønsberg. The total number of branches there is now 15.


In **DENMARK**, one new branch was started: Park Allé in Copenhagen. The total number of branches there is now three.

Western Sweden



Alingsås	- City	Karlstad	
Ambjörnarp	- Friskvåderstorget	Kristinehamn	
Arvika	- Frölunda Torg	Kungsbacka	Svenljunga
Blidsberg	- Första Långgatan	Kungälv	Säffle
Bohus	- Gårda	Landvetter	Tibro
Bollebygd	- Hisings Kärra	Lerum	Tidaholm
Borås	- Hjällbo	Lidköping	Torsby
- Hulta	- Högsbo	Lilla Edet	Trollhättan
- Norrby	- Kortedala	Mariestad	Trädet
- Stora torget	- Landala	Mellerud	Uddevalla
Falkenberg	- Lilla Bommen	Möndal	Ulricehamn
Falköping	- Majorna	Nödinge	Vara
Filipstad	- Marieholm	Partille	Varberg
Fristad	- Odinsgatan	Rävlanda	Vargön
Färgelanda	- Sisjön	Skara	Värgårda
Gällstad	- Volvo PVB	Skövde	Vänersborg
Göteborg	- vågmästare-platsen	Sollebrunn	Åmål
- Örgryte	- Örgryte	Stenungsund	Årjäng
Hagfors		Surte	Älvängen
Herrljunga			
Hjo			
Karlskoga			

Central Sweden



Alviks Torg	Hökarängen	Spånga	
Arboga	Jakobsberg	Stockholm	
Axelsberg	Järna	- Fleminggatan	Vällingby
Blackeberg	Kolbäck	- Fridhemsplan	Värmdö
Brommaplan	Kumla	- Globen	Västerhaninge
Bålsta	Kungsängen	- Götgatsbacken	Västerås
Dalarö	Kungsör	- Hornsberg	- Emausgatan
Enköping	Käratorp	- Hornsgatan	- Köpingsvägen
Farsta	Köping	- Hornstull	- Stora gatan
Fellingsbro	Lindesberg	- Kungsholmstorg	- Vasagatan
Finnerödja	Marievik	- Marieberg	Årsta
Fjugesta	Nacka Forum	- Renstiernas gata	Älvsjö
Frövi	Norrälje	- St Eriksgatan	Örebro
Hallsberg	Nynäshamn	- Skanstull	- Drottninggatan
Hallstavik	Pålsboda	Stuvsta	- Ekersgatan
Hallunda	Rimbo	Södertälje	- Våghusstorget
Hammarby	Saltsjö-Boo	Trosa	Osmo
Haninge Centrum	Skultuna	Trångsund	Österbybruk
Huddinge Centrum	Skärholmen	Tullinge	Östhammar
Hässelby Gärd	Sköndal	Tyresö	
Högdalen		Ulvsunda	
		Uppsala	
		- City	
		- Eriksberg	
		- Industriområdet	
		- Luthagen	

Northern Norrland



Arvidsjaur	Gullänget	Luleå	Näsåker	Umeå
Backe	Gällivare	- Storgatan	Pajala	- Storgatan
Bjurholm	Haparanda	- Örnäset	Piteå	- Teg
Bjåsta	Holmsund	Lycksele	Ramssele	- Västerslätt
Björna	Hoting	Lövånger	Robertsfors	Vilhelmina
Boden	Husum	Mellansel	Råneå	Vindeln
Bredbyn	Härnösand	Malmberget	Skellefteå	Vännäs
Bureå	Jokkmokk	Malå	Sollefteå	Änäset
Burträsk	Junsele	Nordingrå	Sorsele	Åsele
Byske	Kalix	Nordmaling	Storuman	Älvsbyn
Domsjö	Kiruna	Norrfors	Trehörningsjö	Örnsköldsvik
Dorotea	Kramfors	Norsjö	Ullånger	Överkalix
Gammelstad	Lugnvik	Nyåker		Övertorneå

Southern Norrland




Alfta	Föllinge	Kopparberg	Orsa	
Arbrå	Gagnef	Krokom	Rättvik	
Avesta	Gnarps	Kvissleby	Sala	
Bergby	Grangärde	Leksand	Sandviken	Tierp
Bergsjö	Grängesberg	Liden	Skinnskatteberg	Timrå
Bispgården	Gällö	Lima	Skutskär	Torsåker
Bjursås	Gävle City	Lit	Skärplinge	Tärnsjö
Bjuråker	Hammarstrand	Ljusdal	Skönsberg	Vansbro
Björbo	Hammerdal	Ljusne	Stora Tuna	Venjan
Bollnäs	Heby	Ludvika	Storvik	Västanfors
Borlänge	Hede	Malung	Strömsund	Ånge
Bräcke	Hedemora	Matfors	Sundsvall	Åre
Delsbo	Hedesunda	Mockfjärd	Sveg	Östersund
Edsbyn	Hudiksvall	Mora	Svenstavik	Östervåla
Fagersta	Insjön	Mörsil	Säter	
Falun	Järpen	Norberg	Söderhamn	
Frånsta	Järvsö	Ockelbo	Sörberge	
Furudal	Kilafors	Offerdal		

Eastern Sweden



Alvesta	Gislaved	Linköping	Nässjö	
Anderstorp	Hemse	- City	Oskarshamn	
Bankeryd	Hultsfred	- Tornby	Rörvik	Virserum
Borensborg	Huskvarna	Mjölby	Slite	Visby
Borgholm	Högsby	Motala	Stockaryd	- Adelsgatan
Eksjö	Järnforsen	Mönsterås	Strängnäs	- Öster
Emmaboda	Jönköping City	Mörbylånga	Sävsjö	Vislanda
Eskilstuna	Kalmar	Mörlanda	Söderköping	Värnamo
- Fristadstorget	- Berga	Norrköping	Tingsryd	Västervik
- Östermalm	- Kvarnholmen	- Drottninggatan	Torsås	Växjö
Finspång	Katrineholm	- Eneby Centrum	Tranås	Ålem
Flen	Klintehamn	- Hageby	Vaggeryd	Åseda
Fårösund	Lammhult	- Söpkullen	Vetlanda	Ätvidaberg
Färjestaden	Landsbro	Nybro	Vimmerby	
		Nyköping		

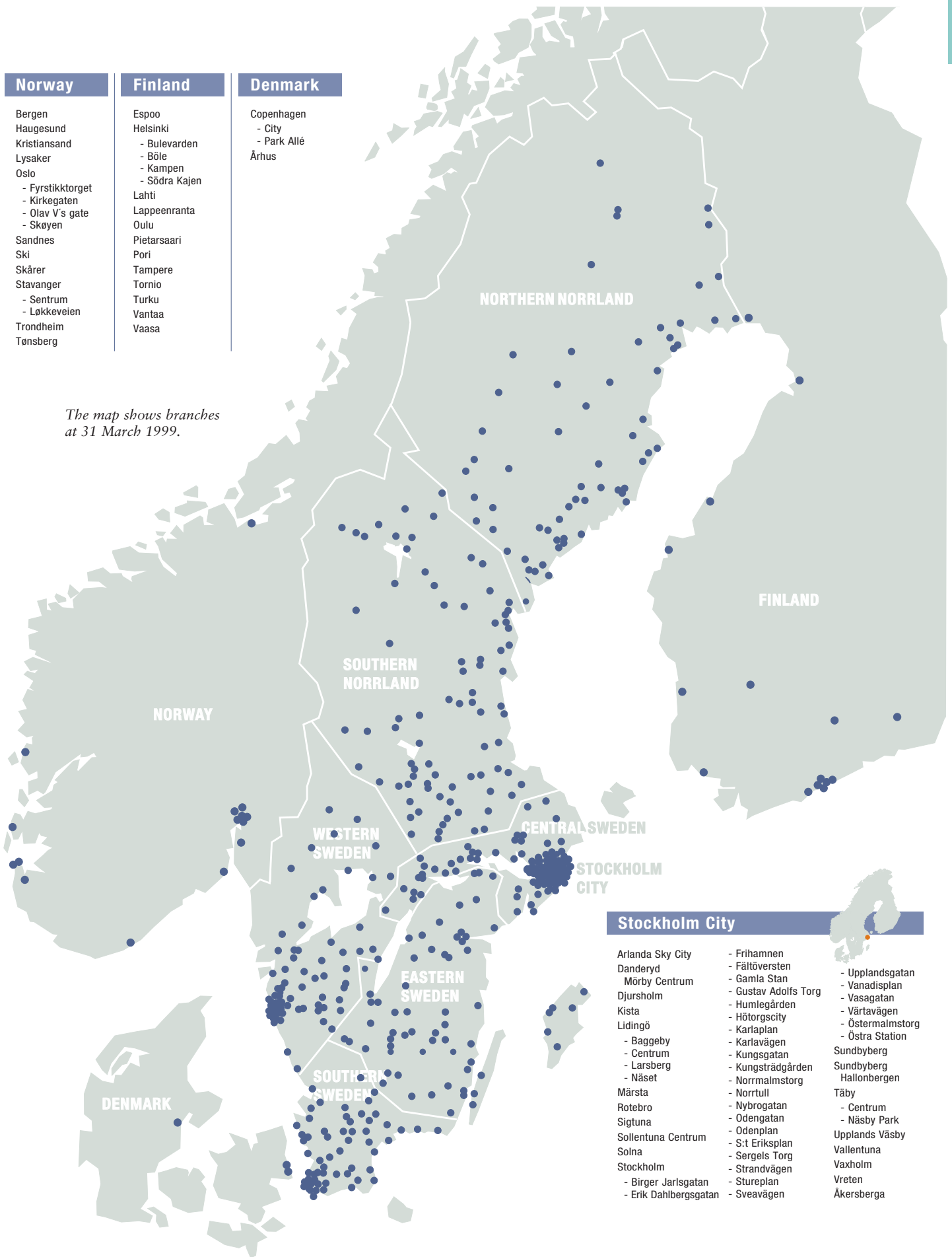
Southern Sweden



Arlöv	Höör	Lomma	Markaryd	
Broby	Karlshamn	Lund	Olofström	
Båstad	Karlskrona	Lönsboda	Osby	Vellinge
Eslöv	Kivik	Malmö	Ronneby	Vittsjö
Glimåkra	Klippan	- Amiralsgatan	Simrishamn	Vollsjö
Halmstad	Knislinge	- City	Sjöbo	Ystad
Helsingborg	Kristianstad	- Dalaplan	Staffanstorps	Åhus
- Norr	Kävlinge	- Fosie	Svedala	Älmhult
- Stortorget	Laholm	- Fridhemstorget	Sövesborg	Ängelholm
- Söderport	Landskrona	- Köpenhamnsvägen	Sösdala	
Hässleholm	Liatorp	- Lantmannagatan	Tomelilla	
Höganäs	Limhamn	- Lundavägen	Trelleborg	
Höllviken	Ljungby	- Triangeln	Tyringe	
	Ljungbyhed	- Värnhem	Veberöd	

Norway	Finland	Denmark
Bergen	Espoo	Copenhagen
Haugesund	Helsinki	- City
Kristiansand	- Bulevarden	- Park Allé
Lysaker	- Böle	Århus
Oslo	- Kampen	
- Fyrstikkorget	- Södra Kajen	
- Kirkegaten	Lahti	
- Olav V's gate	Lappeenranta	
- Skøyen	Oulu	
Sandnes	Pietarsaari	
Ski	Pori	
Skårer	Tampere	
Stavanger	Tornio	
- Sentrum	Turku	
- Løkkeveien	Vantaa	
Trondheim	Vaasa	
Tønsberg		

The map shows branches at 31 March 1999.



Stockholm City

Arlanda Sky City	- Frihamnen	- Upplandsgatan
Danderyd	- Fältöversten	- Vanadisplan
Mörby Centrum	- Gamla Stan	- Vasagatan
Djursholm	- Gustav Adolfs Torg	- Värtavägen
Kista	- Humlegården	- Östermalmstorg
Lidingö	- Hötorgscity	- Östra Station
- Baggeby	- Karlavägen	Sundbyberg
- Centrum	- Kungsgatan	Sundbyberg
- Larsberg	- Kungsträdgården	Hallonbergen
- Näset	- Norrmalmstorg	Täby
Märsta	- Norrtull	- Centrum
Rotebro	- Nybrogatan	- Näsby Park
Sigtuna	- Odengatan	Upplands Väsby
Sollentuna Centrum	- Odenplan	Vallentuna
Solna	- S:t Eriksplan	Vaxholm
Stockholm	- Sergels Torg	Vreten
- Birger Jarlgatan	- Strandvägen	Åkersberga
- Erik Dahlbergsgatan	- Stureplan	
	- Sveavägen	



REGIONAL HEAD OFFICES IN THE NORDIC COUNTRIES

The Nordic branch network is organised in ten regional banks – seven in Sweden and one each in Denmark, Finland and Norway. Branch managers report directly to the Head of the Regional Bank.

At the Regional Head Office there are specialists to support the work of the branch offices, for example, Regional Area Managers, specialists for credits, international business, payments, investment, insurance and legal matters. There are also internal functions for finance and control, administration, personnel and auditing.

Norway

BOARD:

DAG MEJDELL, Oslo, *Chairman*

JON FREDRIK BAKSAAS, Sandvika

HANS CHRISTOFFERSON, Åkersberga

BJÖRN-ÅKE WILSENIUS, Head of Regional Bank

Western Sweden

BOARD:

JAN CARLSTEIN, Hovås, *Chairman*

BENGT BENGTTSSON, Hovås

STIG-ARNE BLOM, Hökerum

THOMAS DAFGÅRD, Källby

ANDERS LÖFBERG, Karlstad

SÖREN MANNHEIMER, Göteborg

EVA PERSSON, Västra Frölunda

LENA LINDÉN, Edsvalla (E)

M. JOHAN WIDERBERG, Head of Regional Bank

Denmark

BOARD:

HANS CHRISTOFFERSON, Åkersberga, *Chairman*

BJÖRN BÖRJESSON, Malmö

HANS-OLOF HARRISON, Linköping

PÄR BOMAN, Head of Regional Bank

Southern Norrland

BOARD:
ULF BERGKVIST, Insjön, *Chairman*
OVE ANONSEN, Gävle
ÅKE RYDÉN, Sveg
LEIF SUNNERMALM, Sandviken
ANDERS WIKLANDER, Sundsvall
GÖTHE ÖSTLUND, Mora
JAN LARSSON, Gävle (E)
HÅKAN SANDBERG, Head of Regional Bank

Northern Norrland

BOARD:
BO KÄLLSTRAND, Härnösand, *Chairman*
BJÖRN FRANKLIN, Lycksele
BENGT-OVE HÖGSTRÖM, Härnösand
MARGARETA JONSSON, Älvsbyn
ERIK ORRING, Umeå
ULRIKA RÄNNAR-OLAUSSEN, Luleå (E)
STEFAN NILSSON, Head of Regional Bank

Finland

BOARD:
STIG-ERIK BERGSTRÖM, Espoo, *Chairman*
SEIJA TURUNEN, Helsinki
KAJ JANSSEN, Söderkulla
HANS CHRISTOFFERSON, Åkersberga
CARL-AXEL OLSSON, Head of Regional Bank

Central Sweden

BOARD:
PER SORTE, Saltsjöbaden, *Chairman*
PER JOHAN BEHRN, Örebro
ESKIL FLORVALL, Saltsjöbaden
CARL-HUGO HAMILTON, Hjortkvarn
ESBJÖRN OLSSON, Stockholm
GUSTAV OHLSSON, Västerås
ALLAN PETTERSSON, Huddinge
OLOF G WIKSTRÖM, Järfälla
JURGEN KLEFELT, Stockholm (E)
CURT KÄLLSTRÖMER, Head of Regional Bank

Stockholm City

BOARD:
ÅKE RIETZ, Stockholm, *Chairman*
JAN BLOMBERG, Stockholm
CARL-OLOF BY, Saltsjöbaden
GÖRAN LARSSON, Stockholm
GÖRAN NORD, Bromma
LENNART SVENSSON, Stockholm
MAINE GRÄNS, Vallentuna (E)
MAGNUS UGGLA, Head of Regional Bank



Southern Sweden

BOARD:
SVEN-ERIC HERSVALL, Malmö, *Chairman*
ROLAND BENGTTSSON, Viken
ROLF BÖRJESSON, London
JAN EKBERG, Åhus
KURT J JOHANSSON, Sölvesborg
MIKAEL ROOS, Malmö
ANN-CHRESTIN SAEDÉN-NILSSON, Blentarp (E)
BJÖRN BÖRJESSON, Head of Regional Bank

Eastern Sweden

BOARD:
ANDERS HULTMAN, Växjö, *Chairman*
LENNART BOHLIN, Linköping
JAN CEDWALL, Nyköping
PER JÄRNLAND, Norrahammar
JAN-ERIC NILSSON, Visby
KENNETH STÅHL, Jönköping
KENNETH SYNNERSTEN, Västerås
LARS HULTMAN, Tranås (E)
HANS-OLOF HARRISON, Head of Regional Bank

(E) = Employee representative

UNITS OUTSIDE THE NORDIC COUNTRIES

Operations outside the Nordic countries are part of Handelsbanken Markets' organisation. There are units in other European countries, Asia and the USA.

These units focus their operations on Nordic companies with operations abroad and non-Nordic companies with operations in the Nordic region as well as investment banking and trading. Handelsbanken in Luxembourg and London also offer private services for Nordic citizens living abroad.

During 1998, a representative office was opened in France on the Côte d'Azur. The representative office in Tokyo was closed during the year.



Luxembourg





TURFOTO

THE CENTRAL HEAD OFFICE

The Central Head Office departments provide support to the branches with development work, day-to-day services and specialist skills. Our Swedish subsidiaries, which are integrated in the Bank's business operations, are also shown here.

ADMINISTRATION DEPARTMENT

Head: **JANITA THÖRNER-LEHRMARK**

Responsible for investments in premises, machinery and equipment, and for purchasing, archive, telephone switchboard, security, insurance and environmental issues. Manages the Bank's properties and is responsible for building and premises matters. Also in charge of the Head Office's distribution and mail services.

HANDELSBANKEN ASSET MANAGEMENT

Head: **BJÖRN C ANDERSSON**

Responsible for asset management and fund management and also custodian and capital investment services.

AUDITING DEPARTMENT

Head: **TORD JONEROT**

Overall responsibility for internal auditing. Co-ordinates auditing issues within the Group. Responsible for evaluating and reviewing internal control. Audits accounts and annual reports.

BUSINESS DEVELOPMENT

Head: **LARS O GRÖNSTEDT**

Responsible for overall development issues within the Group. Responsible for developing payment and cash management services, deposits and lending services, electronic services and branch office systems.

Responsible for investments in computer systems.

CONTROL AND ACCOUNTING DEPARTMENT

Head: **SVEN GREVELIUS**

Responsible for accounting, Group accounts, annual accounts, financial and administrative control systems, internal cash management and tax analysis.

CORPORATE COMMUNICATIONS DEPARTMENT

Head: **LARS LINDMARK**

Overall responsibility for the Group's marketing policy, external/internal information, advertising, investor relations, complaints and contacts with the media. Publishes the Group's house journal.

CREDIT DEPARTMENT

Head: **LENNART FRANCKE**

Overall responsibility for the Group's lending policies, credit procedures and risk assessment of the lending portfolio.

Prepares credits to be presented to the Central Board.

INFORMATION SYSTEMS DEPARTMENT

Head: **LARS O GRÖNSTEDT**

Responsible for development, co-ordination, maintenance and operation of the Group's computer systems, workstations, and communications network.

LEGAL DEPARTMENT

Head: **LARS KINANDER**

Has overall responsibility for legal matters in the Group. Provides legal support for all units within the Group.

HANDELSBANKEN MARKETS

Head: **GÖRAN BJÖRLING**

Operations comprise corporate finance, debt capital markets, money market, foreign exchange and equities trading, correspondent banking, trade finance and economic research.

Handelsbanken Markets also includes the Group's units outside the Nordic countries.



PERSONNEL DEPARTMENTHead: **ANNA RAMBERG**

Overall responsibility for the Group's human resources strategy, personnel and management recruitment, management and skills development, personnel administration and negotiations on salaries and employment conditions. Also responsible for working environment, corporate health care, pension matters and the Bank's Conference Centre at Södergarn on Lidingö, near Stockholm.

TREASURY DEPARTMENTHead: **PEHR WISSÉN**

Responsible for Group funding on Swedish and international capital markets. Manages the investment bond portfolio. Responsible for the Group's liquidity management. Overall responsibility for the Group's exposure to interest rate, foreign exchange, liquidity and share price risks. Operates the internal bank and central bank clearing.

Subsidiaries**HANDELSBANKEN FINANS**Head: **ULF RIESE**

Offers leasing, conditional sales, finance collaboration with suppliers of investment assets, car finance and administration, factoring (with and without financing), debt collection and sales finance in collaboration with vendors.

Has operations in Sweden, Norway, Finland and Denmark.

HANDELSBANKEN LIVHead: **BARBRO JOHANSSON**

Offers a complete range of life insurance products, such as individual pension insurance, occupational pensions scheme, group life insurance, unit-linked insurance, health and accident insurance and international capital insurance.

Has operations in Sweden, Norway, Finland and Denmark.

HANDELSBANKEN FONDERHead: **PETER ENGDAHL**

Manages and administers the Bank's mutual funds and administers funds for corporate customers.

Has operations in Sweden, Norway and Finland.

STADSHYPOTEK GROUPHead: **MICHAEL ZELL**

STADSHYPOTEK and its subsidiary **HANDELSBANKEN HYPOTEK** provide first-mortgage loans for single-family houses, second homes, shares in housing co-operatives, multi-family dwellings and office and commercial buildings.

STADSHYPOTEK BANKHead: **YONNIE BERGQVIST**

A telebank which provides a limited selection of bank and insurance services for customers who do not need the branch offices' broad range of products and individually adapted services.



BOARD OF DIRECTORS

At the Annual General Meeting on 28 April 1998, the Central Board of Directors was re-elected with the exception of Mr Gunnar L Johansson who resigned having reached the age of 70.

Mr Björn Börjesson, Executive Vice President at Handelsbanken, succeeded Mr Hans Christofferson as Deputy Board Member.

The Board held 11 meetings during 1998. At each meeting, the Board has discussed the financial situation and the Bank's strategy. It has made decisions concerning major credit issues, major investments and strategic issues. The Board has issued working instructions for itself, instructions for the Group Chief Executive, heads of main departments, heads of regional banks and credit instructions. The Board has also appointed members of the credit committee, the election committee and the compensation committee.

Committees

Credit committee. This committee makes decisions on behalf of the Central Board of Directors on the majority of the credit matters which the Board has to determine and prepares matters which, because of their size or importance, must be presented to the whole Board. Eleven meetings of the credit committee were held in 1998.

MEMBERS: Tom Hedelius, Chairman, Bo Rydin, Vice Chairman, Jan Ekman, Vice Chairman, Lennart Claesson, Roland Fahlin, Lennart Francke, Hans Larsson, Arne Mårtensson, Olle Persson and Clas Reuterskiöld.

DEPUTY MEMBERS: Lotty Bergström and Bengt Samuelsson.

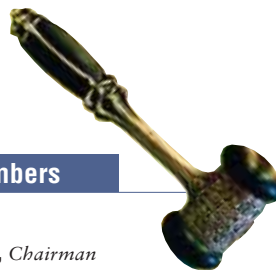
Election committee. Every year since 1988, the Central Board of Directors of Handelsbanken has appointed an election committee which nominates members of the Board and auditors before the Annual General Meeting.

MEMBERS: Tom Hedelius, Chairman, Lennart Claesson, Jan Ekman, Hans Larsson, Bo Rydin and Sven Ågrup.

Compensation committee. This committee reviews the Chairman's remuneration and benefits in accordance with his contract; it adjusts the salary and benefits of the Group Chief Executive in accordance with his contract; it also establishes the principles and overall policy for the salaries, benefits and pensions of the Executive Vice Presidents.

MEMBERS: Clas Reuterskiöld, Chairman, Roland Fahlin, Bo Rydin and Sven Ågrup.

Board Members



TOM HEDELIUS, Chairman

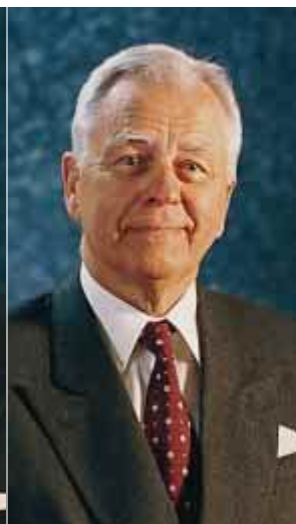
* 1939, Stockholm
Member since 1977
Chairman of Bergman & Beving AB;
Vice Chairman of AGA AB,
AB Industrivärden, Telefon
AB L M Ericsson;
Director of SAS,
Svenska Cellulosa AB SCA,
AB Volvo
Shareholding: 8 800

BO RYDIN, Vice Chairman

* 1932, Stockholm
Member since 1973
Chairman of Svenska Cellulosa AB
SCA, AB Industrivärden,
Skanska AB, Graningeverken,
SAS
Shareholding: 12 100

JAN EKMAN, Vice Chairman

* 1929, Lidingö
Member since 1976
Director of NCC AB, PLM AB,
Ingka Holding B.V., The Banking
Advisory Group of International
Finance Corp (IFC), Washington
Shareholding: 4 500



ROLAND FAHLIN

* 1938, President of ICA
Förbundet, Stockholm
Member since 1993
Chairman of ICA AB; Vice
chairman of Hakon Gruppen
A/S, Oslo
Shareholding: 1 500

HANS LARSSON

* 1942, President of Nord-
stjernan AB, Stockholm
Member since 1990
Chairman of Althin Medical
AB, Nolia AB; Director of BTL
AB, Bilia AB, Mo och Domsjö
AB, NCC AB
Shareholding: 6 200

OLLE PERSSON

* 1935, Östersund
Member since 1989
Chairman of Byggelit AB,
Z-Invest
Shareholding: 7 000

ARNE MÅRTENSSON

* 1951, *President and Group Chief Executive*, Danderyd
Member since 1990
Vice Chairman of Swedish Bankers' Association, Royal Swedish Yachting Association;
Director of Mo och Domsjö AB, V&S Vin & Sprit AB, OM Gruppen AB, Swedish ICC, Industry and Commerce Stock Exchange Committee, Council of World Economic Forum
Shareholding: 8 000

LOTTY BERGSTRÖM

* 1949, Ekerö
Member since 1996
Shareholding: 0

LENNART CLAESSON

* 1944, Nässjö
Member since 1985
Chairman of Oktogonen Foundation
Shareholding: 0

GÖRAN ENNERFELT

* 1940, *President and Group CEO* of Axel Johnson Group, Upplands Väsby
Member since 1985
Shareholding: 8 000

PER-OLOF ERIKSSON

* 1938, Sandviken
Member since 1986
Chairman of Svenska Kraftnät; Director of Assa Abloy AB, AB Custos, Preem Petroleum AB, Sandvik AB, Skanska AB, AB SKF, SSAB Svenskt Stål AB, AB Volvo, N.V. Koninklijke Sphinx Gustavsberg
Shareholding: 6 000

**CLAS REUTERSKIÖLD**

* 1939, *President and CEO* of AB Industrivärden, Danderyd
Member since 1994
Director of AGA AB, Sandvik AB, Skanska AB, Svenska Cellulosa AB SCA, Telefon AB L M Ericsson
Shareholding: 5 509

BENGT SAMUELSSON

* 1934, Professor, Danderyd
Member since 1989
Chairman of the Nobel Foundation; Director of Pharmacia & Upjohn Inc., The Liposome Co., Inc., USA, Nicox S.A., France
Shareholding: 1 000

SVEN ÅGRUP

* 1930, Lidingö
Member since 1973
Chairman of AGA AB; Director of Telefon AB L M Ericsson, Sandvik AB, Tetra Laval AB
Shareholding: 3 000

BJÖRN BÖRJESSON

(Deputy)
* 1951, Malmö
Executive Vice President
Member since 1998
Shareholding: 1 000

For members of the Board who were previously Deputies, the year stated for election to the Board is the year the person was elected Deputy.

Honorary Chairmen**TORE BROWALDH**

* 1917, Stockholm

**JAN WALLANDER**

* 1920, Drottningholm

SENIOR MANAGEMENT

President and
Group Chief Executive

ARNE MÅRTENSSON, * 1951
Employed: 1972
Shareholding: 8 000

Executive Vice Presidents
at the Regional Banks

STEFAN NILSSON, * 1957

Head of Regional Bank
Northern Norrland
Employed: 1980
Shareholding: 500

HÅKAN SANDBERG, * 1948

Head of Regional Bank
Southern Norrland
Employed: 1969
Shareholding: 1 003

MAGNUS UGGLA, * 1952

Head of Regional Bank Stockholm City
Employed: 1983
Shareholding: 10 000

CURT KÄLLSTRÖMER, * 1941

Head of Regional Bank Central Sweden
Employed: 1961
Shareholding: 18 429

HANS-OLOF HARRISON, * 1943

Head of Regional Bank Eastern Sweden
Employed: 1964
Shareholding: 5 112

M JOHAN WIDERBERG, * 1949

Head of Regional Bank Western Sweden
Employed: 1972
Shareholding: 1 180

BJÖRN BÖRJESSON, * 1951

Head of Regional Bank Southern Sweden
Employed: 1981
Shareholding: 1 000

PÅR BOMAN, * 1961

Head of Regional Bank Denmark
Employed: 1991
Shareholding: 100

CARL-AXEL OLSSON, * 1938

Head of Regional Bank Finland
Employed: 1958
Shareholding: 1 500

BJÖRN-ÅKE WILSENIUS, * 1944

Head of Regional Bank Norway
Employed: 1961
Shareholding: 770

Executive Vice Presidents
at the Central Head Office

BJÖRN C ANDERSSON, * 1946

Head of Handelsbanken
Asset Management
Employed: 1985
Shareholding: 6 000

GÖRAN BJÖRLING, * 1942

Head of Handelsbanken Markets
Employed: 1977
Shareholding: 0

LENNART FRANCKE, * 1950

Head of Central Credit Department
Employed: 1972
Shareholding: 428

SVEN GREVELIUS, * 1942

Head of Central Control and
Accounting Department
Employed: 1984
Shareholding: 3 000

LARS O GRÖNSTEDT, * 1954

Head of Business Development Department
and Information Systems Department
Employed: 1983
Shareholding: 200

ANNA RAMBERG, * 1952

Head of Central Personnel Department
Employed: 1971
Shareholding: 303

PEHR WISSÉN, * 1951

Head of Central Treasury Department
Employed: 1983
Shareholding: 0

Changes

Pär Boman was appointed Executive Vice President and Head of the Regional Bank Denmark. He was previously Manager of the Norrköping Drottninggatan branch.

Lars O Grönstedt, Executive Vice President and Head of the Business Development Department, was also appointed Head of the Information Systems Department.

Anna Ramberg was appointed Executive Vice President and Head of the Central Personnel Department. She was previously Area Manager at the Regional Bank Southern Sweden.

AUDITORS

Appointed by the
Annual General Meeting**Öhrlings Coopers & Lybrand AB**

BERTIL EDLUND, *Chairman*,
Auditor in charge
Authorised Public Accountant, Sollentuna

SIGVARD HEURLIN

Authorised Public Accountant, Stockholm

Ernst & Young AB

ÅKE HEDÉN, *Auditor in charge*
Authorised Public Accountant, Enköping

Appointed by the Swedish
Financial Supervisory Authority**Peter Markborn**

Authorised Public Accountant,
Arthur Andersen AB, Danderyd

Review of business areas

GENERAL

Handelsbanken is a Nordic universal bank with a highly decentralised organisation. The heart of the Bank is its large branch office network. The branches are responsible for all customers within their geographic area – even very large companies. The branch office co-ordinates services for all customers. Where necessary, this is done in close co-operation with the Bank's subsidiaries and specialists at regional and central level.

Handelsbanken conducts complete universal banking operations in the whole of the Nordic area.

BRANCH OFFICE OPERATIONS consist of ten regional banks – seven in Sweden and one each in Norway, Finland and Denmark.

HANDELSBANKEN MARKETS is responsible for corporate finance, trading in the equity, money and foreign exchange markets, debt capital financing, correspondent banking and trade finance. It also includes the Bank's unit for economic research and banking operations outside the Nordic countries.

HANDELSBANKEN ASSET MANAGEMENT comprises fund management, discretionary asset management and custody services.

HANDELSBANKEN FINANS offers a full range of financing services in all the Nordic countries.

HANDELSBANKEN LIV markets a complete range of life insurance products.

STADSHYPOTEK BANK offers a selection of bank and insurance services for customers who do not need the branches' broad range and individually adapted services.

HANDELSBANKEN CENTRAL TREASURY manages the Group's Swedish kronor liquidity, funding in the capital markets as well as funding and clearing through the Swedish central bank.

Business volume trend

LENDING

The Group's lending to the general public was unchanged from year-end 1997 to year-end 1998. The purchase of Stadshypotek in 1997 led to a substantial rise in volumes and market share. As anticipated at the time of the acquisition, there was a certain loss of volume from Stadshypotek, particularly for municipal loans with a small margin, resulting in lower market share. On the important private market, volumes have increased since summer 1998.

Lending in foreign currency, both corporate and private, has developed well. The healthy increase in the Nordic countries outside Sweden is particularly gratifying.

Overall, the Group has compensated for the entire loss of volume in Stadshypotek with increased lending within the Bank.

DEPOSITS

Deposits from the general public rose during 1998 by 21% to SEK 168bn (138). Swedish kronor deposits increased by 6%, with corporate deposits 4% higher

Lending to the general public, Handelsbanken Group

	31 Dec 1998 SEK m	31 Dec 1997 SEK m	Change %	31 Dec 1996 SEK m
Lending in Swedish kronor				
to households	194 573	192 244	1	79 351
to companies etc.	287 583	302 948	- 5	131 417
	482 156	495 192	- 3	210 768
Foreign currency lending				
to households	12 970	8 318	56	6 112
to companies	95 985	87 348	10	64 561
	108 955	95 666	14	70 673
Provision for possible loan losses	- 3 706	- 4 034	- 8	- 3 651
Total lending	587 405	586 824	0	277 790

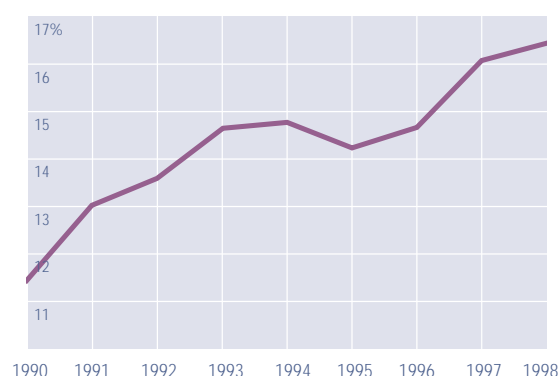
Lending – market shares in Sweden, SEK and foreign currency

	31 Dec 1998 %	31 Dec 1997 %	31 Dec 1996 %
Lending – market shares in Sweden			
to households	28.3	29.6	12.3
to companies etc.	27.7	28.6	14.2
Total	28.0	29.0	13.4

Deposits from the general public, Handelsbanken Group

	31 Dec 1998 SEK m	31 Dec 1997 SEK m	Change %
Deposits in Swedish kronor			
from households	66 193	61 763	7
from companies etc.	59 330	57 039	4
	125 523	118 802	6
Foreign currency deposits			
from households	4 103	2 721	51
from companies etc.	38 380	16 848	128
	42 483	19 569	117
Total deposits	168 006	138 371	21

Deposits from households – market share in Sweden, SEK



and private deposits 7% up. The Bank's share of the private deposits market continued to rise and is now 16.4% of the Swedish market. Foreign currency deposits went up by 117% to SEK 42bn (20). Most of the increase is attributable to the Nordic countries outside Sweden.



TIOFOTO

BRANCH OFFICE OPERATIONS

Quarterly performance

SEK m	Q1	Q2	Q3	Q4	Total 1998	Total 1997
Net interest income	2 364	2 314	2 334	2 468	9 480	8 892
Commission, net	441	524	479	494	1 938	1 941
Net result on financial operations	81	75	101	131	388	317
Other income	2	5	7	9	23	30
Total income	2 888	2 918	2 921	3 102	11 829	11 180
Income includes net internal remuneration	231	275	281	281	1 069	829
Total expenses	1 236	1 299	1 293	1 581	5 409	4 769
Result before loan losses	1 652	1 619	1 628	1 521	6 420	6 411
Loan losses	53	83	82	176	394	606
Operating profit	1 599	1 536	1 546	1 345	6 026	5 805
Return on equity, %	20.2	21.1	21.2	18.6	20.3	21.7

Balance sheet 31 December 1998

SEK m	
Lending to credit institutions	25 650
Lending to the general public	524 643
Bonds	5 094
Other assets	13 668
Total assets	569 055
Liabilities to credit institutions	164 015
Deposits and funding from the general public	144 416
Issued securities	175 107
Other liabilities	62 849
Shareholders' equity	22 668
Total liabilities and shareholders' equity	569 055

Handelsbanken has 480 branches in Sweden, 15 in Norway, 15 in Finland and 3 in Denmark. Operations in Sweden and the other Nordic countries are run using the same concept – to deliver universal banking services with a higher service level and at lower cost than competitors. It is on this base that the Bank will be able to grow in the whole of the Nordic area. Handelsbanken is already the largest bank in Sweden and the Nordic countries. Locally it is the fourth largest commercial bank in Finland and the fifth in Norway.

Income and expenses trend

During 1998, net interest income in the branch office operations increased by 7% compared to the previous year. This is due to significant growth in volume during the year. Bank lending increased by 21% and mortgage lending by 4%.

The increase in costs is mainly due to investments in the IT field, but is also a result of the acquisition of

Stadshypotek and expanded operations in Norway, Denmark and Finland.

More than half the total number of workstations at the Swedish branches have now been replaced by modern, PC-based workstations. A new customer information system was also installed during the year on the first batch of new workstations. The system provides a simple but comprehensive overview of the customer's business with the Bank. Combined with the physical workstation itself, the customer information

Handelsbanken is the only bank with comprehensive banking operations in all four Nordic countries. Photos showing Motala in Sweden, Århus in Denmark, Pori in Finland and Haugesund in Norway.



Great Shots

system forms the first building block in the new system platform. This will provide better customer service and substantially improve the efficiency of branch office routines.

Internet and other electronic self-service transactions

The Bank's private customers in Sweden are increasingly using self-service products. At the end of 1998, various types of self-service transactions – cash dispensers, POS terminals, Privatgiro (giro payments), Autogiro (direct debits), Datasvar (telephone service), standing orders and the Internet – represented nearly 80% of the total number of transactions among the Bank's private customers in Sweden. In Norway and Finland, the proportion is even higher.

At the end of 1998, Handelsbanken had over 100 000 private customers using the Bank's services via the Internet. Today, private customers can carry out most of their normal bank transactions in this way. Corporate services via the Internet were also launched during the year.

The Bank has started replacing the first generation of cash dispensers. The new machines have a higher level of accessibility and cash withdrawals are also much quicker. These new cash dispenser machines are also equipped to handle currencies other than Swedish kronor.

The Bank's electronic services for companies, particularly the electronic banking system called Dialog (for Swedish transactions) and NordicLink (for transactions in all countries), continued to experience large demand.



DanaPress Photo



Scanpix



HusmoFoto

The number of Dialog customers grew by 34% during the year and NordicLink by 66%. In the area of electronic commerce between companies, EDIFACT, Handelsbanken has a leading position in the Nordic countries. Handelsbanken processed over 43% of the total number of this type of transaction in the Swedish market.

Property finance

Handelsbanken offers property finance mainly through its mortgage company, Stadshypotek AB, and the latter company's subsidiary Handelsbanken Hypotek AB.

At the end of the year, the Swedish mortgage institutions' total lending to the general public was SEK 1 017bn as compared to SEK 1 008bn in 1997. While lending to households increased by SEK 30bn, corporate lending decreased through repayment of SEK 21bn.

The main reason for the mortgage loan market stagnating in 1998 is the very low level of new construction. During 1998, nearly 12 000 housing units were completed, of which just over 4 000 were single-family dwellings. New construction is still mainly taking place in the metropolitan areas and in university towns. There is almost no new construction of office and commercial property.

The fact that lending to households increased by SEK 30bn is mainly due to turnover in the secondary market for single-family houses and housing co-operatives continuing to be high. The main reason for this is that interest rates were very favourable, which attracted many households to buy property and also contributed to higher housing prices. The interest rate for variable rate loans fell during the year by 0.95 percentage points, and five-year fixed rate loans fell by 1.5 percentage points. The spread between variable rates and the five-year rate has thus continued to narrow and at the end of 1998 was 0.8 percentage points.

During 1998, a quarter of all Stadshypotek borrowers chose variable rates when taking out new loans or changing the terms of existing loans in spite of the five-year rate being historically very low. This is an expression of their strong expectation that variable rates will continue to be low or even fall in the future.

The Bank's mortgage lending to the general public was SEK 326bn at the end of the year, a decrease of SEK 22bn from the previous year. Most of this decrease is attributable to the corporate sector, particularly municipalities and municipal companies. Lending to these organisations was characterised by extremely tight margins. In the private market, with higher interest margins, however, volumes have been retained and have increased every month since the summer. The Bank's share of the total mortgage loan market was nearly 32% at the end of the year.



CAPPED-RATE LOANS – SECURITY IN TURBULENT TIMES

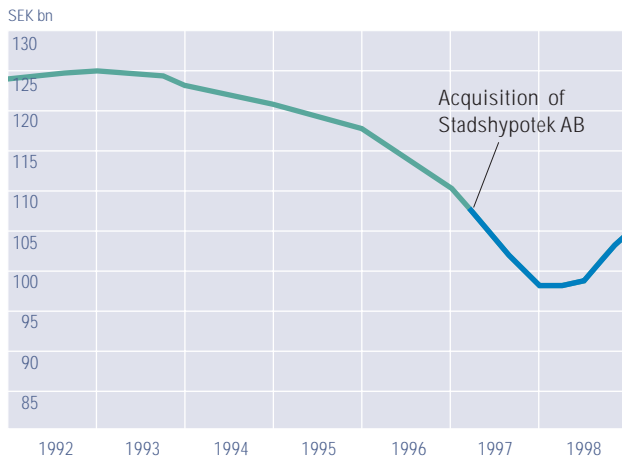
During the year, a new loan product was launched – the Stadshypotek loan with a capped rate. This loan has a five-year maturity and is designed such that the interest rate on the loan falls if variable interest rates fall. If variable rates rise, the borrower never needs to pay more than a pre-determined interest cap. The borrower is thus protected from future interest increases during the life of the loan. Demand for capped rate loans was good during the spring and summer and increased significantly in connection with the turbulence on the financial markets during the autumn.

Offering attractive new loan products of this kind is one way of retaining old customers and attracting new ones in a more or less stagnant market.

FUNDING FOR THE MORTGAGE GROUP

In 1997, Stadshypotek assumed responsibility for raising the funds required for Handelsbanken Hypotek's lending. The purpose of this change was to take advantage of Stadshypotek's size and strong position in the Swedish bond market in order to achieve as cheap and efficient funding as possible. During 1998, the whole of Stadshypotek's treasury function was transferred to Handelsbanken's Central Treasury Department thereby improving the opportunity to utilise all the funding products – in Sweden and abroad – available to the

Lending volume Stadshypotek AB, private market



Handelsbanken Group. Funding on the Swedish mortgage bond market is, however, still done exclusively in the name of Stadshypotek.

INTEGRATION OF STADSHYPOTEK

The work of integrating Stadshypotek with Handelsbanken has mainly concerned three areas: customers, credits and employees.

Throughout the process, the aim has been to make sure that customers were unaffected by any turbulence caused by the integration process. This was particularly important in view of the assault which could be expected from competitors. It was essential that customers were able to contact Stadshypotek by phone, letter and personal visits as they were used to doing. These contacts gradually changed from being with previous branches of Stadshypotek to branches of Handelsbanken. Since the middle of 1998 they have been completely integrated with the Bank. We are pleased to note that the loss of volume in the private customer segment which Stadshypotek had been experiencing since 1991 was halted in spring 1998 and volumes increased during the autumn.

Clearcut credit responsibility for each customer is an important issue of quality at Handelsbanken. Stadshypotek's customers were therefore gradually linked up to Handelsbanken's normal credit processing routines.

At Handelsbanken, a joint credit analysis is carried out both for the Bank and the subsidiaries and overall customer and corporate group limits are established. The branches and the regional banks are responsible for this. For mortgage loans over a certain amount there is also a credit analysis at the Stadshypotek Group before the loan is made. When analysing the credit, the borrower's repayment capacity is considered and also the value of the security pledged.

Stadshypotek loans are nowadays a standard service at the Bank's branches alongside other products in their

range. This means that customer and credit responsibility, marketing, accounting, documentation and other processing are all handled at the Bank's branches.

Of course it was crucial for the success of the acquisition to gain the confidence of Stadshypotek's employees in Handelsbanken and the planned branch integration. At the outset, all staff were guaranteed employment in the Group. Immediately, work started on finding positions for the employees of Stadshypotek in the new Handelsbanken Group.

When Handelsbanken acquired Stadshypotek, there were around 1 400 employees in the Stadshypotek Group. Of these, today some 40 employees remain in Stadshypotek AB. Nearly 500 were employed by Stadshypotek Fastigheter which was distributed to the Bank's shareholders under the name Fastighets AB Balder, which is now a listed property company. There are just over 100 staff at Stadshypotek Bank. The remaining staff have transferred either to Handelsbanken's branch office operations or to corresponding positions in central departments. Others have left the Bank.




HANDELSBANKEN MARKETS
Quarterly performance

SEK m	Q1	Q2	Q3	Q4	Total 1998	Total 1997
Net interest income	251	261	94	73	679	1 046
Commission, net	146	246	151	210	753	728
Net result on financial operations	150	246	323	350	1 069	221
Other income	5	2	3	22	32	89
Total income	552	755	571	655	2 533	2 084
Net internal remuneration deducted from income	91	99	109	104	402	387
Total expenses	496	525	513	567	2 101	1 826
Result before loan losses	56	230	58	88	432	258
Loan losses	7	- 15	- 8	- 84	- 100	- 323
Operating profit	49	245	66	172	532	581
Return on equity, %	3.7	17.2	4.7	11.2	9.4	10.1

Image Bank

Balance sheet 31 December 1998

SEK m	
Lending to credit institutions	148 439
Lending to the general public	47 839
Bonds	77 145
Other assets	80 018
Total assets	353 441
Liabilities to credit institutions	170 993
Deposits and funding from the general public	67 322
Issued securities	101 403
Other liabilities	9 128
Shareholders' equity	4 595
Total liabilities and shareholders' equity	353 441

At present there are 1 200 employees at Handelsbanken Markets in 17 countries. Operations are organised in four business areas: Investment Banking, Trading, Trade Finance and Financial Institutions, and Banking Operations outside the Nordic countries.

Operations are mainly focused on the Bank's Nordic customer base but also on Nordic companies with operations abroad and non-Nordic companies with operations in the Nordic countries.

Market trends and performance

In 1998, the financial markets were faced by several factors which were difficult to assess and price. The most important of these were the EMU preparations, the Asian crisis and its impact on the global economy, political developments in Latin America and also the collapse in Russia with its ramifications for the international financial system. At times, the combination

of these factors led to a dramatic fluctuation in financial prices.

Risks increased in Japan where the financial position of the banks was hit by the negative economic trend in the region. Not until October did it become clear that the Japanese government was prepared to offer sufficient support in order to ward off the looming collapse of large parts of the banking sector.

The risks which emerged in the late summer and early autumn, combined with poorer global growth prospects, resulted in severe drops on the world's equity markets. Thanks to the intervention of the Federal Reserve and the Japanese bank support package, the impending financial collapse could be averted. This meant that risk premiums were significantly reduced and stockmarkets in particular were revalued during the fourth quarter.

The trend in the Swedish financial markets has to a greater extent than normal been affected by events in the outside world. The Swedish parliamentary election came and went almost unnoticed. The political risk premium on Sweden has been overshadowed by changes in global risk premiums. The fact that Sweden is outside EMU has mainly been reflected in a weak and volatile krona exchange rate, while interest rates have by no means been affected to the same degree. With its large dependence on the international business cycle, its high degree of sensitivity to developments in the dollar block and a crisis for the Norwegian krone, the Swedish krona has fallen to practically record low levels vis-à-vis the EMU block, despite the fact that domestic economic and political trends should have had the opposite effect. The Riksbank has changed its monetary policy to harmonise with trends in the rest of Europe and has lowered the repo rate during the past six months.

Although it has been a difficult year on the financial markets, Handelsbanken Markets has performed well and all four business areas have improved their result before loan losses compared to 1997. The focus on the important domestic markets has been successful while the increased focus on Nordic-related business has made a positive contribution to the result in the units outside the Nordic countries. Action taken in trading areas to tackle expenses started to show the planned results towards the end of the year.

Overall, Handelsbanken Markets' result before loan losses in 1998 was 68% higher than 1997. The measures which have already been taken combined with planned measures and investments pave the way for a continued improvement in 1999.

Economic research

High-quality economic research is essential for the success of Handelsbanken Markets' operations. The research unit is organised as an independent department within Handelsbanken Markets but works in close and successful co-operation with Handelsbanken Markets' own business areas and with the Bank's other business areas.

During 1998, several steps were taken to develop macro-economic research so that it is better adapted to the new market conditions resulting from the joint European currency and from increased globalisation. One example of this is the successful development of an analysis process to forecast growth and inflation in the euro-zone. Macro forecasts for Euroland already represent the cornerstones of the analysis and form the basis for analysis of interest rates and investment recommendations for the Nordic markets.

The start of EMU has led to increased activity in trading in currencies and interest-rate related products in countries outside EMU, mainly in the emerging markets. The international financial crisis, which has so much affected these markets in the last year, also raised the level of awareness concerning macro-analysis in this area. For this reason, there has been greater focus on monitoring and forecasting developments in Asia and Latin America. Since summer 1997, the Asian economies have played an important role in the Bank's macro forecasts and since the beginning of 1998, the Latin American economies have also been continuously studied.

Monitoring Eastern Europe and Russia has also increased as trade with these countries expands and the importance of their financial markets grows.

Investment Banking

During 1997, the Bank's operations in the fields of corporate finance, equities research, institutional equity sales and equities trading were merged into one business area called Handelsbanken Markets Investment Banking. Operations are conducted in seven countries: Sweden, Denmark, Norway, Finland, France, the UK



and the USA. Based on Handelsbanken's strong financial position and integrity, this unit aims to develop a competitive investment banking operation with sustainable profitability in the markets where the Bank is active.

The integration of the unit progressed according to plan during the year. Some 330 people are employed in it. The main aim has been to ensure control and co-ordination in equities trading. The market conditions for investment banking varied significantly during the year, with favourable conditions during the first half, while the second half of the year was characterised by turbulence in financial markets worldwide. Operations in Estonia were closed down as a result of the poor business climate in the Baltic countries.

During the year, a great deal of effort was put into ensuring a professional staffing level in all departments. This was mainly done by recruitment of a number of highly-qualified staff focused on research and institutional equities trading. This expansion is still continuing although at a slower rate. A decisive issue in this connection is the adaptation of operations which will be needed due to the impact of EMU on European investment banking. When a large part of Europe changes to a single currency, both institutional and industrial investors adapt to a market without currency restrictions. During the next few years this will affect the behaviour of most of the Bank's customers. One obvious conclusion is that competition will become sharper, but there will also be increased business flows as institutional investors re-weight their portfolios. The ambition of Investment Banking is to be able to offer to both local and

international customers, professional and competitive advisory services within a number of selected sectors in the fields of equities trading/research and corporate finance.

EQUITY SALES AND TRADING

Handelsbanken Markets is one of the leading players on the Nordic equity markets and is a member of the four Nordic stock exchanges and also the Paris Stock Exchange. During 1998, the Bank's market share developed well, in spite of the increased competition from European and American members on the Nordic stock exchanges.

Trends on the Swedish stock exchange were volatile during 1998. The spring was characterised by a strong rise, and by mid-year the market had gone up by 25%. The late summer and autumn were turbulent, however. At the end of 1998, the stockmarket in Sweden had risen by 10.2% and in Finland by 68.5%. The stock exchanges in Norway and Denmark fell by 26.7% and 5.6%, respectively. Although volatility on stockmarkets increased significantly during the year, the result of equities trading continued to develop well.

Euroland will imply a number of changes in equities trading and research in terms of both demands on computer systems and customer service. One factor is that the traditional focus on countries is moving towards a focus on sectors. Handelsbanken Markets has therefore started restructuring in order to meet the new requirements.

Investments are continuing in the area of research. Examples of this are enhanced competence in various business sectors combined with expanding research to include a more European perspective. This is in order to meet the changes which customers are experiencing following the introduction of the euro.

CORPORATE FINANCE

Corporate finance operations mainly consist of financial advisory services and execution of public offerings, purchases of listed companies, equity issues in the market or to employees and mergers and acquisitions. Another service which was in demand in 1998 was incentive programmes. Handelsbanken Markets has been responsible for designing and executing a number of stock option programmes for corporate management and convertible programmes for employees. Handelsbanken Markets has corporate finance departments in six European capitals: Stockholm, Copenhagen, Helsinki, Oslo, London and Paris.

In Sweden, Handelsbanken Markets managed nine Swedish Initial Public Offerings (IPOs) in the past year, eight of them as lead manager. Ahead of the stock-market launch of ICA, Handelsbanken has been involved in the announced acquisition of the outstanding 55% of the shares in Hakon-Gruppen in Norway.



In Denmark, Handelsbanken Markets managed two IPOs and in Finland participated in the privatisation of Sonera, the state-owned Finnish telecom company. This was the largest ever privatisation in Finland.

There was a significant number of cross-border transactions, involving all the corporate finance units. In two major transactions, Handelsbanken Markets' Paris office participated as advisor: in the French company CGEA's purchase of the Swedish company Linjebuss and in the Swedish company Securitas' purchase of the French security company Proteg. Among other transactions, Handelsbanken's participation in SSAB's redemption of its own shares can be mentioned.

During the year, Handelsbanken reinforced its position as the leading player in designing and selling structured equity products, i.e. equity-linked bonds, warrants and equity basket certificates.

Handelsbanken was the first Nordic bank to launch joint equity-linked bonds in Sweden, Norway and Finland. This was done on two occasions during 1998. On the institutional market, there were several issues of structured equity products. These products are a natural investment alternative both for the Bank's private customers and for institutional customers.

Trading

Handelsbanken Markets Trading is responsible for the Bank's trading on the currency, money and bond markets and the Bank's activities in the public debt capital markets. During the year, the unit carried out

an extensive restructuring of its operations with the aim of improving profitability, tackling the new market conditions and ensuring its position as a leading Nordic bank for money market and currency trading. After the reorganisation, the unit has centralised all its market-making of foreign exchange and interest-rate related products to Stockholm, London, New York and Singapore.

The unit has improved its market share in the Nordic currency, money and bond markets. The Bank is now the largest player for customer sales in the Swedish currency and interest-rate related markets. During the year, a drive started with the purpose of offering to the Nordic customer base, trading in currency and interest-related products in emerging markets such as Poland, Russia and the Baltic countries. This drive has been successful and the Bank has attained a leading position in this market segment with a positive impact on the result. One important explanation for this success is the increased co-operation between the various trading units and Handelsbanken Markets' macro-economists and analysts.

Handelsbanken is also the largest Swedish bank in the money market in the euro-zone. It is therefore the only Swedish bank to have been appointed to the Euro panel which fixes the short-term euro reference rates (Euribor) daily.

Apart from 1998 being characterised by volatility for trading operations, preparations for EMU have also been the main feature. High growth is expected in the future Euro market, particularly for bond trading, advisory services and research at the same time as the euro will become a global currency with the US dollar as its only competitor.

DEBT CAPITAL MARKETS

The primary products in the public debt capital markets are syndicated bank loans, bond loans and commercial paper programmes. During 1998, the department launched a number of new products such as interest index-linked bonds, capped rate loans for companies and a securitisation structure for the Framtiden Group which is owned by the municipality of Göteborg. The latter transaction may be considered a pioneer since it was the first time this type of funding was carried out for a Swedish borrower based on Swedish law.

As a result of the events in Russia and other emerging markets, the downward trend for margins was broken during the second half of the year. The break in the trend has led to increased credit margins for borrowers. In many cases this has been counteracted by generally falling interest rates and thus Nordic companies' willingness to carry out debt capital transactions has continued to be high.

For many years, Handelsbanken has had a very high market share in the Swedish corporate bond market.

This was reinforced during 1998 in a market which is still experiencing good growth. Handelsbanken is also one of the trendsetting banks in the field of syndicated bank loans for Nordic companies and during the year arranged loans for companies such as Aker Maritime and Boliden.

Trade Finance and Financial Institutions

The Financial Institutions unit mainly offers clearing and cash management services to foreign banks. The euro preparations have been a driving force for developments in the field of cash management.

During the year a number of co-operation agreements have been entered into with foreign banks in the field of cash management. This, combined with Handelsbanken's well-developed branch network in the Nordic countries, means that we can more efficiently meet the requirements of our corporate customers

The Trade Finance unit is responsible for documentary payments and for short and long-term trade-related finance. In the export credit market, increased privatisation of former public utilities such as telecommunication and electricity means that the Bank often meets demands from Nordic customers to be able to assist with tailor-made finance solutions for their infrastructure investments. At the export and project finance department, apart from traditional skills in the area of export finance, there are also resources for analysing and arranging finance for this type of investment both inside and outside the Nordic countries. For example, Nordic project finance was arranged for investment in a fiberoptic cable between Norway and the UK. The cable is owned by the Swedish telecoms company Telia AB and Norwegian Enitel asa.

Banking operations outside the Nordic countries

Since 1 January 1998, Handelsbanken's units outside the Nordic countries have been part of Handelsbanken Markets. These units focus on Nordic-related business, i.e. the operations of Nordic companies abroad or non-Nordic companies' operations in the Nordic region and also private customers with a Nordic connection. Operations are conducted via branches in Frankfurt, London, Luxembourg, New York, Singapore and Hong Kong and via representative offices in Beijing, Taipei, Moscow, Tallinn, Warsaw, Zurich, Marbella and Côte d'Azur. There are a total of 400 employees outside the Nordic countries. During the autumn, the Bank's operations in Singapore and Hong Kong were merged into one organisation, Handelsbanken Asia.

As a result of its focused banking operation outside the Nordic countries and well-developed co-operation with the Bank's operations in the Nordic countries, several international companies chose Handelsbanken as their Nordic bank.



Tony Stone

HANDELSBANKEN ASSET MANAGEMENT

Quarterly performance

SEK m	Q1	Q2	Q3	Q4	Total 1998	Total 1997
Net interest income	12	14	17	16	59	37
Commission, net	80	115	100	104	399	332
Net result on financial operations	2	3	3	3	11	13
Other income	2	2	2	10	16	7
Total income	96	134	122	133	485	389
Net internal remuneration deducted from income	104	134	113	104	455	340
Total expenses	42	47	47	49	185	173
Result before loan losses	54	87	75	84	300	216
Loan losses	—	—	—	—	—	—
Operating profit	54	87	75	84	300	216
Return on equity, %	33.6	54.2	46.7	52.3	46.7	38.8

Balance sheet 31 December 1998

SEK m	
Lending to credit institutions	139
Lending to the general public	3
Bonds	—
Other assets	2 419
Total assets	2 561
Liabilities to credit institutions	2
Deposits and funding from the general public	2 003
Issued securities	—
Other liabilities	13
Shareholders' equity	543
Total liabilities and shareholders' equity	2 561

On 1 March 1998, a new business area was formed called Handelsbanken Asset Management. The purpose of this organisational change was to increase focus on asset management in the Handelsbanken Group.

The increased importance of a strong asset management organisation led to a new organisation for investment operations. On 1 September, the previously separate management units at Handelsbanken Mutual Funds and Discretionary Management were merged into a new unit called Investment Management.

Income increased to SEK 940m (729), of which SEK 455m has been paid in remuneration to the branch office operations. Asset Management's expenses were SEK 185m (173) and thus there was a substantial improvement in the result.

Investment Management

Seen as a whole, 1998 was a good year on the financial markets with falling interest rates and large rises on most of the world's stock exchanges with the exception of Japan and the emerging markets. In general, the Swedish krona weakened against major currencies which contributed to higher return for foreign investments as compared to domestic ones, both equities and interest-rate related investments.

During the year there was a great deal of turbulence on stock exchanges with an almost 25% increase in the MSCI (Morgan Stanley Capital International) global index in the first six months, an equally large drop in the third quarter and the same rise again in the last quarter. On the bond markets, however, the year as a whole was characterised by an even and positive trend.

For Handelsbanken Asset Management, 1998 was a year with neither large troughs nor peaks compared to our main competitors. Compared to benchmark indexes, the performance was better, particularly for Nordic equity management, where the majority of portfolios outperformed their indexes. In general, the result was better for the largest assignments in volume terms.

MIXED PORTFOLIOS

The conditions for creating extra return by reallocation between different categories of assets were unusually favourable during 1998 as a result of the major fluctuations on the global stockmarkets. Handelsbanken Asset Management also conducted an active allocation strategy which contributed to the mixed management assignments – where Handelsbanken Liv is the largest – out-



performing their benchmark indexes by a good margin. In the mixed funds category, which is a heterogeneous group with major differences in investment strategy, Handelsbanken's Multimarket Fund came in second place among its main competitors in yield terms.

INTEREST-BEARING INVESTMENTS

Low inflation pressure and the dampening effect of the Asian crisis on growth expectations in the world economy contributed to a favourable climate in the money and bond markets. Russia's suspension of payments and the reconstruction of the US hedge fund Long Term Capital Management triggered cuts in interest rates by most central banks in the OECD countries.

For example, during the autumn, the US central bank lowered its most important rate by 75 bp to 4.75%. In Sweden, the Riksbank lowered the repo rate by 95 bp during 1998 to 3.40%. The yield on a ten-year Swedish government bond fell during 1998 by 184 bp to 4.18%.

The performance of the fixed income portfolios for both mutual funds and discretionary assignments, was close to their relevant benchmark indexes – for short-term portfolios the performance was slightly better than the indexes and slightly worse for long-term portfolios. Compared to the Bank's main competitors, yield was somewhat better than the average.

NORDIC EQUITIES

The stock exchange trend in 1998, both in Stockholm and the other Nordic capitals, will go down in history as one of the most dramatic in modern times. After a rise of just over 30% with an all-time high on July 20th, the stockmarket fell by nearly 40% in the space of two months. This fall was triggered by the growing international financial turbulence. This was followed by an equally large rally, mainly stimulated by cuts in central banks' interest rates worldwide, led by the USA. During October, an upward trend started which lifted the Stockholm Stock Exchange to an accumulated yield of 13.0% in 1998 (Sweden, Findata's Yield Index). Cyclical companies were negatively affected by the impact of the Asian crisis on prices and growth expectations. The losers on the stockmarket in 1998 are to be found in sectors such as forestry and steel. Sectors such as IT and telecoms were the winners.

The Swedish and Nordic equity portfolios, for both mutual funds and discretionary assignments, all outperformed their relevant benchmark indexes. Broad spectrum Swedish portfolios were particularly successful. It should also be stated that 1998 was an unusual year in that most of the players in the market outperformed the indexes. Relative to its main competitors, Handelsbanken's return was on the same level as the average.

INTERNATIONAL SHARES

The turbulence which characterised the world's stock-markets in 1998 has been described above. One effect of the fluctuations in share prices was a wide spread between the performance of the various fund managers in most categories of portfolio with an international strategy. The performance of international equities management is similar to that of Nordic management in so much as the largest portfolios in volume terms are the ones which have performed best. The overall picture is the same as for fixed income products and Nordic shares with an average return well in line with the Bank's main competitors.

Fund management

At the end of 1998, the Bank's fund management company managed 48 mutual funds with some 660 000 unit-holders. The assets managed in these funds fluctuated substantially during the year. At the beginning of the year, the amount was SEK 45bn and by mid-year had grown to SEK 56bn. At the end of October, due to the turbulence on financial markets, the value had shrunk to just under SEK 47bn. During the last few months of the year, the markets recovered with surprising force. At the end of the year, the total assets managed in the funds were SEK 55bn, an increase from the previous year by 22%.

The turbulence on the financial markets did not lead to any major withdrawals from mutual funds although there was a certain amount of reallocation between funds. The flows moved from Swedish equity funds and emerging market funds mainly to mixed funds and fixed income funds. But there were also large inflows to some international funds, such as Europafonden (Europe fund). Unit-holders have thus moved from high risk investments to low risk.

Most funds have outperformed their benchmark indexes. In a ranking of the 13 largest Swedish fund management companies published by a Swedish periodical (Sparöversikt) in September 1998, Handelsbanken's fund management company came in second place. For example, our mutual funds were in first place or equal first place in the categories Europe funds, Asia funds and Global funds.

We started seven new funds during the year. The newly-formed Finnish fund management company has started three funds which are also marketed in Sweden: a Finnish equity fund, a short-term and a long-term fixed income fund. The two fixed income funds invest in interest-bearing securities from all the 11 states in Euroland and together with a newly-started Euroland equity fund, they offer a good range for customers who wish to invest in the new euro-zone.

New flows into the funds, increased competition and the new Swedish pensions system make it important to



broaden the customer base. In order to accomplish this, the branches need extra support. For this reason, regional fund advisers were recruited during the autumn, one at each regional bank. They have started work and, at several regional banks, have already been very successful.

During 1998, the unit-holders in our mutual funds were offered the opportunity to buy and sell units in their funds, move their holdings from one fund to another and to open new funds via the Internet. The information about our mutual funds which is available via the Internet has also been significantly extended.

Discretionary management

During 1998, discretionary management continued to develop in terms of organisation, performance, volume and quality.

Since 1 September 1998, discretionary asset management comprises management, customer contact, administration, accounting, reporting, a service for trusts and foundations and marketing/sales. Thus, the discretionary part of asset management is both a product area and an organisation where our customers'



SEK 451bn, a rise of 12%. This is partly due to the market's increased interest in asset management but is also the result of greater focus by the Bank in this area. The custody account reports follow the Bank's investment concept and make it easier to assess the risk level of a portfolio. The investment concept, which is based on modern portfolio theory, is central to the Bank's products and these services.

Institutional custody services

Handelsbanken is the only Nordic bank which can offer its institutional customers a Nordic concept for custody services. This is a regional solution with local processing via Handelsbanken's own units in each Nordic country. In this way, the customer gains local knowledge of the market and direct access to the securities depository in each country. The Bank is also a member of the local payment and clearing systems. Apart from these benefits, the customer is offered an advantageous fee structure via a contract which covers the whole Nordic area taking into account the total volumes. This concept has been very well received on the market. We have been particularly successful in the Finnish market and after only a few months have started to report positive results.

All Nordic units can offer custody services for the domestic markets to institutional customers.

portfolios are adapted to the customer's specific requirements. There is no investment process in this part of the organisation. Strategies and model portfolios are produced and developed at the Investment Management unit. We consider that we are now well-prepared to meet future competition and can participate in sales campaigns together with branches and regional head offices.

The volume of assets managed in Sweden grew during the year and at the year-end was SEK 36.6bn, of which SEK 2.2bn is invested in Handelsbanken's fund management company. During the year, we received 30 new assignments with a value of SEK 3.9bn.

In general, the return on our customers' portfolios has been better than the relevant benchmark indexes. Risk-adjusted return has been very positive. We have improved the control and follow-up of our management assignments.

Custody services

The number of custody accounts continued to grow substantially and now totals 67 500, an increase of 66%. The total value of the custody accounts is



HANDELSBANKEN FINANS

Quarterly performance

SEK m	Q1	Q2	Q3	Q4	Total 1998	Total 1997
Net interest income	113	115	114	122	464	457
Commission, net	47	50	49	55	201	183
Net result on financial operations	—	—	—	- 1	- 1	—
Other income	3	9	2	6	20	29
Total income	163	174	165	182	684	669
Net internal remuneration deducted from income	10	8	10	11	39	27
Total expenses	102	106	100	121	429	360
Result before loan losses	61	68	65	61	255	309
Loan losses	5	1	3	16	25	18
Operating profit	56	67	62	45	230	291
Return on equity, %	16.9	23.4	21.5	15.3	19.2	25.8

Balance sheet 31 December 1998

SEK m	
Lending to credit institutions	1 378
Lending to the general public	15 242
Bonds	—
Other assets	796
Total assets	17 416
Liabilities to credit institutions	10 069
Deposits and funding from the general public	314
Issued securities	2 217
Other liabilities	3 872
Shareholders' equity	944
Total liabilities and shareholders' equity	17 416

Handelsbanken Finans is the only bank-owned finance company with extensive local finance company operations in all of the Nordic countries. The company offers a comprehensive range of financing services which are mainly intended to complement the banking services of the branch offices. During the year, work continued to strengthen co-operation between the Nordic units and with Svenska Handelsbanken's branches across the Nordic area.

The subsidiary called Handelsbanken Rahoitus is one of the most prominent finance companies in Finland, offering a complete range of leasing, conditional sales, car and invoice processing and factoring services as well as consumer finance via the Aktiivira and Aktiivira Privat payment cards. There was a substantial expansion in the Finnish operations in 1998. Several major deals were concluded in the power industry thanks to the company's specialist knowledge in this field.

The Norwegian finance company concentrates mainly on leasing and conditional sales for companies and conditional sales for private customers. The company collaborates successfully with Handelsbanken's branches in Norway, and has developed co-operation with vendors during the year.

In Denmark, Handelsbanken Finans' subsidiary, Nordan A/S, is one of the largest debt collection companies. The company also offers invoice processing and factoring services. The Danish branch runs a leasing and consumer finance operation as well.

1998 was a successful year for Handelsbanken Finans with continued high profitability and strong growth. The year was characterised by historically very high sales levels in consumer finance, conditional sales, factoring services, debt collection, car services and leasing. This led to a substantial increase in credit volumes. The market for financing products was characterised, however, by continued tough competition and high pressure on margins, although a slight trend towards wider margins could be observed towards the end of the year. The number of deals within the branch office operation increased sharply, and the branches' result from finance company business increased by 30%, despite the lower margins.

Leasing and conditional sales

The flow of corporate leasing and conditional sales contracts from the branches has increased in all the Nordic countries and in Sweden by more than 50%. Leasing and conditional sales are now established products in the range of services offered by the branches.

Several new contracts have been concluded with vendors from selected business sectors. A high standard of



service, the existence of finance companies in all the Nordic countries and Svenska Handelsbanken's decentralised organisation have often proved to be decisive competitive advantages.

Car financing services has also reported a sharp increase.

Retail Financial Services

Retail Financial Services, which provides financing via retailers for purchases of capital goods by private customers, continues to show high profitability. Despite considerably tougher competition, Retail Financial Services consolidated its leading position during the year in operations within selected business sectors.

The capped rate loan was introduced as a new product which offers the borrower the advantages of a variable rate loan when interest rate levels are falling, and the advantages of a fixed rate loan when interest levels are rising. The customer is guaranteed that the interest rate on the loan will not exceed a specified level during the life of the loan. This service, together with Time-Out insurance, which covers the customer in case of unemployment, sickness or accident, provides borrowers with good protection. The service has been successful, and the retailers have gained a new and very competitive product to offer their customers.

As part of its efforts to facilitate processing and communications with retailers, Handelsbanken Finans has continued during the year to make IT investments to support the sales process.

Factoring & Collection Services

Factoring & Collection Services offer a complete range of ledger services in Sweden, Finland and Denmark for their corporate customers in the shape of invoice processing, factoring, monitoring, claims and debt collection. Attracted by the prospect of more effective administration, improved cash flow and better claims routines, more companies than ever before have used the services of Factoring & Collection Services.

Using factoring, companies can finance their expansion by borrowing on their invoices, thereby releasing working capital. During the year, a factoring service without invoice processing was introduced, aimed at companies that wish to utilise the advantages of factoring without transferring administration. Using this factoring service, companies receive payment faster and gain access via Handelsbanken's branches to a flexible credit facility that can be adapted to their rate of expansion. The new service has been very well received, and there has been a steady increase in the number of contracts.

Customers who subscribe to the factoring services as well as customers who utilise Handelsbanken's corporate package may subscribe to Kredit-Inkasso AB's debt collection services in Sweden free of charge. Kredit-Inkasso AB is a wholly-owned subsidiary of Handelsbanken Finans. It offers a complete range of debt collection and long-term claim monitoring services.



NPS

HANDELSBANKEN LIV

Quarterly performance ¹⁾

SEK m	Q1	Q2	Q3	Q4	Total 1998	Total 1997
Net interest income	1	1	1	2	5	12
Commission, net	11	11	15	17	54	37
Net result on financial operations	17	6	- 15	14	22	19
Other income	—	1	—	—	1	2
Total income	29	19	1	33	82	70
Net internal remuneration deducted from income	28	28	29	40	125	75
Total expenses	18	12	12	20	62	40
Result before loan losses	11	7	- 11	13	20	30
Loan losses	—	—	—	—	—	—
Operating result	11	7	- 11	13	20	30
Return on equity, %	11.4	7.2	neg.	13.4	5.2	7.1

1) Handelsbanken Liv Fondförsäkrings AB (unit-linked) and commission income from the mutual company are included under the business area "Handelsbanken Liv".

Handelsbanken Liv Försäkrings AB ²⁾

RESULTS 1998

SEK m	
Premium income	1 819
Investment income	2 513
Insurance claims	- 967
Change in technical provision	- 1 204
Bonus	- 72
Operating expenses	- 185
Result on technical account – life insurance business	1 904

2) Handelsbanken Liv Försäkrings AB is a mutual life insurance company and is not consolidated.

Life insurance is included in Handelsbanken's universal bank concept as part of the Bank's range of products.

In Sweden, the Bank's insurance company Handelsbanken Liv markets a complete range of life insurance products for private customers, employees and companies via the Bank's branch office network. In the other Nordic countries, the range of products is smaller. In Denmark, personal risk insurance is offered in the form of life insurance and total and permanent disability benefit. In Norway and Finland, unit-linked insurance is also marketed for pension and investment purposes.

For legal reasons, products in Sweden are provided by two subsidiaries of Handelsbanken – Handelsbanken Liv Försäkringsaktiebolag and Handelsbanken Liv Fondförsäkringsaktiebolag. The companies are marketed under the joint name of Handelsbanken Liv. Handelsbanken Liv Fondförsäkringsaktiebolag has a subsidiary in Denmark called SHB Liv Forsikringsaktieselskab, with branches in Norway and Finland. For a couple

Handelsbanken Liv Fondförsäkrings AB

BALANCE SHEET 31 DECEMBER 1998

SEK m	
Lending to credit institutions	47
Lending to the general public	110
Bonds	117
Other assets	1 069
Total assets	1 343
Liabilities to credit institutions	—
Deposits and funding from the general public	998
Issued securities	—
Other liabilities	42
Shareholders' equity	303
Total liabilities and shareholders' equity	1 343

of years, Handelsbanken Liv Försäkringsaktiebolag has had operations in Norway in the form of a branch for certain insurance products.

The surplus on operations in Handelsbanken Liv Försäkringsaktiebolag, which is a traditional life insurance company, goes back to the policy-holders while the surplus in Handelsbanken Liv Fondförsäkringsaktiebolag, which is a unit-linked company, goes to the owner. For several years, the legislation concerning insurance operations has been subject to investigation in order to make it possible to pay dividends to the owners of a traditional life insurance company. This would make it possible to handle all life insurance products in the same company. It is expected that a bill concerning this will be brought before parliament in spring 1999 and the new law would be in force from 1 January 2000.



Development of premiums

During 1998, the companies' total premium income continued to rise substantially. Total premium income was SEK 5.1bn (3.8), an increase of 33%. The companies' market share measured as new premium income was 8% (13) in 1998 for traditional insurance and 13% (12) for unit-linked insurance. During the year there was a further shift from sales of traditional insurance to unit-linked insurance. While premium income for traditional insurance is at more or less the same level as 1997, premiums for unit-linked insurance rose by 71%. The bonus paid in the traditional company was on average 14.0% during the year. Over a ten-year period the bonus has been 10.8%. At the end of the year, the solvency margin was 121%. Total yield was 18.7%. The average in the sector was 16%.

Measured in new premium income, Handelsbanken Liv's market share has increased from 5% in 1992 to 12% in 1998.

The aim of the company is to achieve a market share in all product areas, which reflects the Bank's market share in other product areas.

Income increased to SEK 207m (145), of which SEK 125m has been paid in remuneration to the branch office operations. The unit-linked company's expenses increased to SEK 62m (40). The result was lower partly because of continued IT investments and the costs of expansion in the Nordic countries outside Sweden.

New opportunities for individual choice

In both basic state and collective agreement pension schemes, it is now possible for individuals to invest a certain part of the premium according to their own choice. White-collar workers have had this possibility for many years, and during 1998 the opportunity was also given to blue-collar workers. The basic state pension scheme will also allow individuals to invest their "premium pension" in mutual funds. The public authority which is to administer the system, the Premium Pension Authority (PPM) was formed during the autumn. It was intended that in autumn 1999 everyone would be able choose the fund in which the PPM would

invest their premium pensions. In December 1998, the PPM announced that the computer system which was to administer the system would be delivered at least one year late. This means that the individual selection cannot be made in autumn 1999.

Products

Handelsbanken Liv's products are adapted to customers' requirements for risk protection insurance and savings in the corporate market, the broad-based private market and the private market for wealthy individuals.

Special product concepts are offered for occupational pension purposes via Handelsbanken's Occupational Pension Plan and for the insurance needs of private customers via Handelsbanken's Private Insurance scheme. In the area of capital insurance, products have been designed for special purposes, one example being a savings product called Fondkapitalspar.

Handelsbanken's Occupational Pension Plan has been produced for companies who wish to provide their employees with individually-designed occupational pensions. The plan allows great flexibility in terms of premium size, insurance amount and disbursement. When family and income conditions change, the insurance policy can be adapted. The policy consists of insurance components which can be combined in various ways as required. It is therefore always possible to find the right level of security.

The insurance requirements of a private customer can be covered in a single insurance agreement through Handelsbanken's Private Insurance. It is a flexible insurance policy normally entered into directly at the branch office and can thus be adapted to fit the customer's personal situation. According to the customer's choice, the policy can include life insurance, old-age pension, family pension, accident and sickness protection and waiver of premium in the case of long-term illness.

Handelsbanken Liv's products are only sold via Handelsbanken's branch office network.

In order to provide expertise on insurance for the branch offices' customers and staff, Handelsbanken Liv has some 60 insurance advisers located at Handelsbanken's regional banks. Their function is to assist with all insurance products but above all with more complex insurance packages in the field of occupational pensions, inheritance planning and asset protection.





STADSHYPOTEK BANK

Quarterly performance

SEK m	Q1	Q2	Q3	Q4	Total 1998	Total 1997
Net interest income	11	11	11	15	48	21
Commission, net	28	20	6	7	61	127
Net result on financial operations	—	—	—	—	—	- 12
Other income	—	—	1	—	1	—
Total income	39	31	18	22	110	136
Net internal remuneration deducted from income	—	7	20	21	48	—
Total expenses	28	23	14	18	83	138
Result before loan losses	11	8	4	4	27	- 2
Loan losses	—	—	—	—	—	—
Operating result	11	8	4	4	27	- 2
Return on equity, %	63.4	40.3	21.1	24.2	37.2	

Balance sheet 31 December 1998

SEK m	
Lending to credit institutions	2 614
Lending to the general public	17
Bonds	3 377
Other assets	43
Total assets	6 051
Liabilities to credit institutions	18
Deposits and funding from the general public	5 534
Issued securities	—
Other liabilities	438
Shareholders' equity	61
Total liabilities and shareholders' equity	6 051

In 1998, Stadshypotek Bank achieved acceptable profitability for the first time since it started in 1995. This was the result of reduced costs and increased income. With 340 000 customers and SEK 23bn in customer funds, Stadshypotek Bank is Sweden's largest independent tele-bank active under its own brand name and with its own range of services.

As 1997 was a year of change due to Handelsbanken's purchase of the Stadshypotek Group, comparison of figures is not meaningful. During the second half of 1998, profits fell after Stadshypotek Bank paid sales commission at market rates to other units in the Group.

The year was characterised by development of new services intended to broaden the range offered mainly to private customers. The purpose of this development was to be able to provide customers with a more comprehensive range of electronic services. Co-ordinated activities between the branch office operations at Handelsbanken

and Stadshypotek Bank have become an important feature and have generated many new business opportunities. These activities have been designed on behalf of the branches and have been targeted both at selected existing customers of the branches and at potential customers of Handelsbanken.

During 1998, Stadshypotek Bank developed its own Internet banking service. This was introduced in November together with a private customer package (Privatpaket) with a "satisfied customer" guarantee. The private package consists of a number of electronic bank services to meet the customer's basic requirements. It includes an account which offers a good rate of interest from the first krona, a VISA payment card, InternetService and payments via the Internet or by mail using the Privatgiro payment service. Stadshypotek Bank is the first bank in Sweden to offer VISA card customers a bonus on all purchases. It is easy to link the Bank's other products to this package.

Stadshypotek Bank's system for saving in shares has been developed so that customers are able to reinvest share dividends free of charge and the minimum limit for monthly savings in individual shares has been lowered from SEK 500 to SEK 100. Monthly savings in individual shares have continued to perform well.

In spite of lower market rates, account deposits showed stable growth and average deposits were SEK 5.8bn. The number of deposit accounts is approximately 225 000.

Despite a large number of retail bonds maturing and interest rates continuing to fall, Stadshypotek Bank succeeded in defending its market share for retail bonds.

FondSpar, a selection of Handelsbanken's mutual funds which can be bought and sold over the phone, has continued to perform very well during the year. The number of savers increased from just under 2 000 to over 10 000.



HANDELSBANKEN CENTRAL TREASURY

Quarterly performance

SEK m	Q1	Q2	Q3	Q4	Total 1998	Total 1997
Net interest income	165	162	170	119	616	997
Commission, net	- 1	—	—	- 3	- 4	- 2
Net result on financial operations	19	7	- 16	11	21	- 7
Other income	—	—	—	—	—	—
Total income	183	169	154	127	633	988
Net internal remuneration deducted from income	—	—	—	—	—	—
Total expenses	4	5	4	3	16	18
Result before loan losses	179	164	150	124	617	970
Loan losses	—	—	—	—	—	—
Operating profit	179	164	150	124	617	970
Return on equity, %	27.2	32.3	32.1	28.7	29.9	53.0

Balance sheet 31 December 1998

SEK m	
Lending to credit institutions	14 693
Lending to the general public	—
Bonds	33 669
Other assets	6 219
Total assets	54 581
Liabilities to credit institutions	1 377
Deposits and funding from the general public	367
Issued securities	32 284
Other liabilities	19 004
Shareholders' equity	1 549
Total liabilities and shareholders' equity	54 581

Central Treasury manages the Group's liquidity in Swedish kronor, the Group's funding in the capital market, funding in the overnight market and in the Riksbank and clearing at the Riksbank. The department is also in charge of risk management within the Group.

The activity that has a direct and significant effect on the Group's profit and loss account is liquidity management in Swedish kronor. This activity is an integrated feature of the internal bank.

Internal bank

The internal bank accepts deposits from various units in the Group and lends them to other units. Market transaction costs are kept at a minimum since transactions are kept within the Group. The internal bank has a mandate to take interest rate risks.

Surplus liquidity from the branch office operations – on average approximately SEK 37bn in 1998 – is transferred from the internal bank mainly to Stadshypotek. Before the acquisition of Stadshypotek, the surplus was used to purchase bonds which were placed in the invest-

ment portfolio. These investments matured gradually throughout 1997 and 1998. As the bonds matured, the funds were reinvested at a new and lower rate of interest. This is the main reason why the Central Treasury's result fell from SEK 970m in 1997 to 617m in 1998.

Cash management

As well as managing the internal bank, the Central Treasury administers the Bank's funding on the overnight market as well as funding and clearing in the Riksbank. In order to be able to administer clearing, the Bank must pledge securities with the Riksbank. These pledged securities consist of Swedish government bonds or mortgage bonds that are managed by the Central Treasury in a special portfolio. There is also euro-denominated collateral.

In 1998, the portfolio made a small positive impact on the result, but not as large as the impact from the internal bank operation. The collateral portfolio may be regarded as Handelsbanken's liquidity reserve in SEK. It is maintained in order to manage daily or even hourly fluctuations in liquidity.

Capital market funding

The Central Treasury Department is responsible for the Group's funding in the capital market. The most important feature in this is issuing bonds in the name of Stadshypotek in order to finance mortgage lending.

The Bank also borrows in foreign currencies. This is done in the name of the Bank and usually for the purpose of funding Stadshypotek. Foreign currency loans are then swapped into Swedish kronor.

Risk management

The Central Treasury Department is responsible for control of the Group's financial risks. This includes setting limits and developing measurement methods.

THE BANK AND THE ENVIRONMENT

Environmental responsibility and work organisation

Environmental issues are nowadays well-established in all operations at the Handelsbanken Group. This is true of both internal work and when granting credits and in other banking operations. Handelsbanken has joined the International Chamber of Commerce's (ICC) environmental programme and has signed the UN environmental declaration for banks.

Like other activities in the Handelsbanken Group, environmental issues are dealt with within the framework of the Bank's decentralised organisation and method of operating. All managers in the Group have the primary responsibility for environmental issues at their unit and all employees have a responsibility for the environment as part of their duties. At all regional banks, subsidiaries and at various units at the Central Head Office there is an environmental manager who is responsible for these issues at the unit in question. For the Group as a whole, internal environmental issues are co-ordinated by the Central Administration Department and business-related environmental issues by the Central Credit Department.

Internal environmental work

The main principle in the Bank's environmental policy is that, as far as technically and economically possible, Handelsbanken must take measures to minimise any negative effect on the environment. In support of the local measures, the Bank has entered into a number of central, nationwide agreements on waste-sorting and recycling. These agreements include electronic equipment – computer screens and office machines – toner cassettes, paper, plastic packaging and light sources.

The Bank has used environmentally-friendly paper for a long time and has systems for sorting and recycling waste paper.

The removal of freon from cooling equipment is progressing according to plan. At the Central Head Office, including the Information Systems Department, some 60% in weight of freon has been removed and 80% of the plants. As a result of transferring to district cooling systems as the main source for the Bank's cooling plants, freon is mainly used in back-up equipment. When a cooling plant is replaced, a freon-free alternative is always used.

The Bank's energy saving target is for an annual reduction of 3% for five years. In 1998, this target was achieved for the Bank's large central properties in Stockholm. Parallel with consistent work in all areas – for example, better control equipment, training of service personnel, changing to technology which uses less energy – a large plant for recycling heat was put into production at the head office during 1998.

The Bank's premises department is active in pursuing environmental issues when branch offices are being built, converted or extended. A pilot project in this work was a major conversion project for a branch in Uppsala. Experience gained from the project has been analysed during the year in conjunction with contractors, users and other experts both inside and outside the Bank. This

has resulted in a better level of knowledge concerning this type of project, which will be used in a major project in Western Sweden during 1999.

The units in the Group whose activities are principally affected by environmental requirements make annual environmental plans. A summary of these plans constitutes the Group's overall plan and forms the basis for day-to-day work in this area throughout the Group.

Environmental issues associated with granting loans

Handelsbanken's environmental policy states that it is important to focus on these issues when granting loans. Environmental issues are therefore an integral part of credit assessment at Handelsbanken. Although the company – and not the lender – is responsible for its business activities meeting the environmental demands laid down by law and in regulations, the Bank's credit risk may increase if the company fails in its compliance. This is why the business evaluations which are carried out in connection with granting credits always contain a section about environmental issues. It is also why units at the Bank who are responsible for customers and credits take into account these issues when making credit decisions. In this way, environmental aspects are assessed at least once a year for each corporate customer.

The branch with customer responsibility has to gather information concerning environmental issues which have a direct or indirect impact on the company's potential financial development. The purpose of this is to assess the effect of the company's environmental impact for the company itself.

Environmental risks exist in many types of company. In manufacturing companies, production can cause damage to the environment. It is important for those who make decisions at the Bank to know whether the customer's operation is subject to permits or duty of notification according to the Environmental Code and whether it affects the external environment. Mandatory changes in production methods may result in expensive investments which seriously affect companies' repayment capacity. For certain companies there is the risk that their products will be considered unsuitable from an environmental point of view. Negative environmental opinion concerning a company may have an impact on demand for a long period. The company's assets in the form of property, land, machines and inventory may decrease in value, thus undermining the value of the Bank's security.

A clear indication of companies' focus on environmental risk is evident if they have adopted an environmental policy, appointed a person to be responsible for environmental issues, taken out special insurance policies for environmental damage and certified their operations according to some accepted standard such as ISO 14001 or EMAS.

Together with other banks, Handelsbanken is active in ensuring that the proposals of the parliamentary committee on environmental information are implemented. The goal is to ensure that companies' environmental information is adequate and easily accessible for participants in the credit market and for others concerned.

Environmental training

During the last few years, the Bank has invested large resources in internal training on environmental issues. During 1997, all staff at branch offices attended courses. In 1998, the same course was conducted for staff at head office and subsidiaries. The course is designed internally at the Bank and certain parts of it are based on material from NUTEK and the Swedish Environmental Protection Agency. It is intended that environmental issues will be included in the Bank's basic courses.

IT OPERATIONS

In 1998, the Bank's IT expenses were SEK 2.6bn. Approximately half of this is for developing the Bank's systems and products and the other half is for running all the Bank's systems and communication lines and for depreciation of hardware.

IT expenses peaked in 1998, partly because mandatory preparations and adaptations for EMU and the new millennium coincided with other major system changes for the purpose of enhancing competitiveness. The main investments in new systems were the following: a new business system for foreign exchange and money market trading; development of the Bank's Internet service for private customers and new development of the same service for corporate customers; continued work on a joint system platform for pan-Nordic operations; infrastructure investments for completely new PC-based workstations in the Swedish branch office operations and an information system which provides a simple but complete overview of the customer's business with the Bank.

Never before has the Bank had such extensive systems development work.

EMU

Handelsbanken's preparations for the start of the Economic and Monetary Union in January 1999 have been pursued on a large scale since spring 1996. Development and adaptation of the Group's products and computer systems ready for this event have gone according to plan and on 4 January 1999, the Bank was able to offer customers in Sweden a number of new euro services for payments, investment and financing.

From 1999, Handelsbanken is using the EBA (Euro Banking Association) payment system in which the Bank participates together with some 60 other major banks. The central banks' new system called TARGET is also used for payments in euro. The new payment systems have worked well from the start and volumes are gradually increasing.

The new euro services are mainly demanded by companies. Since the beginning of 1999, Handelsbanken has been able to offer its private customers euro accounts to be used as transaction accounts for payments in euro and euro mortgage loans. There has been little demand for these products during the first few months of the year.

More euro services may be developed in the future in line with customers' changing requirements.

Also at the Bank's units outside Sweden, changes caused by the new currency were achieved as planned.

In Finland, which is part of the Bank's Nordic domestic market, the Bank has its most comprehensive operations within EMU.

If Sweden decides to join EMU in the future, it will be necessary to adapt further the Bank's products and computer systems in preparation for membership.

Year 2000

Handelsbanken's year 2000 project has the goal of ensuring that the Handelsbanken Group enters the next millennium with complete functionality. This implies that all computer systems and technical equipment are to function in the same way as they did before the millennium shift and that all external relations continue unchanged.

The project started in 1996 but since 1989 the Bank has ensured that all new systems and systems which have undergone major changes are Year 2000 compliant. In connection with this work, test methods and test environments for meeting the compliance demand have been developed. This has greatly facilitated the compliance process and the tests ready for the new millennium. The project, which includes operations both in Sweden and at the Bank's units in other countries, includes central computer systems, personal computers and embedded systems. It also covers contingency planning if unexpected interruptions should occur, despite all the preparations, for example, external problems which affect the Bank in some way.

The work in the project is followed up regularly by the Central Board and management of the Bank, by internal and external auditors and by the Swedish Financial Supervisory Authority.

By February 1999, 91% of the Bank's central application systems in Sweden had been analysed, adapted, tested and launched. Eight percent of the systems will be removed or replaced by other systems which are already compliant. The remaining one percent of the systems are expected to be completed during spring 1999. Adaptations of technical platforms, PC systems and embedded systems are progressing according to plan. During the first half of 1999, extra tests are planned of interfaces between various systems both within the Bank and outside. It is our intention not to change any external interfaces, i.e. external counterparties should not notice any differences in data they receive from the Bank.

No special difficulties have arisen in adapting the systems, and schedules are being met. All adaptation measures within the Group are expected to be completed by 30 June 1999 at the latest.

The Bank's corporate customers may be affected by their own problems in connection with the new millennium. When assessing companies' creditworthiness, it is important that the Bank is aware of the problems which companies may experience and the action they are taking to avoid these. In 1998, the Bank therefore started to include an analysis of the year 2000 problem in credit assessment of corporate customers.

Information about Handelsbanken's Year 2000 work can be found on the Bank's Internet site under the heading "Current".

Directors' report

OBJECTIVE

For many years, the Handelsbanken Group's overall objective has been to achieve return on shareholders' equity which is higher than the average for other listed banks that are active in the Group's domestic market. As the Group has expanded in the Nordic countries, the comparison has been extended to include both Norwegian (from 1995) and Finnish banks (from 1997).

Profitability must always be given higher priority than volumes. When granting credit, this also implies that the quality of the loan portfolio must never be neglected in favour of a large lending volume.

A WELL-INTEGRATED UNIVERSAL BANK

Handelsbanken is a universal bank. A universal bank covers all types of banking services for both corporate and private customers: deposits, lending, property finance, payments, investment banking, trading, fund management, factoring, leasing and life insurance.

At Handelsbanken, customer responsibility rests with the local branch. This is where the services for each customer are co-ordinated, in collaboration with regional and central specialists when necessary.

The universal bank concept applies to Handelsbanken's operations in all four Nordic countries. Outside this area, the Bank's units concentrate mainly on Nordic-related business.

Handelsbanken's objectives, policy and organisation are described in more detail on page 10 onwards.

TOTAL ASSETS

In 1998, the Handelsbanken Group's total assets increased by 8% to SEK 926bn.

Lending to the general public was unchanged at SEK 587bn. Both Swedish kronor and foreign currency lending in the Bank have increased, while the volume in the Stadshypotek Group has fallen. This fall is in accordance with expectations in connection with the purchase of Stadshypotek.

The portfolios of interest-bearing securities increased – risk limits being unchanged – to SEK 108bn (66).

Assets, Handelsbanken Group

	31 Dec 1998 SEK m	31 Dec 1997 SEK m	Change %
Interest bearing securities	107 826	65 955	63
Lending to the general public	587 405	586 824	0
Credit institutions	139 823	134 472	4
Other	91 396	72 215	27
Total assets	926 450	859 466	8

Securities in the portfolio classified as fixed assets are now only SEK 1bn (6).

Balance sheets for 1994–1998 are shown on page 82. Key figures for 1994–1998 are presented on page 4.

CAPITAL RATIO

At the end of 1998, the Handelsbanken Group's capital ratio was 9.8% (10.4). The tier 1 capital ratio was 6.3% (6.2).

Changes in the tier 1 capital between different years are generally due to profits generated during the year minus the proposed cash dividend. In 1998, the distribution of the property company Fastighets AB Balder had an impact on tier 1 capital of nearly SEK 2.5bn. Tier 1 capital grew as a result of this by 7%. Apart from tier 1 capital, the total capital base also includes tier 2 capital and the enlarged capital base. These volumes are practically unchanged, since it was not considered that they needed to be strengthened. The risk-weighted volume has increased by 7% to SEK 443bn. This reflects the increase in the volume of both credit risks and market risks.

RATING

The costs of the Bank's funding in the international markets are affected by the rating agencies' credit assessments. The Bank has the best rating of the Swedish banks, as shown in the table on page 47.

RESULT AND PROFITABILITY

Income

Income increased by 6%. Net interest income was unchanged. It includes the fee of SEK 287m (312) to the Swedish government for the deposit protection guarantee. At Branch office operations, net interest income increased by 7% due to higher volumes. The margin in Swedish kronor fell by nearly 0.2 percentage points. At Markets and Central Treasury, net interest income fell because of a flatter yield curve and lower interest rates. Part of the decrease in net interest income at Markets is balanced by a higher net result on financial operations.

Source of funds, Handelsbanken Group

	31 Dec 1998 SEK m	31 Dec 1997 SEK m	Change %
Deposits and funding from the general public	206 524	204 747	1
Liabilities to credit institutions	261 146	241 436	8
Issued securities etc.	299 378	284 051	5
Other liabilities	101 836	73 639	38
Subordinated loans	23 135	23 231	0
Shareholders' equity	34 431	32 362	6
Total liabilities and shareholders' equity	926 450	859 466	8

Net commission increased by 2% to SEK 3 408m (3 337). Payment commission and investment banking commission reported healthy increases.

The net result on financial operations increased steeply to SEK 1 520m (593). This is due to better interest-rate related trading and also increased volumes. As mentioned above, some of the increase is offset by a corresponding interest expense.

Other income rose by 6% to SEK 757m (716). Other income includes capital gains of SEK 338m for sales of business premises to Fastighets AB Balder. Compared to the previous year, the operating surplus of SEK 294m from Balder no longer exists.

Expenses

Expenses rose by 14% to SEK 8 807m (7 693). This sharp rise in expenses is mainly due to increased IT costs in connection with major development projects and new installations. See also IT development on page 45.

Eight percentage points of the expenses increase is attributable to higher IT costs, while Stadshypotek, which was only included for 10 months of 1997, has an impact of two percentage points. The remaining increase is mainly attributable to Handelsbanken Markets and the Nordic expansion.

The I/E ratio – income in relation to expenses – was 1.91 (2.06) in 1998 before loan losses and 1.84 (1.98) after loan losses.

Profitability

Return on equity after full tax is 18.6% (20.1).

Handelsbanken's profitability, expressed as return on shareholders' equity after 28% standard tax and adjusted for items which make comparison difficult, was 16.4% (18.8). Thus, Handelsbanken substantially exceeded the profitability level of the other Swedish banks. Handelsbanken's return on equity has been higher than the average for the other banks since 1972.

Appropriations and tax

Compensation from the Bank's pension fund was SEK 600m (600).

Nordic bank ratings, 31 December 1998

	MOODY'S			S&P		FITCH IBCA				BANKWATCH	
	Financial strength	Long term	Short term	Long term	Short term	Individual	Legal	Long term	Short term	Issuer	Short term
Handelsbanken	B	Aa3	P-1	A+	A-1	B	2	AA-	F1+	B	TBW-1
Nordbanken	C+	A1	P-1	A	A-1	B	2	A+	F1	B/C	TBW-1
SEB	C	A2	P-1	A	A-1	B/C	2	A+	F1	C	TBW-1
FöreningsSparbanken	C+	A1	P-1	A	A-1	B/C	2	A+	F1	B/C	TBW-1
Merita Bank	D+	A2	P-1	A	A-1	C	2	A	F1	B/C	TBW-1
Den Danske Bank	B	Aa3	P-1	A+	A-1	B	2	AA-	F1+	B	TBW-1
Unibank	C+	A1	P-1	—	A-1	B/C	2	A+	F1	B/C	TBW-1
Den norske Bank	C	A2	P-1	A	A-1	—	—	—	—	C	TBW-1
Christiania Bank	C	A2	P-1	—	A-1	B/C	2	A+	F1	B/C	TBW-1

Capital base and requirement, Handelsbanken Group

	1998 SEK m	1997 SEK m
CAPITAL BASE		
Tier 1 capital (net, less goodwill)	27 736	25 906
Tier 2 capital	15 331	16 717
Less shareholdings in insurance companies and domestic financial institutions	- 674	- 677
Total tier 1 and tier 2 capital	42 393	41 946
Enlarged capital base	1 250	1 250
Total capital base	43 643	43 196
CAPITAL REQUIREMENT		
Total volume – credit risks	812 593	891 688
Risk-weighted volume – credit risks	413 258	392 053
Risk-weighted volume – market risks	29 940	22 732
Total risk-weighted volume	443 198	414 785
Capital ratio	9.8%	10.4%
Tier 1 capital ratio	6.3%	6.2%

For detailed information see page 76.

Handelsbanken Group – performance

	1998 SEK m	1997 SEK m	Change %
Net interest income	11 152	11 169	0
Net commission	3 408	3 337	2
Net result on financial operations	1 520	593	156
Other income	757	716	6
Total income	16 837	15 815	6
Staff costs	4 579	4 150	10
Other expenses	4 228	3 543	19
Total expenses	8 807	7 693	14
Operating profit before loan losses	8 030	8 122	- 1
Loan losses	319	302	6
Net operating profit	7 711	7 820	- 1

The Group's tax expense for 1998 is SEK 2 168m (2 326). This is equivalent to an effective tax rate for the Group of 26.5% (27.9). A specification of deviations from the nominal tax rate is reported under Note 13, Taxes.

Dividend

The Board of Directors recommends a dividend of SEK 8.00 (6.50) on the ordinary shares, class A and B. The dividend on index shares, which according to the Bank's Articles of Association is to follow the consumer price index, will be SEK 0.80 (0.80). In accordance with the Articles of Association, the dividend on preference shares will be SEK 0.45 on class A and SEK 0.60 on class B shares. The cash dividend will require SEK 1 922m.

Redemption and bonus issue/split

The Board is proposing to the Annual General Meeting that a decision be made concerning redemption of all index and preference shares in accordance with the Articles of Association. The redemption price will be determined in accordance with the Articles of Association.

Holders of index shares will receive SEK 25.25 per share on 12 August. This amount includes a) SEK 7.50 recalculated to take into account the percentage change between the consumer price index for November 1977, 444 units, and for November 1998, 1 466 units, and b) that part of the dividend for 1998, SEK 0.80, which corresponds to the period between 1 January 1999 and the payment date.

Holders of preference shares will receive SEK 10 per share on 12 August plus interest amounting to 4.5% for class A shares and 6% for class B shares. The interest is calculated from 1 January 1999 until the payment date and is SEK 0.28 for class A shares and SEK 0.37 for class B shares.

The Board is also proposing that the nominal value of each share be increased from SEK 10 to SEK 12. This is achieved through a bonus issue by transferring SEK 476m from the statutory reserve to the share capital. Each ordinary share will then be split into three new ordinary shares. Thus, there will be three times as many ordinary shares as before the bonus issue and the split.

FASTIGHETS AB BALDER

At the 1998 Annual General Meeting it was resolved that all shares in Fastighets AB Balder be distributed to holders of the Bank's ordinary shares. This was done by giving each shareholder the right to receive one share in Balder for each full ten ordinary shares in Handelsbanken. Balder's assets mainly consisted of shares in Stadshypotek Fastigheter Holding AB where Stadshypotek's repossessed properties for protecting claims were placed. Fastighets AB Balder is thereby a company which is completely independent of the Handelsbanken Group. Since 30 June 1998, the shares have been listed on the O list of the Stockholm Stock Exchange.

Income/Expenses ratio

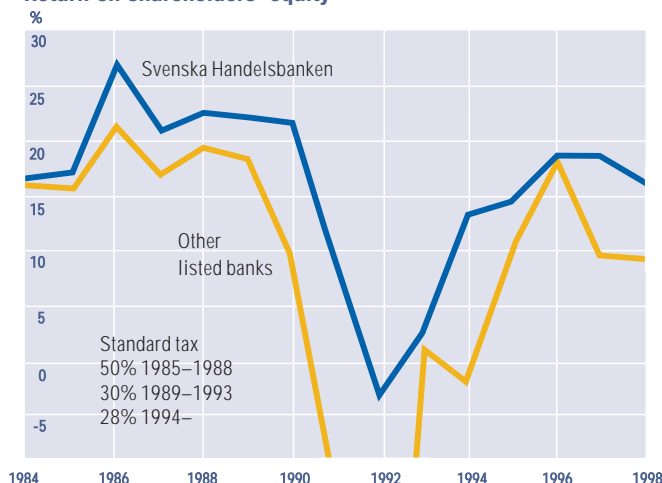
	1998	1997
I/E ratio before loan losses	1.91	2.06
I/E ratio after loan losses	1.84	1.98

Sensitivity analysis of the Handelsbanken Group's results

	Change	Impact on operating result	Impact on earnings per ordinary share SEK
Market interest rate (percentage point)	+/- 1%	-/+ 327	0.99
Commission, net	+/- 1%	+/- 34	0.10
Employees (number)	+/- 100	-/+ 52	0.16
Salary change	+/- 1%	-/+ 42	0.13
Other general administrative expenses	+/- 1%	-/+ 35	0.11

If market interest rates change, the result is affected differently depending on the size of the difference between the maturities for invested and borrowed funds. The impact on net interest income of a change in market interest rates by one percentage point over a twelve-month period is SEK 327m. The immediate impact on the operating profit which would arise as a result of changes in the market value of various balance-sheet items has not been taken into account. The change becomes negative when interest rates go up, since fixed-interest investments are considerably larger than fixed-interest funding. If market rates fall, the impact on the result is the opposite.

Return on shareholders' equity



LOAN LOSSES AND CREDIT RISKS

The banks and the business cycle

The strong economic growth during the first half of the year was affected during the third quarter by financial turbulence on the international markets. Credit risks in the banks' exposure to problem countries – particularly in South-East Asia and Latin America and also Russia – increased. Falling demand from some export markets is expected to result in lower profits for Nordic export companies. The general opinion is that an economic slowdown has started.

In other respects, credit risks continued to be small. In general, this was due to good company profits and low interest rates. The number of bankruptcies in Sweden continued to fall.

Loan losses

In 1998, the Handelsbanken Group's loan losses were SEK 319m (302), an increase of 6%. The change in value of repossessed property represented SEK – 11m (71) of loan losses. Loan losses represented 0.05% (0.05) of the Group's lending.

Handelsbanken's operations outside the Nordic countries are aimed at the Bank's Nordic customer base and thus the Bank has a low risk exposure to emerging markets. The exposure to South-East Asia (The Philippines, Indonesia, Malaysia, South Korea and Thailand) was SEK 1.6bn in mid-February 1999. At the same time, exposure to Russia was SEK 0.1bn and to Latin America SEK 0.5bn, of which Brazil, SEK 0.2bn. In relation to Handelsbanken's size, the exposure to these countries is low. The Bank has made the necessary provisions for possible loan losses regarding a small number of exposures in South-East Asia and Russia for a total amount of SEK 89m (23).

Amounts recovered from previous actual losses amounted to SEK 377m (616) and provisions written back were SEK 306m (617).

Of the year's reported loan losses, two were over SEK 20m. They represented 23% of total loan losses. In the adjoining table, loan losses are shown by category of borrower.

Bad debts

Bad debts, after deduction of provision for possible loan losses, fell by 28% to SEK 2 756m (3 821). They represented 0.45% (0.64) of lending at the year-end.

The reserve for possible loan losses was SEK 3 926m (4 242), which is 59% (53) of gross bad debts.

A full report is given in note 16, page 65.

Managing credit risks

In accordance with the credit policy laid down by the Central Board, the branch office which is responsible for the customer must also assess and manage the credit risk. In this way, the Bank draws on the branch's knowledge of the customer and the local market and the problem loans are dealt with quickly and efficiently. The branch office is assisted by experts at regional and central head office.

Loan losses by category

	1998		1997	
	SEK m	% ¹⁾	SEK m	% ¹⁾
Industrial, trading and service companies, etc.	307	0.20	230	0.23
Households	191	0.10	220	0.11
Construction and property companies	125	0.07	321	0.16
Housing co-operative associations	67	0.11	112	0.17
Credit institutions excl banks	0	—	– 11	– 0.10
Foreign banks	18	—	– 42	—
Less amounts recovered but not categorised	– 378	—	– 599	—
Change in value of repossessed property	– 11	—	71	—
	319	0.05	302	0.05

¹⁾ As a percentage of loans per category and total loans at beginning of year.

FINANCIAL RISKS

Financial risks

In the Bank's operations, various types of financial risk arise apart from credit risks. The risk taken is controlled and limited taking into account the bank's risk tolerance.

Financial risks are divided into market and liquidity risks. Market risks consist in their turn of interest rate risks, exchange rate risks and share price risks. They constitute the changes in value which arise as a result of a change in price, exchange rate or volatility. Liquidity risk is the risk that the bank's expense will increase as a result of the funding requirement on a particular day being too large in relation to available funding.

Interest rate risks

Interest rate risks arise because the maturity periods of the Group's assets and liabilities or off-balance-sheet items do not coincide. A shift or change in the yield curve may lead to a deterioration in net interest income or fall in value when the maturities for assets and liabilities are different.

The largest sources of interest rate risk are represented by the trading portfolios at Handelsbanken Markets and in the internal bank which is managed by the Central Treasury. To a small extent, interest rate risks also arise in the lending and deposit operations of Handelsbanken's regional banks and subsidiaries.

The internal bank moves funds between the various units in the Group. For example, during 1998, large amounts were passed from branch office operations to Stadshypotek. The internal bank's interest rate risk arises as a result of the intentional differences in maturity periods between, for example, the internal bank's funding from the branches and lending to Stadshypotek.

The funds which are passed from branch office operations to Stadshypotek are nowhere near enough to balance Stadshypotek's funding requirement. Consequently, there is no longer any need to invest funds generated by branch office operations in external securities. As a result, the investment portfolio has almost completely disappeared.

Since the Riksbank has changed the regulations for pledging to harmonise with the regulations in most other EU countries, securities which the Group itself has issued are not accepted as collateral for loans at the Riksbank. In order to be able to manage the payments flow in the Riksbank clearing system, the Bank has therefore been forced to create a separate collateral portfolio consisting of external securities. As the purpose of the portfolio is to be used as collateral and not to expose the Bank to financial risks, its risk level is small.

The trading portfolio at Handelsbanken Markets is the Bank's trading book of financial assets. The interest rate risk in the trading portfolio varies on a daily basis.

The interest rate risk measures the impact on the market value of all assets and liabilities both on and off the balance sheet in the event of a rise in all interest rates of one percentage point. The risk is measured as at a specific day. The interest rate risk in the event of a rise in all interest rates of one percentage point at the year-end was SEK 685m (596). When calculating the interest rate risk for subsidiaries, the equity is assigned a maturity which corresponds to the average life of the assets.

The table below shows the maturity periods for the Group's assets and liabilities on the balance sheet and off-balance-sheet items for all currencies at the end of 1998.

Exchange rate risks

Exchange rate risks arise when there is a difference in the present value of assets and liabilities in foreign currencies. When this is the case, the Group's profit is affected by fluctuations in exchange rates. Exposure to exchange rate risk is in all essentials restricted to Handelsbanken Markets' trading operations.

Share price risks

The Bank's exposure to share price risk, i.e. the risk of losses as a result of changes in share prices, is divided into systematic and specific risk. The systematic risk originates in the price movements of the entire stock market. The share-specific risk originates in the price variation of each individual share compared to the index.

Share-related risks mainly arise at Handelsbanken Markets. The Bank is also a marketmaker in the equity and index option markets, where share-related risks arise.

Value-at-Risk

Value-at-Risk (VaR) is a frequently used method for measuring market risks. It is particularly appropriate for measuring risks in trading operations. The VaR method estimates the possible future losses in a portfolio with the help of historical market movements. The method measures various types of market risk in a uniform way, which allows comparisons and totalling. In addition, the diversification effects between different currencies, stock exchanges and interest-rate related markets are also captured.

Calculation of the market risk exposure using the VaR method requires specification of three parameters.

Firstly, the period expected for closing out the position or eliminating its risk (the holding period). Secondly,

Maturity periods for the Group's assets and liabilities

SEK m	-3 mths	3-6 mths	6-12 mths	1-5 ys	5 yrs-	Total
ASSETS						
Loans	270 418	48 694	39 000	213 225	24 084	595 421
Banks and other financial institutions	147 062	19 628	11 912	1 590	52	180 244
Bonds etc	43 830	17 654	10 646	18 754	1 291	92 175
Total assets	461 310	85 976	61 558	233 569	25 427	867 840
LIABILITIES						
Deposits	206 168	2 377	1 527	870	1 178	212 120
Banks and other financial institutions	247 234	15 856	21 630	10 363	1 483	296 566
Issued securities	111 143	46 848	20 539	132 382	11 580	322 492
Total liabilities	564 545	65 081	43 696	143 615	14 241	831 178
Off-balance-sheet items, net	80 045	- 38 712	- 29 976	215	- 7 963	3 609
Difference between assets and liabilities including off-balance-sheet items	- 23 190	- 17 817	- 12 114	90 169	3 223	40 271
Accumulated difference	- 23 190	- 41 007	- 53 121	37 048	40 271	40 271
Accumulated difference as a percentage of total assets	2.67	4.73	6.12	4.27	4.64	4.64

The table shows the maturity for the Group's interest-related assets and liabilities as at 31 December 1998, reported as at the transaction day. Non-interest-bearing assets and liabilities have been excluded.

how long a history of market data should be used for the calculation – and thirdly, the level of probability for possible future losses (the confidence interval).

When there is major fluctuation in market prices the potential losses are usually great, and when there is little fluctuation, they are small.

The Bank's VaR calculations are based on a 99% confidence interval with a holding period of one day and on historical prices and rates during the past year. The VaR level in Handelsbanken Markets' interest and exchange rate positions was on average SEK 30m (26). In other words, with 99% probability the Bank could not lose more than SEK 30m. During the year, the VaR level was SEK 50m at its highest and SEK 17m at its lowest. Correlations between interest-rate related and exchange rate markets have not been taken into consideration.

The VaR level in Handelsbanken Markets' share price risk, disregarding the share-specific risk, was on average SEK 9m. At its highest, the share price risk was SEK 15m and at its lowest SEK 4m.

Limiting market risk

Interest rate, exchange rate and share price risks including options are controlled by means of limits. Limits are to prevent the occurrence of a loss in excess of a certain level.

The trading operation's exchange rate risks are controlled by limits which restrict the various units' exchange rate risk exposure. The limits are of two kinds. One refers to the net position, i.e. the maximum exposure in an individual currency. The other refers to aggregate net positions and is intended to limit the extent of the Bank's total exchange rate risks. VaR is used to follow up the risk exposure under these limits.

The change in value of a portfolio or balance sheet, when there is a simultaneous change of one percentage point in all market rates, is used as a measure to limit

interest rate risks both in trading and in other units of the Bank. For interest rate risks, VaR is used as a complement.

Interest and exchange rate options are controlled and limited by means of a limit of maximum losses allowed when there are extreme fluctuations in volatility and prices or rates. These so-called risk matrices provide a framework of limits for trading.

Share trading is also controlled through a risk matrix limit. This risk matrix covers all option risks and both probable and improbable events. The portfolio is also limited as regards portfolio concentrations in individual types of shares. VaR figures are available daily to track the risk of making losses.

During autumn 1998, the world's financial markets were subject to severe turbulence. This meant that historical patterns for co-variance of interest rates and exchange rates were temporarily put out of play. Risk models and limit systems were severely tested.

In the light of the global financial crisis in 1998, the Bank has examined how well the models and limit systems were able to reflect the risks. This is known as back-testing. The conclusion is that the models used succeeded in describing the risks in an adequate way even during the turbulent financial crisis.

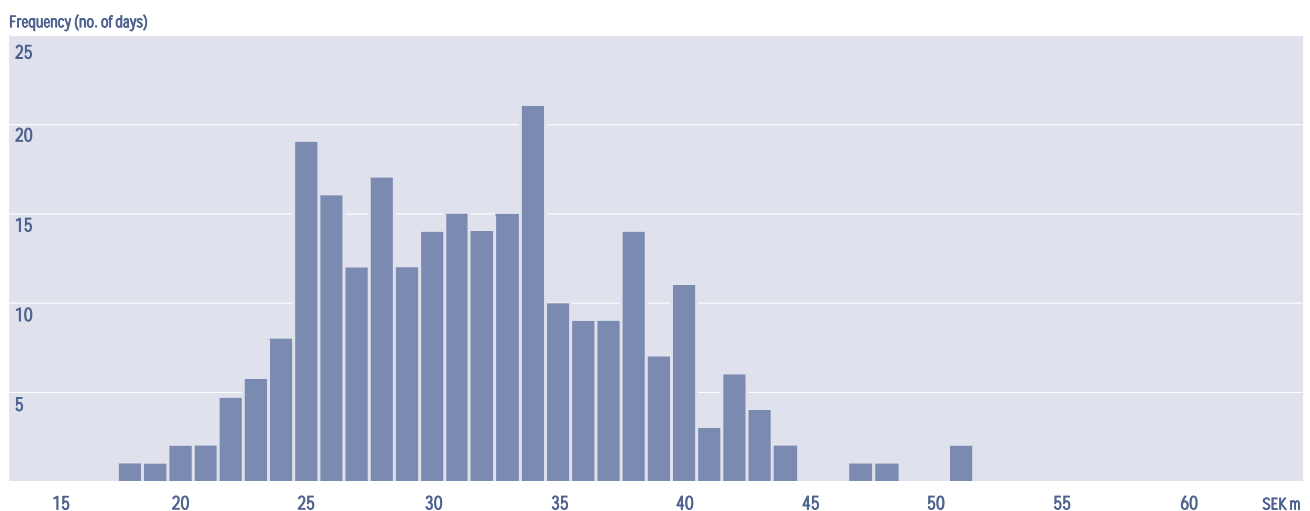
Liquidity risks

Liquidity risks arise when assets and liabilities have differing maturities. When, for example, assets mature later than liabilities, the assets must be refinanced once or several times during their lifetime.

The risk is that the funding cost may increase, if on a particular day the refinancing requirement in an individual currency is large.

The majority of funding in non-Nordic currencies comes from deposits from foreign banks and regular issues in the international capital markets. In order to

Daily Value-at-Risk in 1998 for Handelsbanken Markets, interest-rate related, currency and equity markets



Foreign currency funding

	31 Dec 1998 SEK m	31 Dec 1997 SEK m	Change %
General public	64 947	64 642	0
Certificates of deposit	101 233	75 143	35
Credit institutions	154 574	118 613	30
Bonds	26 624	22 474	18
Subordinated loans	10 999	10 889	1
Total	358 377	291 761	23

secure the Group's foreign currency funding, a target has been set that medium and long-term foreign currency funding must be at least 25% of medium and long-term foreign currency lending. Apart from this, a liquidity reserve is kept in foreign currency to cope with temporary disturbances in the currency markets. During the second half of 1998, several global markets were extremely turbulent and one of the results of this was poorer liquidity. During this period, the Handelsbanken Group increased its funding to compensate for possible lack of liquidity in the market. Handelsbanken's funding on international markets is achieved through a number of funding programmes, for example, a US Commercial Paper Program, a Euro Commercial Paper Programme and a Euro Medium Term Note Programme.

Organisation of the Group's risk control

The Chief Executive of the Bank establishes the market risk and liquidity risk limits for the entire Group within each type of risk. The overall responsibility for financial risks and further allocation of limits lies with the head of the Central Treasury. Within given limits, the Group units are responsible for follow-up and control of the financial risks.

The composition of the internal bank as regards maximum risk exposure and types of transactions is restricted by rules laid down by the Chief Executive of the Bank and reported to the Central Board.

The financial risks and limit utilisation are checked on a daily basis for trading operations, the internal bank and the mortgage business. In practice, the risk in the trading portfolio fluctuates more frequently and more violently than in the mortgage companies and internal bank. There is, however, potential for considerable fluctuations in interest rate risks in the latter two portfolios. For this reason, they are also followed carefully.

Limit utilisation for the whole Group is reported monthly to the Chief Executive and quarterly to the Board.

A unit at the Central Treasury works exclusively on risk control independent of the trading organisation. This unit has the overall responsibility for measurement methods, setting limits and examining financial risks, regardless of whether the risk is trading-related or arises in business with customers in the regional bank operations or the subsidiaries. Apart from continuous analysis

of the Group's exposure to market fluctuations, the department carries out regular reviews of the local risk controls at the Bank's units. These reviews include the unit's positions, measurement methods, limit structure, administrative controls and risk reports. In addition, the Central Auditing Department carries out independent examinations.

Derivative instruments

Derivative instruments do not give rise to any unique type of market risk. The value of a derivative contract is dependent on an exchange rate, interest rate or share price. Derivatives are instruments for changing financial risks. They are a natural part of trading portfolios and are also used to change and limit the financial risks outside the trading operation. The risks in derivative instruments can be measured in the same way as risk is measured in the underlying portfolios. This means that risks in derivative and in underlying instruments can be aggregated and compared.

Options are derivative instruments which differ from underlying instruments with respect to risk. The value of an option depends not only on the level of interest rates and price but also on changes in the pace of interest rate and price fluctuations (the volatility). The value of an option can also change proportionally much more than the underlying interest rate, share price or exchange rate. The risks are said to be non-linear. They can rise very rapidly in turbulent markets. Option-related risks constitute a minor part of the Group's total risks but for the reasons given above must be monitored particularly carefully.

The main groups of derivative instrument held by the Bank are shown in the table on page 53. The future cash flows from the derivative instruments are intended to co-vary with the cash flows in the underlying sight instruments. The derivative instruments are either parts of the trading portfolio, parts of the Central Treasury, one of the regional banks or subsidiaries where they are usually subject to hedge accounting.

The derivative instruments in the trading portfolio are either held as part of a customer transaction – for example, the Bank effects an interest rate swap for a customer – or are used to increase or decrease risks in the trading portfolio.

Market and liquidity risks in the derivative instruments are never measured separately. The risks are measured in portfolios where both spot and derivative instruments are included. Since the risks are of the same type as in spot and derivative instruments, it is only of interest to measure the total risk in the portfolio, but never to measure it separately. For this reason, there is no separate measurement of liquidity and market risks in derivative instruments.

The credit risks in off-balance-sheet items – where derivative instruments are included – are shown in the Other information regarding capital adequacy on page 76.

Derivatives

SEK bn	Total 31 Dec 1998	Total 31 Dec 1997
Currency forwards	1 365	1 346
Interest rate and currency swaps	1 057	739
Interest rate futures and FRAs	3 671	3 207
Interest rate and currency options	82	53
Equity forwards and options	14	10
Total	6 189	5 355

Counterparty risk in derivatives

SEK m	Nominal amount	Converted amount
Class A	105 712	1 501
Class B	4 688 564	40 445
Class C	532 504	9 660
Total	5 326 780	51 606

Trends in derivative trading

The volume of derivative instruments held by Handelsbanken is growing. This does not necessarily mean that the amount of risk in the Bank has grown. The financial risk is the sum of the risks in underlying instruments and in derivatives.

Trading operations accounted for more than 98% of the derivative volume both in 1997 and 1998. There has also been a continued rise in FRAs and interest rate futures, which is a result of Handelsbanken Markets' expansion in proprietary trading.

Counterparty risks in derivative trading

The Bank's holdings of derivative contracts not only imply exposure to various market risks, but also to so-called counterparty risks. There is a risk that the issuers of the derivatives will not meet their obligations.

If such a situation arises, the Bank must acquire a new equivalent contract in the market to replace the old one.

Unlike the credit risk in lending commitments, the counterparty risk is affected by the development in market prices. If the derivative instrument is valued positively, an unrealised gain arises which constitutes a counterparty risk.

Counterparty risks in a derivative transaction are assessed in the same way as other credit risks.

Exchange-traded instruments transfer the counterparty risk exposure to the clearing institution. Exposure is consequently considerably lower here than in OTC instruments. The clearing institution applies multilateral netting of the market participants' internal commitments, which means that the settlement risks are kept to a minimum. In addition, the participants provide margin security in relation to their positions.

Legal risks

An example of legal risk would be if the terms of a contract cannot be fulfilled as intended, due to Swedish or foreign law or legal practice.

The overall responsibility for monitoring the Bank's legal risks rests with the Bank's central legal department, which regularly consults internal and external advisers in countries where the Bank is active. The Bank has an internal committee consisting of lawyers and other specialists, who determine the Bank's policy for Swedish and international agreements in the securities markets.

THE BOARD'S ACTIVITIES DURING THE YEAR

Please see page 22 for a description of the Central Board's activities during 1998.

COMPETENT STAFF

Handelsbanken's decentralised organisation and the increasing complexity in banking make high demands on the skills of our staff. Handelsbanken therefore consistently channels a great deal of resources and effort into training and development of managers and employees at all levels.

More information about our employees can be found on page 12.

THE OKTOGONEN FOUNDATION

Every year since 1973, the Bank has allocated part of its profit to a profit-sharing system for its employees. The only exception was 1992 when no dividend was paid to the shareholders. The funds are managed by the Oktogonen Foundation. The main condition for an allocation to be made is that the Handelsbanken Group has higher return on shareholders' equity after standard tax than other banks in accordance with the overall goal laid down for operations. Some of the extra earnings can then be allocated to the employees in accordance with certain regulations. The upper limit for the allocation is, however, 25% of the dividend to the shareholders. All employees receive an equal part in the allocated amount. Disbursement can be made when the employee reaches the age of 60. One of the fundamental concepts in managing the foundation is that a considerable part of the funds is invested in shares in Handelsbanken. Today, Oktogonen is the Bank's largest shareholder with 10% of the voting power and more than 8% of the capital.

The profit-sharing system is based on the idea that the Bank's employees should receive a portion of the extra earnings in which they have played such a large part. Over the years, this has increased in importance as an incentive to the staff of the Bank.

Apart from all staff in Sweden, the profit-sharing system has also included staff in Norway since the beginning of 1995 and from 1997, the staff in Finland.

Profit and Loss Accounts

		GROUP		PARENT COMPANY	
		1998 SEK m	1997 SEK m	1998 SEK m	1997 SEK m
Interest income	Note 1	60 138	57 209	36 471	28 976
Interest expense	Note 1	– 48 986	– 46 040	– 30 990	– 22 941
Net interest income		11 152	11 169	5 481	6 035
Dividends received	Note 2	139	150	2 552	1 729
Commission income	Note 3	4 077	4 024	3 656	3 736
Commission expense	Note 4	– 669	– 687	– 614	– 608
Net result on financial operations	Note 5	1 520	593	1 489	570
Other operating income	Note 6	618	566	648	2 037
Total income		16 837	15 815	13 212	13 499
General administrative expenses					
Staff costs	Note 7	4 579	4 150	4 108	3 520
Other administrative expenses	Note 8	3 543	2 926	2 991	2 347
Depreciation and write-down in value of tangible and intangible fixed assets	Note 9	685	617	370	321
Total expenses before loan losses		8 807	7 693	7 469	6 188
Profit before loan losses		8 030	8 122	5 743	7 311
Loan losses, net	Note 10	330	231	131	– 123
Change in value of repossessed property	Note 11	– 11	71	—	—
Operating profit		7 711	7 820	5 612	7 434
Minority interests		– 22	– 19		
Appropriations	Note 12	505	532	188	– 129
Profit before taxes		8 194	8 333	5 800	7 305
Taxes	Note 13	– 2 168	– 2 326	– 771	– 1 050
Profit for the year		6 026	6 007	5 029	6 255

Balance Sheets

31 December

	GROUP		PARENT COMPANY	
	1998 SEK m	1997 SEK m	1998 SEK m	1997 SEK m
ASSETS				
Cash and balance with central banks	4 054	3 025	4 050	3 023
Instruments eligible as collateral with central banks	Note 14	34 032	13 298	33 981
Lending to credit institutions	Note 15	139 823	134 472	215 541
Lending to the general public	Note 16	587 405	586 824	242 056
Bonds and other interest-bearing securities	Note 14	73 794	52 657	81 575
Shares and participations	Note 17	3 107	2 007	3 059
Shares and participations in associated companies	Note 18	47	45	42
Shares and participations in Group companies	Note 19	247	247	28 404
Intangible fixed assets				
Goodwill	Note 20	4 645	4 770	38
Tangible assets				
Equipment	Note 21	693	721	597
Building and land	Note 22	1 087	8 608	1 015
Other assets	Note 23	67 695	44 920	64 255
Prepayments and accrued income	Note 24	9 821	7 872	9 474
Total assets		926 450	859 466	684 087
LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY				
Liabilities to credit institutions	Note 25	261 146	241 436	215 730
Deposits and funding from the general public				
Deposits	Note 26	168 006	138 371	175 789
Funding	Note 27	38 518	66 376	36 398
Issued securities etc				
Issued debt instruments	Note 28	299 378	284 051	119 501
Other liabilities	Note 29	85 304	57 504	83 115
Accruals and deferred income	Note 30	12 663	12 272	5 227
Provisions				
Provisions for taxes		3 608	3 595	—
Subordinated liabilities	Note 31	23 135	23 231	15 742
Total liabilities and provisions		891 758	826 836	651 502
Minority interest in shareholders' equity		261	268	
Untaxed reserves	Note 32			6 282
Share capital	Note 33	2 605	2 605	2 605
Other reserves				
Statutory reserve	Note 33	3 007	3 169	2 936
Reserve for unrealised proffs	Note 33	22	21	8
Other restricted reserves	Note 33	6 393	5 319	—
Profit brought forward	Note 33	16 378	15 241	15 725
Profit for the year	Note 33	6 026	6 007	5 029
Total shareholders' equity		34 431	32 362	26 303
Total liabilities, provisions and shareholders' equity		926 450	859 466	684 087
Collateral pledged for own debt	Note 34	93 782	59 437	93 758
Contingent liabilities	Note 35	76 731	81 921	79 081
Pension commitments	Note 36	—	—	—
Other commitments	Note 37	6 304 560	5 452 935	6 290 006

ACCOUNTING PRINCIPLES

The annual accounts have been prepared in accordance with the provisions of the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and the directives issued by the Swedish Financial Supervisory Authority (FFFS 1997:26). The recommendations of the Swedish Financial Accounting Standards Council have also been applied.

Changed accounting principles

The accounting principles applied have been adapted to the statement of the Swedish Financial Accounting Standards Council's urgent issues task force on reporting group contributions. In accordance with this, group contributions, other than those which are equivalent to dividends, are reported as a decrease/increase of unrestricted equity.

The comparative figures have been revised using the new accounting principle, in accordance with the Swedish Financial Accounting Standards Council's recommendation No. 5. The revision has not had any effect on the reported operating profit or on opening shareholders' equity.

Certain minor reclassifications have been made. The comparative figures for 1997 have been recalculated in accordance with this.

Recalculation according to new accounting principle, parent company

SEK m	1997 according to new accounting principle	Effect of changed principle	1997 according to adopted balance sheet and profit loss account
PROFIT AND LOSS ACCOUNT			
Operating profit	7 434	0	7 434
Appropriations	- 129	- 577	- 706
Profit before taxes	7 305	- 577	6 728
Taxes	- 1 050	162	- 888
Profit for the year	6 255	- 415	5 840
BALANCE SHEET			
Share capital	2 605	0	2 605
Other reserves		0	
Statutory reserve	2 936	0	2 936
Reserve for unrealised profits	11	0	11
Other restricted reserves		0	
Profit brought forward	13 245	415	13 660
Profit for the year	6 255	- 415	5 840
Total shareholders' equity	25 052	0	25 052

Consolidated Accounts

The recommendation from the Accounting Standards Council on Consolidated Accounts has been applied. The Consolidated Accounts have been prepared in accordance with the acquisition accounting method. Uniform accounting principles have been applied within the Group in all material respects. The Consolidated Accounts comprise all companies in which Handelsbanken directly or indirectly holds more than 50% of the voting power. Associated companies are reported in the Consolidated Accounts in accordance with the equity method. As stipulated by the Swedish Financial Supervisory Authority, companies taken over to protect claims are not included in the Consolidated Accounts.

Handelsbanken Liv, which is a mutual life insurance company, is not consolidated, since any surplus of the life

insurance operation accrues to the policy-holders in the form of bonuses.

Holdings of intra-Group bonds classified as financial fixed assets are eliminated on consolidation. The difference thus arising between the book value of the intra-Group bonds and that of the corresponding liabilities is credited/charged to net interest income.

When translating the foreign subsidiaries' balance sheets and profit and loss accounts, the current rate has been used. Assets, liabilities and minority interests in equity have been valued at the closing day rate. Shareholders' equity is translated at the rate applicable at the time of investment or earning. The acquired portion of untaxed reserves has been translated at the current rate on the date of acquisition. The Profit and Loss Account has been translated at the average annual rate. The resulting translation differences have been classed as shareholders' equity.

Assets and liabilities in foreign currencies

Assets and liabilities in foreign currencies have been recorded at the average of the end-of-day buying and selling price. Foreign banknotes have been recorded at the buying rates applicable to the general public on the balance sheet date.

Liabilities in foreign currencies which refer to financing of shares in subsidiaries or holdings of subordinated loans issued by subsidiaries are recorded at the rate applicable on acquisition (hedge accounting). Forward contracts in foreign currencies are recorded at present value. Unrealised gains or losses which have arisen as a result of the aforementioned translation methods, are credited or charged to the operating result.

Financial instruments

On the Balance Sheet, *interest-bearing securities* are reported either as Instruments eligible as collateral with central banks or as Bonds, depending on the category of issuer. Both the trading book and other securities where the purpose is not to hold these until maturity are classified as Financial current assets. Securities in the trading book are valued at market value, while other financial current assets are valued at the lower of cost or market. Realised and unrealised gains/ losses are reported under Net result on financial operations.

Interest-bearing securities which have been acquired with the intention of being held to maturity are classified as Financial fixed assets and reported at acquisition value. For securities where the value has fallen and this decline in value is considered to be permanent, a write-off is made. Realised price gains are reported under Other operating income while realised price losses are reported under Other operating expenses.

By acquisition value of discount and coupon instruments (held and issued) is meant the accrued acquisition value. This price is the discounted present value of future payments where the discount interest rate represents the effective interest rate at the time of acquisition. This implies that acquired premiums and discounts on coupon instruments are allocated over the bond's remaining period to maturity or, for loans with interest rate adjustments, until the next time the interest rate is adjusted.

Purchases and sales of money market and capital market instruments on the spot market are subject to trade date accounting. Forward transactions are registered on the transaction date but until the date of settlement are regarded as commitments off the Balance Sheet. On the date of settlement, they are reported on the Balance Sheet.

Equities in the trading book are recorded at market value. Other equities which are classified as current assets are recorded at the lower of cost or market.

Short positions in both interest-bearing securities and equities are reported as a liability at their market value.

Derivative instruments are valued at market value. An exception is made for derivative transactions which are hedging balance-sheet items which have not been given a market value. If the hedge is considered to represent an effective protection against unfavourable changes in value, i.e. the changes in value of the hedged instrument are balanced by corresponding changes in value of the hedging instrument, the derivative transaction is reported using the accounting principles which apply to the hedged transaction. In cases where unrealised losses arise in the case of hedge reporting according to the acquisition method, these are reported on the Balance sheets and Profit and loss accounts. Derivative transactions with a positive market value at the balance sheet date are reported under Other assets and transactions with a negative market value are reported under Other liabilities. Receivables and payables with the same counterparty which can be set off, i.e. where a contractual relationship exists implying that there are legal grounds for applying set-off, are reported net on the Balance Sheet in those cases where there is an intention to settle the obligations by netting or simultaneously.

Debt instruments whose principal expense is not interest rate related (such as equity linked bonds) are reported on the Balance Sheet divided into debt instruments and derivative instruments. The division is made such that the present value of the guaranteed amount is reported as an issued security. No division is made for the Bank's own holdings in the trading book.

Lending and deposits

Lending to the general public and credit institutions is classified as financial fixed assets and is reported on the Balance Sheet on the settlement date at acquisition value. Leasing agreements in which the lessee substantially bears the economic risks and acquires the rewards associated with the ownership of the asset are also reported as lending. Loans which represent bad debts are reported on the Balance Sheet at their net amount, i.e. after deduction of the provision for possible and actual loan losses. Undrawn loans (including the risk related to fixed advance interest rates) are regarded as an off-balance-sheet commitment until the settlement date. If a loan is redeemed ahead of time, the early redemption fee received is allocated over the remaining period of the loan.

Lending and deposits are reported on the Balance Sheet at their acquisition value.

Pension costs

A pension cost computed on an actuarial basis, relating to pension commitments which are backed by Handelsbanken's pension foundation, is reported as an operating expense. Premiums paid for pension insurance are also reported under Operating expenses.

The actuarial pension premium is restored as an appropriation under Settlement of pensions, where settlement is made against disbursed pensions and any compensation from the pension foundation.

Development costs

Expenditure for software developed by the Bank and also software acquired externally is reported as expenses on a regular basis.

Depreciation

EQUIPMENT

Equipment is mainly depreciated on a straight-line basis over 5 years. Personal computers are depreciated over 3 years

and investments in bank vaults and similar investments in premises are depreciated over 10 years.

PROPERTY CONTAINING BANK PREMISES

Property containing the Bank's premises is depreciated at the highest percentage rate allowed for taxation purposes.

REPOSSESSED PROPERTY

Repossessed properties for protection of claims are reported at the lower of cost or market at the balance-sheet date. Consequently, there is no depreciation of these properties.

GOODWILL

Goodwill arising in 1997 in connection with the acquisition of Stadshypotek is amortised over 20 years. The amortisation period chosen is justified by the long-term significance of the acquisition as the customer base of the branch office network and relative competitiveness have been strengthened. Other goodwill is amortised over 10 years.

Loan losses

Actual loan losses for the year and write-offs in respect of possible losses for loan receivables are reported as loan losses. Also reported as loan losses are write-offs of interest shown as income in previous annual accounts.

Provisions for country risks are made in amounts which are considered necessary in the opinion of the Bank. In the accounts, the reserve is allocated to the asset items in the balance sheet to which the reserve refers.

Reported as *actual loan losses* are losses where the amounts have been finally determined or are more than likely as a result of an official receiver providing an estimation of bankruptcy dividends, the acceptance of composition recommendations or the reduction of claims in some other way.

Write-offs of *possible loan losses* are made in respect of bad debts if the borrower's ability to repay is not considered likely to improve sufficiently within two years and the value of the collateral does not cover the loan amount.

Write-offs are made down to the amount which is expected to be realised, taking into account the value of the collateral. If the collateral is a listed asset, the valuation is based on the list price; otherwise the valuation is based on the yield value or the market value estimated in some other manner.

If the collateral consists of a mortgage on a property, the valuation of the underlying security is made in the same way as for repossessed properties (see below).

Unpaid interest on non-performing loans where the value of the collateral does not cover the principal amount and the accrued interest by a satisfactory margin is not taken up as income. Interest on these claims which was reported as income but not paid during the accounting year has been reversed. Interest payments received thereafter in respect of this type of credit are reported in the year of receipt.

Valuation of repossessed property

Repossessed property is a current asset and is valued at the lower of cost or market. By market value is meant the market value after deduction of costs of sale. This value is based upon an individual valuation by a firm of valuers with the required skills in the field. When repossessed, the properties are written down to market value. If this value is less than that of the Bank's original collateral, the difference is reported as an actual loan loss. Changes in value after the property has been repossessed are reported under Changes in value of repossessed property.

NOTES TO THE PROFIT AND LOSS ACCOUNT AND THE BALANCE SHEET

Amounts in SEK unless otherwise stated

Note 1 Interest

	GROUP 1998	1997	PARENT COMPANY 1998	1997
INTEREST INCOME				
Interest income in Swedish kronor				
Credit institutions	2 488	1 612	4 584	2 542
General public	36 667	37 396	8 713	7 551
Interest-bearing securities, fixed assets	266	727	1 266	1 866
Interest-bearing securities, current assets	1 522	1 160	1 473	1 099
Other interest income	443	354	1 992	290
Total interest income in Swedish kronor	41 386	41 249	18 028	13 348
Interest income in foreign currency				
Credit institutions	6 730	7 294	7 135	7 768
General public	6 857	5 320	6 229	4 585
Interest-bearing securities, fixed assets	78	182	78	182
Interest-bearing securities, current assets	1 184	1 218	1 184	1 218
Other interest income	3 903	1 946	3 817	1 875
Total interest income in foreign currency	18 752	15 960	18 443	15 628
Total interest income	60 138	57 209	36 471	28 976
INTEREST EXPENSE				
Interest expense in Swedish kronor				
Credit institutions	8 445	11 325	2 319	1 612
General public	3 711	3 486	3 335	3 206
Interest-bearing securities, fixed assets	12 222	11 785	562	365
Interest-bearing securities, current assets	807	831	264	324
Other interest expense	3 015	2 250	4 164	1 531
Total interest expense in Swedish kronor	28 200	29 677	10 644	7 038
Interest expense in foreign currency				
Credit institutions	8 184	7 165	8 269	7 338
General public	2 871	3 129	4 359	4 420
Interest-bearing securities, fixed assets	6 797	4 363	4 899	2 578
Interest-bearing securities, current assets	797	730	794	687
Other interest expense	2 137	976	2 025	880
Total interest expense in foreign currency	20 786	16 363	20 346	15 903
Total interest expense	48 986	46 040	30 990	22 941
Net interest income	11 152	11 169	5 481	6 035
AVERAGE VOLUMES				
Assets				
Lending credit institutions, Swedish kronor	53 306	27 804	98 151	46 471
Lending general public, Swedish kronor	482 557	445 194	135 767	113 666
Interest-bearing securities, fixed assets, Swedish kronor	3 719	10 745	18 440	26 761
Interest-bearing securities, current assets, Swedish kronor	36 438	30 025	35 193	29 178
Average volume Swedish kronor	576 020	513 768	287 551	216 076
Lending credit institutions, foreign currency	137 307	149 912	144 186	156 155
Lending general public, foreign currency	108 917	87 107	100 602	80 049
Interest-bearing securities, fixed assets, foreign currency	1 106	2 223	1 106	2 223
Interest-bearing securities, current assets, foreign currency	34 781	34 243	34 760	34 242
Average volume foreign currency	282 111	273 485	280 654	272 669
Liabilities				
Deposits credit institutions, Swedish kronor	121 193	122 513	60 697	33 419
Deposits general public, Swedish kronor	136 491	136 109	129 948	131 118
Issued securities, Swedish kronor	198 968	188 076	12 242	7 550
Average volume Swedish kronor	456 652	446 698	202 887	172 087
Deposits credit institutions, foreign currency	167 713	165 554	170 071	167 976
Deposits general public, foreign currency	57 652	59 351	84 838	82 765
Issued securities, foreign currency	122 222	82 030	89 903	52 089
Average volume foreign currency	347 587	306 935	344 812	302 830
Average lending rate general public	7.36%	8.02%	6.32%	6.26%
Average deposit rate general public	3.39%	3.38%	3.58%	3.57%
Interest spread	0.99%	1.06%	0.62%	0.87%
Interest income received from Group companies			5 595	2 950
Interest expense paid to Group companies			3 323	2 011
Insurance premiums paid to Group companies	67	39	67	39

Note 2 Dividends received

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Dividends on shares and participations	136	144	133	141
Dividends from associated companies	3	6	3	6
Dividends from Group companies			2 416	1 582
	139	150	2 552	1 729

Note 3 Commission income

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Payments	736	662	734	659
Lending	352	344	176	179
Deposits	92	152	92	152
Guarantees	160	156	159	156
Securities	1 892	1 915	1 497	1 588
Other commission	845	795	998	1 002
	4 077	4 024	3 656	3 736
Commission income received from Group companies			369	447

Note 4 Commission expense

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Payments	428	428	419	416
Securities	91	82	74	58
Other commission	150	177	121	134
	669	687	614	608
Commission expense paid to Group companies			10	0

Note 5 Net result on financial operations

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Shares and participations	229	86	219	68
Interest-bearing securities	- 525	42	- 532	51
Realised profit	- 296	128	- 313	119
Shares and participations	21	- 42	15	- 46
Interest-bearing securities	720	- 360	717	- 361
Unrealised changes in value	741	- 402	732	- 407
Currency changes	1 075	867	1 070	858
Net result on financial operations	1 520	593	1 489	570

Note 6 Other operating income

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Realised share price gains, not trading book ¹⁾	181	97	206	1 893
Surplus on sales of properties	334	35	326	1
Profit before depreciation on repossessed property	1	294	3	3
Rental income	30	54	30	53
Other operating income	72	86	83	87
	618	566	648	2 037
Specification of net operating surplus of repossessed property				
External income	9	616	4	3
Operating expenses	8	287	1	0
Net operating surplus	1	329	3	3

1) Realised share price gains in the Parent Company in 1997 refers to SEK 1 796m sale of Handelsbanken Hypotek to Stadshypotek AB.

Note 7 Staff costs

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Salaries and fees	3 021	2 728	2 699	2 301
Social security costs	887	821	800	684
Pension costs ¹⁾	289	244	254	213
Appropriation to profit-sharing foundation	142	141	129	121
Other staff costs	240	216	226	201
	4 579	4 150	4 108	3 520

1) SEK 192m (163) of pension costs are calculated costs and SEK 97m (81) pension premiums.
The calculated pension cost, which is charged to the operating result, is based on the number of employees in active service.

Insurance premiums paid to Group companies	4	4	4	4
--	---	---	---	---

Salaries and other emoluments

Board, CEO and EVPs

Sweden	50	46	42	38
Norway	3	1	2	
Finland	3	1	2	
Denmark	1	1		
France	2	2		
Luxembourg	2	1		
USA	4	3		
	65	55	46	38

Other staff

Sweden	2 217	2 034	2 023	1 714
Norway	126	123	120	117
Finland	162	133	132	107
Denmark	99	73	81	61
UK	154	133	153	129
Luxembourg	40	35	12	10
Germany	19	17	19	17
USA	71	68	63	61
Singapore	24	22	24	22
Hong Kong	21	18	21	18
Other countries	23	17	5	7
	2 956	2 673	2 653	2 263
Total	3 021	2 728	2 699	2 301

Number of employees, Group

Average during year	1998	1997	of which	
			Women	Men
Sweden	7 142	6 898	4 071	3 071
Norway	295	279	127	168
Finland	402	345	225	177
Denmark	159	131	51	108
UK	214	209	64	150
Luxembourg	77	75	32	45
Germany	40	40	18	22
USA	88	87	21	67
Singapore	48	47	27	21
Hong Kong	47	45	17	30
Other countries	34	28	12	22
	8 546	8 184	4 665	3 881

Information about companies which are not included in the Consolidated Accounts

There were 191 (189) employees at Handelsbanken Liv Försäkrings AB.
In 1997, there were 478 employees in the Stadshypotek Fastigheter Holding AB Group.
SEK 1.6m was paid in salary and other remuneration to the CEO and board.

LOANS TO SENIOR MANAGEMENT	Group	Parent company
CEOs och EVPs	57	37
Board members	11	5
	68	42

Terms and remuneration of the Bank's senior management and the Chairman and Vice Chairman of the Board

TERMS: The Bank has no agreements on severance pay. For many years, the Bank has had an agreement with the Chief Executive Officer, whereby if he is not re-appointed at the annual general meeting, up to and including the fifth annual general meeting thereafter, he is to be offered other work and to be paid as if he had been CEO. If he takes up employment outside the Bank, no compensation will be paid to him.

Arne Mårtensson, like his predecessors, has a retirement age of 55. This is considered to be desirable both for the Bank and the CEO in view of the Bank's tradition of often appointing relatively young people to the position of Chief Executive Officer. The retirement pension is 75% of the salary up to the age of 65 and 65% thereafter. The pension is earned gradually during the years up to the age of retirement and is fully earned by the age of 55. The Bank is charged annually for the cost at the same rate as the pension is earned. An earned pension commitment is guaranteed by the Bank's pension fund. If the CEO leaves the Bank before the age of 55, a paid-up policy is issued for the pension earned.

The basic principle is that Executive Vice Presidents retire at the age of 60, with occasional exceptions. The retirement pension is 65% of the salary in the age band 60-64. From the age of 65, the retirement pension is 65% of the annual salary up to 40 index-linked base amounts and 32.5% above this level. The pension includes amounts due in the form of national basic pension (AFP) and national supplementary pension (ATP).

For the Chairman of the Board of Handelsbanken, Tom Hedelius, there is a CEO agreement as described above. From November 1994, when Tom Hedelius reached the contracted age of retirement and a pension was payable, a supplementary agreement was made valid for five years. This agreement implies that Tom Hedelius, as in the previous agreement, does not serve as a director on any other boards than those desired by the Bank and that the fees are paid to the Bank. In return, Tom Hedelius receives a fee during the period of the agreement which is the difference between the pension and the remuneration prior to retirement.

The remuneration of the Chairman and CEO are reviewed annually by the Compensation Committee of the Central Board of Directors.

REMUNERATION: In 1998, Tom Hedelius received fees from serving on other boards which exceeded the agreed fee from the Bank. He has therefore not received a fee from the Bank. Excess fees have instead been paid to the Bank. A pension was paid under the agreement described above. No regular bonus is paid.

The President and CEO, Arne Mårtensson, has received remuneration and benefits amounting to SEK 7 728 476. SEK 1m of this is a non-recurrent bonus which does not earn pension rights. Fees from serving on other boards have been paid to the Bank. No regular bonus is paid.

PENSION COMMITMENTS: Increased pension commitments and paid pension insurance premiums for the present and previous boards, CEOs and EVPs amount to SEK 61m (94) for the Group and SEK 55m (81) for the Parent Company. The difference between the two years is explained by the fact that 1997 was affected by altered actuarial assumptions (length of life and interest rate assumptions). Pension commitments for the same people are SEK 498m (452) for the Group and SEK 458m (409) for the Parent Company. The number of people in the Group covered by these commitments is 62 (60), of whom 26 (27) are pensioners. The commitments are covered by the Bank's pension foundation.

Note 8 Other administrative expenses

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Property and premises	757	674	678	570
Information technology	1 165	781	1 029	666
Communication	394	322	302	235
Travel and marketing	357	304	283	198
Purchased services	486	469	411	392
Supplies	157	150	139	129
Other expenses	227	226	149	157
	3 543	2 926	2 991	2 347
Leasing costs paid to Group companies			80	81

Note 9 Depreciation and write-down in value of tangible and intangible fixed assets

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Equipment	351	299	308	248
Property	34	49	33	39
Goodwill	295	246	27	27
Other depreciation/write-downs	5	23	2	7
	685	617	370	321

Note 10 Loan losses

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
A. INDIVIDUALLY VALUED CLAIMS:				
The year's write-down for actual loan losses	1 005	2 200	763	1 854
Write-back of previous provisions for possible loan losses which have been reported as actual losses in this year's accounts	- 759	- 1 705	- 595	- 1 487
The year's write-down relating to possible loan losses	719	940	528	619
Recovered from actual losses in previous years	- 355	- 605	- 380	- 588
Write-back of provisions for possible losses which are no longer necessary	- 306	- 548	- 184	- 460
Net expense for the year for individually valued claims	304	282	132	- 62
B. CLAIMS VALUED AS A GROUP:				
The year's write-down for actual loan losses	30	29	2	5
Recovered from actual losses in previous years	- 22	- 11	- 1	- 1
Allocation to/dissolution of reserve for loan losses	18	- 7	- 2	- 3
Net expense for the year for claims valued as a group	26	11	- 1	1
C. PROVISION TO GENERAL RESERVE FOR COUNTRY RISKS				
	—	- 62	—	- 62
Total loan losses (A+B+C)	330	231	131	- 123

Both actual and possible loan losses reduce the corresponding claim amount on the assets side of the Balance Sheet. The reserve for possible loan losses increased by SEK 17m for the Group and SEK 9m for the Parent Company in the form of foreign currency translation differences. In 1997 all country risk provisions were written back. In the 1997 accounts, individual provisions have instead been made.

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Write-downs:				
Claims on credit institutions	26	—	26	—
Claims on the general public	987	1 464	672	991
Total write-downs	1 013	1 464	698	991
Write-backs:				
Claims on credit institutions	9	11	9	11
Claims on the general public	297	606	177	514
Total write-backs	306	617	186	525

Note 11 Change in value of property taken over

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Properties taken over	—	—	—	—
Other property taken over	- 11	- 2	—	—
Realised change in value	- 11	- 2	—	—
Properties taken over	—	0	—	—
Other property taken over	—	73	—	—
Unrealised change in value	—	73	—	—
Change in value of property taken over	- 11	71	—	—

Note 12 Appropriations

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Settlement of pensions				
Calculated pension premiums in the Bank	192	163	192	163
Pensions paid	- 287	- 231	- 281	- 231
Compensation from pension foundation	600	600	600	600
	505	532	511	532
Change in tax equalisation reserve K			457	456
Change in tax allocation reserve			- 750	- 1 100
Change in other untaxed reserves			- 30	- 17
	505	532	188	- 129

Note 13 Taxes

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Income tax	1 807	1 715	739	1 037
Deferred tax liability	324	595	—	—
Other taxes	37	16	32	13
	2 168	2 326	771	1 050
Nominal tax rate in Sweden	28.0%			
Deviations				
Non-taxable income/non-deductible expenses	- 0.6%			
Utilised deficit deduction in associated companies	- 0.4%			
Amortisation of goodwill	1.0%			
Effects of foreign taxation and other	- 1.5%			
The Group's effective tax rate	26.5%			

The Swedish tax authority has made a decision which could imply, if the decision is upheld in a higher court, that the Group's tax expense would increase by SEK 384m. The Bank does not agree with the tax authority's decision and has appealed against it. At the year-end 1998, the Group had unutilised loss carry forwards, the taxation effects of which were SEK 88m. These loss carry forwards, which it is estimated will be possible to use in their entirety, have not been taken into consideration when calculating the tax expense for the year.

Note 14 Interest-bearing securities

	GROUP 1998	1997	PARENT COMPANY 1998	1997
INSTRUMENTS ELIGIBLE AS COLLATERAL WITH CENTRAL BANKS				
Government instruments eligible as collateral	33 505	11 558	33 454	11 407
Other securities eligible as collateral	527	1 740	527	1 740
Instruments eligible as collateral with Central Banks	34 032	13 298	33 981	13 147
Instruments eligible as collateral with Central Banks				
Residual maturity: maximum one year	18 394	9 161	18 394	9 065
Residual maturity: over one year but maximum five years	12 779	2 709	12 758	2 704
Residual maturity: over five years but maximum ten years	2 014	1 089	1 983	1 062
Residual maturity: over ten years	845	339	846	316
Total	34 032	13 298	33 981	13 147
Average residual maturity	1,5	1,2	1,5	1,2
BONDS AND OTHER INTEREST-BEARING SECURITIES				
Issued by public bodies	—	—	—	—
Issued by other borrowers	73 794	52 657	81 575	77 019
Bonds and other interest-bearing securities	73 794	52 657	81 575	77 019
Of which unlisted securities	19 945	14 639	19 945	14 639
Of which subordinated (debenture loans)	5	6	5	6
Of which claims on Group companies			11 469	24 472
Bonds and other interest-bearing securities				
Residual maturity: maximum one year	51 158	42 539	48 947	60 505
Residual maturity: over one year but maximum five years	12 838	9 149	18 634	15 449
Residual maturity: over five years but maximum ten years	9 014	812	13 127	908
Residual maturity: over ten years	784	157	867	157
Total	73 794	52 657	81 575	77 019
Average residual maturity	1,2	1,3	1,2	0,9
CURRENT ASSETS				
Current assets acquisition price				
Swedish government	26 230	4 512	26 180	4 365
Swedish local authorities	—	297	—	297
Swedish housing finance institutions	31 277	13 216	29 576	13 184
Other Swedish issuers:				
non-financial companies	3 217	2 459	3 170	2 413
other financial companies	8 979	3 336	7 083	3 326
Foreign governments	7 104	6 016	7 104	6 016
Other foreign issuers	28 869	30 517	28 847	30 517
Total	105 676	60 353	101 960	60 118
Of which subordinated (debenture loans)	5	6	5	6
Current assets market value				
Swedish government	26 351	4 514	26 300	4 361
Swedish local authorities	—	297	—	297
Swedish housing finance institutions	31 687	13 106	29 986	13 074
Other Swedish issuers:				
non-financial companies	3 314	2 544	3 245	2 483
other financial companies	9 000	3 296	7 105	3 286
Foreign governments	7 139	6 008	7 139	6 008
Other foreign issuers	28 980	30 565	28 957	30 564
Total	106 471	60 330	102 732	60 073
Of which subordinated (debenture loans)	5	6	5	6
Difference between acquisition price and market value	795	– 23	772	– 45

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Current assets book value				
Swedish government	26 351	4 491	26 300	4 340
Swedish local authorities	—	297	—	297
Swedish housing finance institutions	31 687	13 084	29 986	13 051
Other Swedish issuers:				
non-financial companies	3 295	2 479	3 226	2 418
other financial companies	9 000	3 296	7 105	3 286
Foreign governments	7 139	6 008	7 139	6 008
Other foreign issuers	28 966	30 510	28 943	30 510
Total	106 438	60 165	102 699	59 910
Of which subordinated (debenture loans)	5	6	5	6
FIXED ASSETS				
Fixed assets acquisition price				
Swedish government	—	900	—	900
Swedish local authorities	—	—	—	—
Swedish housing finance institutions	1 260	3 614	12 729	28 080
Other Swedish issuers:				
non-financial companies	—	—	—	—
other financial companies	—	—	—	—
Foreign governments	15	164	15	164
Other foreign issuers	113	1 112	113	1 112
Total	1 388	5 790	12 857	30 256
Of which subordinated (debenture loans)	—	—	—	—
Fixed assets market value				
Swedish government	—	898	—	898
Swedish local authorities	—	—	—	—
Swedish housing finance institutions	1 323	3 681	12 952	28 439
Other Swedish issuers:				
non-financial companies	—	—	—	—
other financial companies	—	—	—	—
Foreign governments	15	165	15	165
Other foreign issuers	107	1 111	107	1 111
Total	1 445	5 855	13 074	30 613
Of which subordinated (debenture loans)	—	—	—	—
The Group's liquidity surplus has been invested as a financial fixed asset (investment portfolio). Since the acquisition of Stadshypotek, the Group no longer has surplus liquidity. That part of the investment portfolio which derives from previous liquidity surpluses has therefore been reclassified as a current asset and has been divested. The portfolio value was SEK 891m and there was a positive effect on the result of SEK 11m.				
Book value higher than nominal value	2 570	1 141	2 809	1 217
Book value lower than nominal value	515	244	553	432

Note 15 Lending to credit institutions

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
FIXED ASSETS				
Banks, in Swedish kronor	42 157	33 267	41 586	32 769
Banks, in foreign currencies	69 149	91 584	72 269	93 135
Other credit institutions, in Swedish kronor	2 847	4 281	70 141	38 895
Other credit institutions, in foreign currencies	25 837	5 497	31 712	11 129
	139 990	134 629	215 708	175 928
Possible loan losses	– 167	– 157	– 167	– 157
	139 823	134 472	215 541	175 771
Of which subordinated	—	—	245	288
Of which claims on Group companies	—	—	75 840	43 541
Of which claims on associated companies	262	319	—	—

	GROUP 1998	1997	PARENT COMPANY 1998	1997
Information concerning maturities:				
Payable upon demand	24 349	22 896	24 240	28 060
Residual maturity: maximum three months	76 400	71 790	102 984	74 581
Residual maturity: over three months but maximum one year	35 194	37 409	63 254	45 945
Residual maturity: over one year but maximum five years	1 855	1 244	21 871	25 392
Residual maturity: over five years	2 025	1 133	3 192	1 793
Total	139 823	134 472	215 541	175 771
Average residual maturity	0.3	0.3	0.6	0.3

Note 16 Lending to the general public

	GROUP 1998	1997	PARENT COMPANY 1998	1997
FIXED ASSETS				
Lending SEK				
Companies etc	287 583	302 948	111 825	109 156
Households	194 573	192 244	32 924	29 717
Total	482 156	495 192	144 749	138 873
Lending foreign currency				
Companies etc	95 985	87 348	88 470	79 897
Households	12 970	8 318	10 567	6 641
Total	108 955	95 666	99 037	86 538
Possible loan losses	- 3 706	- 4 034	- 1 730	- 1 985
Total lending to the general public	587 405	586 824	242 056	223 426
Of which subordinated	3	3	3	3
Of which claims on Group companies			451	1 980
Of which claims on associated companies	5	9	5	9

Gross investments referring to financial leasing agreements concluded from 1997 have been calculated to be SEK 6 863m.
Unearned finance income according to the same calculation is SEK 1 567m.

Information concerning maturities:				
Payable upon demand	20 692	48 937	20 329	30 315
Residual maturity: maximum three months	121 079	95 425	56 093	57 672
Residual maturity: over three months but maximum one year	122 366	118 541	59 394	52 313
Residual maturity: over one year but maximum five years	250 812	273 642	60 035	53 841
Residual maturity: over five years	72 456	50 279	46 205	29 285
Total	587 405	586 824	242 056	223 426
Average residual maturity	2.2	2.1	2.2	2.2

Bad debts etc

(For definitions see "Svenska Handelsbanken Highlights")

	GROUP 1998	1997	PARENT COMPANY 1998	1997
Bad debts	6 682	8 063	2 892	3 446
Reserve for possible loan losses	- 3 926	- 4 242	- 1 937	- 2 183
Bad debts, net	2 756	3 821	955	1 263
Reduced rate loans without a provision for possible loan losses	231	272	130	165
Total problem loans	2 987	4 093	1 085	1 428
Bad debt reserve ratio	58.8%	52.6%	67.0%	63.3%
Proportion of bad debts	0.45%	0.64%	0.28%	0.46%
Problem loans before write-down for possible loan losses	6 913	8 335	3 022	3 611
Income on problem loans during the year	391	488	44	58
Annual interest rate on problem loans	5.67%	5.85%	1.46%	1.61%
Annual interest rate on loans which are not problem loans	7.02%	8.30%	6.26%	6.48%
Non-performing loans for which interest is accrued	1 617	1 983	370	296

	GROUP 1998	1997	PARENT COMPANY 1998	1997
COLLATERAL TAKEN OVER				
Book value				
Buildings and land	64	6 876	30	33
Shares and other participations	120	347	94	94
Other	9	28	—	—
	193	7 251	124	127
Net income (Net operating surplus)				
Buildings and land	1	329	3	3
Shares and other participations	—	—	—	—
	1	329	3	3
Net operating surplus, % of book value				
Buildings and land	1.6	5.7	10.0	9.3
Shares and other participations	—	—	—	—

Note 17 Shares and participations

	GROUP 1998	1997	PARENT COMPANY 1998	1997
Trading book	1 989	1 164	1 837	1 027
For protection of claims	120	347	94	94
Other shares	529	293	662	427
Current assets	2 638	1 804	2 593	1 548
Shares in housing co-operatives	5	6	4	4
Shares in credit institutions	171	174	171	174
Other shares	293	23	291	29
Fixed assets	469	203	466	207
Shares and participations	3 107	2 007	3 059	1 755
Of which unlisted	268	561	372	439
Acquisition price current assets	2 546	1 682	2 520	1 438
Adjustment to book value	92	122	73	110
Book value	2 638	1 804	2 593	1 548

Shares and participations, current assets, other shares 31 December 1998

	No. of shares/ participations	Book value	Estimated market value
Atle AB	4 439 336	89	466
Industrivärden AB	2 218 600	257	242
MoDo AB	1 260 000	181	231
Fv Fastighetsvärden AB	1 000	134	144
Various companies	—	2	3
Parent Company		663	1 086
Group elimination Fv Fastighetsvärden AB		– 134	– 144
Group		529	942

Fv Fastighetsvärden AB is a wholly-owned subsidiary of the Bank. The shares in the company are regarded as investment shares and as such are current assets.

Shares and participations, fixed assets 31 December 1998

	No. of shares	Book value	Parent Company's proportion of equity %
SWEDISH CREDIT INSTITUTIONS			
AB Svensk Exportkredit	72 870	170	10.4
		170	
FOREIGN CREDIT INSTITUTIONS			
Various companies	—	1	
Shares in credit institutions		171	
OTHER COMPANIES			
OM Gruppen AB	2 837 970	266	3.4
Various companies	—	25	
Other companies (parent company)		291	
Various companies	—	2	
Other companies (Group)		293	

Note 18 Shares and participations in associated companies

	GROUP 1998	1997	PARENT COMPANY 1998	1997
FIXED ASSETS				
Credit institutions	35	33	30	30
Other associated companies	12	12	12	12
	47	45	42	42

Shares and participations, associated companies 31 December 1998

	No. of shares	Book value	Parent- company's proportion of equity %
CREDIT INSTITUTIONS			
Svensk Bostadsfinansiering AB BOFAB	25 000	30	50.0
Parent Company		30	
Proportion of equity BOFAB		5	
Group		35	
All associated companies are unlisted.			
OTHER ASSOCIATED COMPANIES			
Backupcentralen Infosec Holding AB	87 500	9	25.0
BankgiroCentralen BGC AB	12 620	1	25.2
Centralen för Elektroniska Korttransaktioner CEK AB	370	0	37.0
KontoCentralen AB	170	0	16.7
Privatgiro AB	290	1	29.0
Upplysningscentralen UC AB	2 429	0	24.3
Sambox i Skåne HB		1	33.3
		12	
Total		47	

Particulars of any associated company's organisation number, registered office, profit/loss and equity are not included in these annual accounts, since they are not considered to be of major importance for the accounts.

Note 19 Shares and participations in Group companies

	GROUP 1998	1997	PARENT COMPAN ¹ 1998	1997
FIXED ASSETS				
Shares in Swedish credit institutions			27 376	27 376
Shares in foreign credit institutions			547	716
Shares in other Swedish companies ¹⁾	247	247	445	460
Shares in other foreign companies			36	36
	247	247	28 404	28 588

1) Handelsbanken Liv Försäkrings AB is not included in the Consolidated Accounts. All Group companies are unlisted.

Shares and participations, Group companies 31 December 1998

	No. of shares	Nominal value each currency 000	Book value	Parent Company's proportion of equity %
SWEDISH CREDIT INSTITUTIONS				
Stadshypotek AB (Stockholm)	162 000 000	4 050 000	26 870	100
Handelsbanken Finans AB (Stockholm)	1 550 000	155 000	145	100
Stadshypotek Bank AB (Stockholm)	3 000 000	360 000	361	100
			27 376	
FOREIGN CREDIT INSTITUTIONS				
Handelsbanken Markets Securities Inc. (New York)	1 000	USD 0	4	100
Svenska Handelsbanken S.A. (Luxembourg)	1 000 000	XEU 25 000	147	100
Svenska International plc (London)	32 500 000	GBP 32 500	373	100
Svenska Handelsbanken, Inc. (Delaware)	1 000	USD 10	0	100
Aktoris A/S (Tallinn)	100 000	EEK 10 000	13	100
Svenska France S.A. (Paris)	74 994	FRF 7 499	10	99,99
			547	

	No. of shares	Nominal value each currency 000	Book value	Parent Company's proportion of equity %
OTHER SWEDISH COMPANIES				
Handelsbanken Fondbolagsförvaltning AB (Stockholm)	10 000	1 000	1	100
Handelsbanken Liv Försäkrings AB (Stockholm)	1 500	150 000	300	100
Handelsbanken Liv Fondförsäkrings AB (Stockholm)	100 000	100 000	139	100
AB Handel och Industri (Stockholm)	100 000	5 000	5	100
Förvaltnings AB Lejontrappan (Gothenburg)	1 000	100	0	100
Siboeff Shipping AB (Gothenburg)	1 000	100	0	100
			445	
OTHER FOREIGN COMPANIES				
Forva AS (Oslo)	4 000 000	NOK 1 000	1	100
Svenska Re S.A. (Luxembourg)	19 999	LUF 199 990	35	99.99
			36	
Total			28 404	

Particulars of any subsidiary's registered number can be found on page 84.

Note 20 Goodwill

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
FIXED ASSETS				
Acquisition value at beginning of year	5 251	463	274	274
Acquisition value of future goodwill	168	4 788	—	—
Total acquisition value	5 419	5 251	274	274
Accumulated amortisation at beginning of year	— 477	— 231	— 205	— 178
Amortisation for the year according to plan	— 295	— 246	— 27	— 27
Accumulated amortisation at year-end	— 772	— 477	— 232	— 205
Foreign currency effect	— 2	— 4	— 4	— 5
	4 645	4 770	38	64

SEK 166m of the acquisition value of future goodwill in the Group (SEK 168m) refers to adjustment of the acquisition balance with respect to Stadshypotek.

Note 21 Equipment

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
FIXED ASSETS				
Residual value according to plan on 1 January	721	493	521	435
New acquisitions, net during the year	314	499	384	334
The year's depreciation according to plan	— 351	— 299	— 308	— 248
Book value of leasing assets taken over	9	28	—	—
Residual value according to plan	693	721	597	521

Apart from owned equipment, the Bank also has equipment which is subject to leasing contracts. The book residual value of leased equipment in the Group was SEK 51m (20). For the Parent Company, the equivalent value was SEK 204m (142).

Note 22 Buildings and land

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
FIXED ASSETS				
Containing bank premises	1 023	1 732	985	1 234
CURRENT ASSETS				
For protection of claims etc ¹⁾	64	6 876	30	33
	1 087	8 608	1 015	1 267

1) The decrease in repossessed property for protection of claims etc is related to the distribution of Fastighets AB Balder. At the end of the year there were 12 properties with a total book value of SEK 64m. The book value was the same as the fair value.

Containing bank premises

Acquisition value at beginning of year	1 729	1 325	1 209	1 195
New acquisitions during the year ²⁾	—	521	—	—
Capitalised new and rebuilding costs	8	14	8	14
Acquisition value of properties sold during the year	— 766	— 131	— 289	—
Total acquisition value	971	1 729	928	1 209
Accumulated depreciation at beginning of year	— 344	— 310	— 322	— 297
Accumulated depreciation of sold properties	83	—	65	—
Depreciation during the year	— 19	— 34	— 18	— 25
Total accumulated depreciation	— 280	— 344	— 275	— 322

2) The figure for 1997 refers to property arising from the purchase of Stadshypotek.

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Revaluation at beginning of year	436	436	436	436
Accumulated depreciation on revaluation	- 89	- 74	- 89	- 74
Depreciation for the year	- 15	- 15	- 15	- 15
Total revaluation	332	347	332	347
Residual value according to plan	1 023	1 732	985	1 234
Tax assessment value	1 323	1 893	1 290	1 579

Note 23 Other assets

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Pre-paid tax	74	31	54	13
Claims on investment banking settlements	5 156	8 744	3 375	6 032
Derivative contracts with a positive value	58 424	31 316	57 775	30 933
Possible loan losses	- 13	- 11	—	—
Other	4 054	4 840	3 051	2 611
	67 695	44 920	64 255	39 589

Note 24 Prepayments and accrued income

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Accrued interest income	7 955	7 262	6 779	6 054
Other accrued income	290	469	2 606	2 038
Prepayments	1 576	141	89	84
	9 821	7 872	9 474	8 176

Note 25 Liabilities to credit institutions

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Banks, in Swedish kronor	51 831	34 671	47 890	36 051
Banks, in foreign currencies	138 993	112 326	140 657	113 416
Other credit institutions, in Swedish kronor	54 741	88 152	10 770	16 018
Other credit institutions, in foreign currencies	15 581	6 287	16 413	7 370
	261 146	241 436	215 730	172 855
Of which liabilities to Group companies			11 432	19 272
Of which liabilities to associated companies	—	—	—	—

Information concerning maturities:

Payable upon demand	34 544	34 463	42 041	47 374
Residual maturity: maximum three months	152 237	84 342	130 251	88 168
Residual maturity: over three months but maximum one year	57 381	55 169	41 513	35 202
Residual maturity: over one year but maximum five years	9 854	52 682	1 884	2 074
Residual maturity: over five years	7 130	14 780	41	37
Total	261 146	241 436	215 730	172 855
Average residual maturity	0.4	1.0	0.1	0.2

Note 26 Deposits from the general public

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Deposits, Swedish kronor				
Corporate etc	59 330	57 039	58 080	55 779
Households	66 193	61 763	61 505	57 079
Total	125 523	118 802	119 585	112 858
Deposits, foreign currencies				
Corporate etc	38 380	16 848	52 332	42 110
Households	4 103	2 721	3 872	2 579
Total	42 483	19 569	56 204	44 689
Total deposits from the general public	168 006	138 371	175 789	157 547

	GROUP 1998	1997	PARENT COMPANY 1998	1997
Of which liabilities to Group companies			15 214	26 850
Of which liabilities to associated companies	14	3	14	3
Information concerning maturities:				
Payable upon demand	147 496	138 371	141 971	157 547
Residual maturity: maximum three months	7 009	0	18 994	0
Residual maturity: over three months but maximum one year	307	0	2 104	0
Residual maturity: over one year but maximum five years	12 856	0	12 689	0
Residual maturity: over five years	338	0	31	0
Total	168 006	138 371	175 789	157 547
Average residual maturity	0.0	0.0	0.0	0.0

Note 27 Funding from the general public

	GROUP 1998	1997	PARENT COMPANY 1998	1997
Funding from the general public				
in Swedish kronor	16 054	21 303	15 205	20 655
in foreign currencies	22 464	45 073	21 193	43 959
	38 518	66 376	36 398	64 614
Of which liabilities to Group companies			40	400
Of which liabilities to associated companies	—	—	—	—
Information concerning maturities:				
Payable upon demand	1 889	—	1 790	—
Residual maturity: maximum three months	31 765	51 929	30 007	47 206
Residual maturity: over three months but maximum one year	3 415	9 578	3 229	12 929
Residual maturity: over one year but maximum five years	1 029	4 225	974	3 845
Residual maturity: over five years	420	644	398	634
Total	38 518	66 376	36 398	64 614
Average residual maturity	0.1	0.3	0.2	0.3

Note 28 Issued securities

	GROUP 1998	1997	PARENT COMPANY 1998	1997
CERTIFICATES				
in Swedish kronor	23 512	57 330	4 246	1 649
in foreign currencies	101 233	75 143	87 149	48 915
Total certificates	124 745	132 473	91 395	50 564
BOND LOANS				
in Swedish kronor	148 009	129 104	5 147	6 546
in foreign currencies	26 624	22 474	22 959	15 201
Total bond loans	174 633	151 578	28 106	21 747
	299 378	284 051	119 501	72 311
Of which liabilities to Group companies			—	—
Of which liabilities to associated companies	—	—	—	—
Information concerning maturities:				
Residual maturity: maximum one year	140 777	148 426	91 942	50 817
Residual maturity: over one year but maximum five years	139 350	117 924	15 100	7 019
Residual maturity: over five years but maximum ten years	18 783	17 491	11 973	14 265
Residual maturity: over ten years	468	210	486	210
Total	299 378	284 051	119 501	72 311
Average residual maturity	1.6	1.5	0.6	0.9

Note 29 Other liabilities

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Tax liabilities	361	666	23	444
Liabilities on investment banking settlements	4 567	5 476	4 559	4 598
Derivative contracts with a negative value	63 501	34 412	62 579	32 916
Short-term positions	14 003	9 768	14 003	9 768
Other	2 872	7 182	1 951	6 014
	85 304	57 504	83 115	53 740

Note 30 Accruals and deferred income

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Accrued interest expense	10 433	9 815	4 389	3 651
Other accrued expenses	1 095	1 270	768	967
Deferred income	1 135	1 187	70	83
	12 663	12 272	5 227	4 701

Note 31 Subordinated liabilities

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Subordinated loans in Swedish kronor	12 136	12 342	4 799	4 791
Subordinated loans in foreign currencies	10 999	10 889	10 943	10 818
Total subordinated loans	23 135	23 231	15 742	15 609
Of which liability to Group companies			—	—
Of which liability to associated companies	—	—	—	—

Specification, subordinated loans, Parent Company 31 December 1998

Year of issue/conv./ maturity	Original nominal amount in each currency (million)	Interest rate %	Outstanding amount SEK m
IN SEK			
1990/05 ¹⁾	2 000	floating	2 000
Other Swedish kronor ⁵⁾			2 799
			Total 4 799
IN FOREIGN CURRENCY			
1992/04 ²⁾	400	8.350	2 987
1997/perpetual ³⁾	350	floating	2 836
1997/perpetual ⁴⁾	360	7.125	2 917
Other foreign currency ⁵⁾			2 203
			Subtotal 10 943
			Total 15 742

1) Fixed-term subordinated loan with 6-month variable coupon, linked to Stibor.

2) Fixed-term subordinated loan at fixed interest rate paid twice per annum. Premature redemption may occur in the case of changed tax regulations.

3) Perpetual subordinated loan with 3-month variable coupon linked to Libor. Premature redemption may occur in the case of changed tax regulations or from 3 March 2002. The interest rate is adjusted if the right to redeem the loan in advance is used. Premature redemption requires the approval of the Swedish Financial Supervisory Authority.

4) Perpetual subordinated loan at fixed interest rate paid twice per annum. Premature redemption may occur in the case of changed tax regulations or on the interest due dates starting on 7 March 2007 provided that the Swedish Financial Supervisory Authority gives its approval. In connection with the right of redemption, the interest rate becomes variable, linked to Libor.

5) Other subordinated loans which are not specified here are issued in the form of fixed-term or perpetual subordinated loans.

Note 32 Untaxed reserves

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Accumulated depreciation on property in excess of plan			11	13
Tax equalisation reserve			913	1 370
Tax allocation reserve			5 293	4 543
Other untaxed reserves			65	33
			6 282	5 959

Note 33 Shareholders' equity

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
RESTRICTED SHAREHOLDERS' EQUITY:				
Share capital	2 605	2 605	2 605	2 605
Statutory reserve	3 007	3 169	2 936	2 936
Reserve for unrealised profits	22	21	8	11
Other restricted reserves	6 393	5 319	—	—
UNRESTRICTED SHAREHOLDERS' EQUITY:				
Profit brought forward	16 378	15 241	15 725	13 245
Profit for the year	6 026	6 007	5 029	6 255
	34 431	32 362	26 303	25 052
Reserve for unrealised profits by balance sheet item:				
Shares and participations	22	21	8	11
	22	21	8	11

GROUP	Share capital	Restricted reserves	Unrestricted reserves	Profit for the year	Total
Shareholders' equity carried forward	2 605	8 509	15 241	6 007	32 362
Cash dividend				- 1 565	- 1 565
Distribution of Fastighets AB Balder			- 2 459		- 2 459
Balance carried forward			4 442	- 4 442	0
Transfer between restricted and unrestricted equity		875	- 875		0
Change of foreign currency component		38	39		77
Change exchange of rate difference on hedging instruments			- 10		- 10
Profit for the year				6 026	6 026
Shareholders' equity at year-end 1998	2 605	9 422	16 378	6 026	34 431

The accumulated amount of the Group's unrealised foreign exchange differences is SEK 182m (115). The accumulated exchange rate difference on matching hedging instruments is SEK 115m (-105). SEK 1m of unrestricted equity is needed for transfer to restricted equity.

PARENT COMPANY	Share capital	Restricted reserves	Unrestricted reserves	Profit for the year	Total
Shareholders' equity carried forward according to balance sheet adopted for 1997	2 605	2 947	13 660	5 840	25 052
Changed accounting principle for Group contributions			- 415	415	0
Shareholders' equity carried forward after adjustment	2 605	2 947	13 245	6 255	25 052
Cash dividend				- 1 565	- 1 565
Distribution of Fastighets AB Balder			- 1 950		- 1 950
Balance carried forward			4 690	- 4 690	0
Group contribution paid			- 263		- 263
Transfer between restricted and unrestricted equity		- 3	3		0
Profit for the year				5 029	5 029
Shareholders' equity at year-end 1998	2 605	2 944	15 725	5 029	26 303

The share capital comprises:

Ordinary share capital	2 383	238 248 980 shares at SEK 10.00
Index share capital	172	17 205 866 shares at SEK 10.00
Preference share capital	50	5 000 000 shares at SEK 10.00
	2 605	260 454 846

Note 34 Collateral pledged for own debt

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Mortgages on property	0	178	0	1
Pledged bonds	64 096	45 473	64 076	45 473
Repledged securities	29 682	13 688	29 682	13 688
Other	4	98	0	31
	93 782	59 437	93 758	59 193

Note 35 Contingent liabilities

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Guarantees, loans	19 427	34 948	28 557	39 827
Guarantees, other	18 691	17 325	18 312	17 164
Special guarantees	62	62	62	62
Irrevocable letters of credit	26 647	23 278	26 647	23 278
Own acceptances	5 503	3 317	5 503	3 317
Other	6 401	2 991	—	—
Total	76 731	81 921	79 081	83 648

Note 36 Pension commitments

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Market value of assets in the Bank's pension foundation	11 691	12 661	11 691	12 661
Pension liability	- 5 621	- 5 091	- 5 621	- 5 091
Surplus	6 070	7 570	6 070	7 570

The pension commitments in the Bank's pension fund (Pensionskassan SHB, försäkringsförening) are SEK 1 349m (1 225) and the market value of the assets is SEK 5 254m (4 889). The surplus in the fund is thus SEK 3 905m (3 664).

Note 37 Other commitments

	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Certificate programmes	—	3 344	—	3 339
Other commitments	958	380	931	380
Commitments regarding future payments	958	3 724	931	3 719
Interest rate swaps	963 576	653 677	960 339	649 225
FRA/Futures	3 670 759	3 207 229	3 670 758	3 207 229
Interest rate options	28 565	5 972	25 766	5 972
Interest-rate related contracts	4 662 900	3 866 878	4 656 863	3 862 426
Forward currency contracts	1 365 212	1 345 943	1 364 090	1 345 333
Currency swaps	93 295	85 755	88 551	71 550
Currency options	53 900	46 519	53 900	46 519
Currency-related contracts	1 512 407	1 478 217	1 506 541	1 463 402
Equity futures	1 027	154	1 027	154
Equity options	13 048	9 565	13 048	9 565
Equity-related contracts	14 075	9 719	14 075	9 719
Guaranteed amount for liquidity management	—	0	—	0
Credits granted but not yet drawn	63 535	48 591	60 911	23 227
Unutilised part of overdraft facilities granted	50 685	45 806	50 685	45 806
Other commitments	114 220	94 397	111 596	69 033
Total commitments	6 304 560	5 452 935	6 290 006	5 408 299

Agreed future leasing fees distributed by the year they fall due for payment.

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
281	230	183	115	71	47	43	26	19	10	6	5	1 036

OTHER INFORMATION

Information concerning fair value, Group

	Book value	Adjustment to fair value
ASSETS		
Lending to credit institutions, fixed assets	139 823	1 401
Lending to the general public, fixed assets	587 405	12 994
Interest-bearing securities		
fixed assets	1 388	57
current assets	106 438	33
Other assets		
fixed assets	7 125	1 113
current assets	84 271	7 134
Total assets	926 450	22 732
LIABILITIES		
Liabilities to credit institutions	261 146	2 792
Deposits and funding from the general public	206 524	– 109
Issued securities	299 378	8 756
Other liabilities	101 575	5 694
Subordinated liabilities	23 135	698
Total liabilities	891 758	17 831
Total surplus value		4 901

In accordance with the Swedish Financial Supervisory Authority's directives (1997:26), a comparison is to be made between fair value and book value for both assets and liabilities in the Balance Sheet and also financial items which are not reported in the Balance Sheet. Values which are based on customer relations are not to be taken into account, although they may be of importance in valuing, for example, deposit accounts and mortgage and consumer credits. The directives allow scope for choice of method and various assumptions. Thus, the methods applied and the assumptions made may vary among the credit institutions. Information concerning fair value is not a corporate valuation and therefore cannot constitute the basis of a comparison between credit institutions.

For means of payment, current claims and liabilities and also for claims and liabilities with a variable interest rate, the fair value is considered to be the same as the book value. Claims and liabilities with final maturity or date for next interest-rate fixing within 30 days are considered to be short-term.

Current assets and liabilities which are traded on liquid markets have been valued at the average price on the balance sheet day. Market-listed off-balance-sheet items are valued in the same way.

Items which are not traded on liquid markets, irrespective of whether these are current assets, fixed assets, issued liabilities or off-balance-sheet financial items are valued at the current market rate for the corresponding maturity adjusted to take into account the credit and liquidity risk. The credit and liquidity risk premium by which the market rate has been adjusted when making the valuation is assumed to be the same as the average margin for new lending at the time of measurement.

Properties are valued at their yield value, using the cash flow method over a five-year period of computation and with the requirement of a market rate of return.

With the method applied, the interest rate risk in the Balance Sheet gives rise to surplus values if short-term interest rates are falling and losses if interest rates are rising. A surplus value also occurs when margins decrease and a loss when margins increase.

In those cases where fair value on assets is less than the book value and for liabilities, the book value is less than the fair value, this is due to these items being a) subject to hedge accounting and b) that they are to be regarded as fixed assets where the fall in value has been considered temporary.

Geographical distribution of income

GROUP	Nordic countries	Rest of Europe	Rest of world
Interest income	48 089	5 675	6 374
Dividends received	138	1	0
Commission income	3 729	251	97
Net result on financial operations	1 147	266	107
Other operating income	594	22	2
PARENT COMPANY	Nordic countries	Rest of Europe	Rest of world
Interest income	26 373	5 273	4 825
Dividends received	2 551	1	0
Commission income	3 467	122	67
Net result on financial operations	1 131	251	107
Other operating income	645	1	2

The distribution of income is based on in which country the Group's various units are located.

Derivative Instruments

GROUP	REPORTED AT MARKET VALUE			REPORTED AS HEDGES				
	Nominal value	Book value		Nominal value	Market value		Book value	
		Positive	Negative		Positive	Negative	Positive	Negative
Interest-rate related instruments								
Options	25 766	117	168	2 799	29	—	42	—
FRA/Futures	3 669 464	4 017	3 880	1 295	14	14	—	—
Swaps	938 399	27 156	29 588	25 177	6 070	7 005	1 621	2 147
Total	4 633 629	31 290	33 636	29 271	6 113	7 019	1 663	2 147
Of which cleared	472 525	677	693	—	—	—	—	—
Currency-related instruments								
Options	53 900	465	376	—	—	—	—	—
Futures	1 359 003	18 441	17 788	6 209	19	390	64	35
Swaps	86 339	2 488	5 168	6 956	2 473	682	156	215
Total	1 499 242	21 394	23 332	13 165	2 492	1 072	220	250
Of which cleared	—	—	—	—	—	—	—	—
Equity-related instruments								
Options	13 048	877	1 275	—	—	—	—	—
Futures	1 027	86	17	—	—	—	—	—
Total	14 075	963	1 292	—	—	—	—	—
Of which cleared	3 475	189	71	—	—	—	—	—

For market-traded derivative instruments, the market value is the same as the book value. The differences between fair value and book value reported in the table correspond to the reversed differences between fair value and book value of the assets and liabilities which are subject to hedge accounting. Please see pages 49-53 for a description of the risks and cash flows with respect to outstanding derivative positions.

Assets and liabilities in foreign currency

GROUP	Total	SEK	USD	DEM	GBP	NOK	FIM	DKK	Other currencies
Assets									
Lending to credit institutions	139 823	44 828	39 802	4 871	803	1 037	48	28 758	19 676
Lending to the general public	587 405	478 813	34 955	7 927	11 046	17 360	16 196	6 978	14 130
Interest-bearing securities	107 826	64 818	20 908	627	91	1 195	12 499	3 787	3 901
Other assets	91 396	56 687	11 275	3 530	2 137	3 522	4 650	5 684	3 911
Total assets	926 450	645 146	106 940	16 955	14 077	23 114	33 393	45 207	41 618
Liabilities									
Liabilities to credit institutions	261 146	103 984	77 319	13 423	8 727	2 116	966	30 482	24 129
Deposits and funding from the general public	206 524	141 577	25 771	3 725	5 310	8 834	8 426	5 731	7 150
Issued securities	299 378	171 521	105 231	246	3 937	422	16 613	521	887
Other liabilities	101 575	61 850	16 902	3 167	1 802	4 203	3 985	4 674	4 992
Subordinated liabilities	23 135	12 136	9 681	—	—	—	806	—	512
Total liabilities	891 758	491 068	234 904	20 561	19 776	15 575	30 796	41 408	37 670

The allocation between currencies in the balance sheet is not an expression of exchange rate risks. The Bank raises funding in the currencies offering the best terms at the time of funding. The loans can then be swapped into other currencies through transactions on the derivative market. These off-balance-sheet transactions eliminate exchange rate risks and are the reason that the table does not show exposure to exchange rate risks. See page 50 for information about exchange rate risks.

Capital base, 31 December 1998

	GROUP	PARENT COMPANY
TIER 1 CAPITAL		
Shareholders' equity ¹⁾	32 459	24 331
Funds allocated from the year's profits		
To tax allocation reserve	of which 72%	3 811
Tax equalisation reserve	of which 72%	657
Minority interest	261	
Less goodwill	- 4 645	- 38
Less adjustment for write-up	- 339	- 339
Total tier 1 capital	27 736	28 422
TIER 2 CAPITAL		
Subordinated loans, after reduction, max	14 992	14 089
Adjustment write-up	339	339
Total tier 2 capital	15 331	14 428
Total	43 067	42 850
Less shareholdings in insurance companies and domestic financial institutions	- 674	- 674
Total tier 1 and tier 2 capital	42 393	42 176
Enlarged capital base	1 250	1 250
Total capital base	43 643	43 426

1) The Group's shareholders' equity includes 72% of untaxed reserves.

Capital requirement, 31 December 1998

	Weighting factor	GROUP		PARENT COMPANY	
		Investments	Risk-weighted amount	Investments	Risk-weighted amount
FOR CREDIT RISKS					
Balance sheet items					
Group	A	0	135 007	160 961	
	B	20	101 017	20 203	99 499
	C	50	306 616	153 308	39 885
	D	100	182 057	182 057	131 336
Total A-D			724 697	355 568	431 681

Off-balance-sheet items

	Weighting factor	GROUP			PARENT COMPANY		
		Nominal amount	Converted amount	Risk-weighted amount	Nominal amount	Converted amount	Risk-weighted amount
Group	A	0	24 622	19 113	43 655	19 319	
	B	20	54 210	8 066	1 613	7 269	1 453
	C	50	15 445	9 280	4 640	382	191
	D	100	78 854	51 437	51 437	64 852	37 852
Total A-D			173 131	87 896	57 690	157 334	64 822
Total credit risks				812 593	413 258	496 503	210 675

FOR MARKET RISKS

	GROUP			PARENT COMPANY		
	Specific risk	General risk	Total risk	Specific risk	General risk	Total risk
Interest rate risks	6 690	9 441	16 131	6 690	9 441	16 131
Share price risks	400	134	534	399	131	530
Settlement risks			2			2
Counterparty and other risks			13 078			13 078
Exchange rate risks			195			199
Total market risks			29 940			29 940
Total risk-weighted amount			443 198			240 615
Capital ratio			9.8%			18.0%

Tier 1 capital is affected by the Board of Directors' recommendation regarding appropriations and allocation of profit.

Handelsbanken Liv Försäkrings AB

PROFIT AND LOSS ACCOUNT

	1998	1997
Technical account – life insurance business		
Premium income	1 819	1 922
Investment income	2 513	1 696
Insurance provisions	– 967	– 847
Changes in technical provisions	– 1 204	– 1 095
Bonus	– 72	– 58
Operating expenses	– 185	– 166
Result on technical account – life assurance business	1 904	1 452
Non-technical account		
Tax	– 186	– 179
Surplus for the year	1 718	1 273

BALANCE SHEET

	1998	1997		1998	1997
Assets			Liabilities, provisions and equity		
Buildings and land	470	432	Equity	150	151
Shares and participations	7 136	4 760	Bonuses	3 948	2 880
Bonds and other securities	7 000	6 599	Surplus for the year	1 718	1 273
Other investment assets	6	310	Technical provisions for life assurance	10 226	8 965
Claims	1 060	157	Provisions for taxes	62	113
Other assets	963	862	Liabilities	829	151
Prepayments and accrued income	328	433	Accruals and deferred income	30	20
Total assets	16 963	13 553	Total liabilities, provisions and equity	16 963	13 553

Comments:

The accounts have been prepared in accordance with the Accounting Act for Insurance Companies and also with the instructions issued by the Swedish Financial Supervisory Authority.

The profit and loss account and balance sheet for Handelsbanken Liv Försäkrings AB are based on preliminary information and may differ from the final figures published in Handelsbanken Liv's annual report.

Handelsbanken Liv Försäkrings AB is run on mutual principles. According to the Insurance Companies Business Act, dividends may not be paid to the shareholders of a traditional life assurance company. The entire surplus shall accrue to the policy-holders.

Recommendation for distribution of profits

including the redemption of the index and preference shares

The Handelsbanken Group's unrestricted equity is SEK 22 404m. Prior to the below proposals concerning the index and preference shares, SEK 1m is required for transfer to restricted reserves. In accordance with the Balance Sheet for Handelsbanken, profits totalling SEK 20 754m are at the disposal of the Annual General Meeting.

The Board of Directors recommends that the profits be distributed as follows:

Dividend to shareholders	SEK m
on ordinary shares, SEK 8.00 (SEK 6.50 for 1997)	1 906.0
on index shares, SEK 0.80 (SEK 0.80 for 1997)	13.8
on preference shares class A, SEK 0.45 (SEK 0.45 for 1997)	1.1
on preference shares class B, SEK 0.60 (SEK 0.60 for 1997)	1.5
Total dividends (SEK 3 515.0m for 1997 including the distribution of the shares in Fastighets AB Balder)	1 922.4

As a result of the proposal for reducing the share capital by redeeming all index and preference shares, the Board is also proposing

that funds corresponding to the reduction in share capital be transferred to the statutory reserve (22 205 866 shares at a nominal value of SEK 10 per share)	222.1
that an amount corresponding to the difference between the redemption amount and the reduced share capital for the index shares be paid to the holders of index shares (17 205 866 shares at SEK 15.25)	262.4
Balance carried forward	18 347.5
Total allocated	20 754.4

Stockholm, 23 February 1999

TOM HEDELIUS
Chairman

BO RYDIN
Vice Chairman

JAN EKMAN
Vice Chairman

LOTTY BERGSTRÖM

PER-OLOF ERIKSSON

CLAS REUTERSKIÖLD

LENNART CLAESSION

ROLAND FAHLIN

BENGT SAMUELSSON

GÖRAN ENNERFELT

HANS LARSSON

SVEN ÅGRUP

OLLE PERSSON

ARNE MÅRTENSSON
President and Group Chief Executive

Report of the auditors

To the General Meeting of the Shareholders of Svenska Handelsbanken AB (publ)
Registered Number 502007-7862

We have audited the Parent Company and the Consolidated Financial Statements, the accounts and the administration of the Board of Directors of Svenska Handelsbanken AB (publ) for 1998. These accounts and the administration of the Company are the responsibility of the Board of Directors. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. During the year, the auditing department of Svenska Handelsbanken has continuously examined the internal controls and accounts. We have received the reports that have been prepared. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine whether the Board has acted in contravention of the Banking Companies Act, the Banking Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the Parent Company and the Consolidated Financial Statements have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and they provide a fair and true view of the Group's result and financial position, and, consequently, we recommend

- that the profit and loss accounts and the balance sheets of the Parent Company and the Group be adopted,
- that the profit of the Parent Company be dealt with in accordance with the proposal in the Directors' Report, and
- that the members of the Board of Directors be discharged from liability for the financial year.

Stockholm, 3 March 1999

Öhrlings Coopers & Lybrand AB

BERTIL EDLUND
Authorised Public Accountant

SIGVARD HEURLIN
Authorised Public Accountant

Ernst & Young AB

ÅKE HEDÉN
Authorised Public Accountant

PETER MARKBORN
Authorised Public Accountant
Appointed by the Swedish
Financial Supervisory
Authority

Handelsbanken's shares

SHARE PRICE PERFORMANCE AND DIVIDEND

The strong performance of the Stockholm Stock Exchange continued during 1998. Measured by the Affärsvärlden Share Index, the increase was 10%. Bank shares rose on expectations of higher earnings resulting from the structural changes in the banking sector during the year and due to falling market interest rates. Handelsbanken's ordinary shares increased by 24%. Throughout the 1990s, the share has increased more than twice as fast as the bank index excluding Handelsbanken and almost twice as fast as the general index.

Handelsbanken's long-term dividend policy reflects the ambition to raise dividends at a rate which is above the average for the banking sector. The Board recommends a dividend of SEK 8.00 per ordinary share for 1998, which is an increase of 23% compared with the previous year.

For 1998, the dividend on the index shares, which follows the consumer price index, is unchanged at SEK 0.80.

For the preference shares, in accordance with the Articles of Association, the dividend will be SEK 0.45 for class A and SEK 0.60 for class B.

MARKET CAPITALISATION

During 1998, the market capitalisation of Handelsbanken's shares rose by SEK 15.9bn to SEK 81.1bn at the year-end, the highest ever. The Bank's market capitalisation is more than five times the level it was at in 1991.

THE SHARES

Handelsbanken's share capital was SEK 2 605m distributed over 260 454 846 shares with a nominal value per share of SEK 10.

Since 1 January 1993, all shares are unrestricted. Ordinary class A shares each carry one vote, while ordinary class B shares, index shares and preference shares carry one-tenth of a vote each.

At the Annual General Meeting, no shareholder is allowed to vote for more than 5% of the aggregate number of votes to which the shares represented at the Meeting are entitled.

Handelsbanken's shares are listed on the Stockholm Stock Exchange. One trading unit is equivalent to 100 shares.

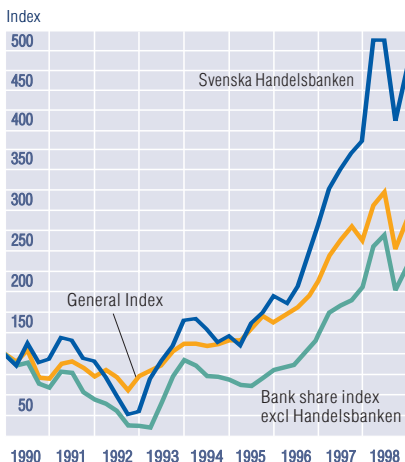
THE SHAREHOLDERS

At the year-end, Handelsbanken had around 78 000 shareholders, most of them private individuals. As can be seen from the table on the next page, the majority of shareholders owned only a small number of shares. Of the 118 shareholders with more than 250 000 shares, there were a number of asset managers representing foreign private individuals and legal entities. At the end of 1998, around 27% of the shares were owned by investors outside Sweden.

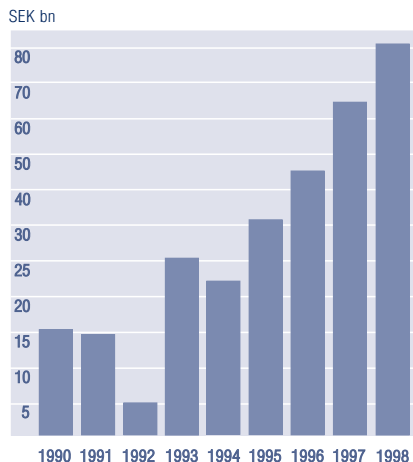
Approximately 50% of the total number of shares are owned by Swedish institutional holders. These mainly included insurance companies, investment companies and equity funds representing a large number of private individuals.

Seven of the Swedish shareholders each held more than 2% of the number of votes, as shown in the adjoining table.

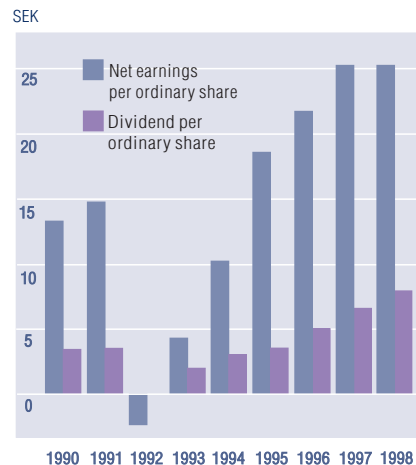
Trend for Handelsbanken's ordinary shares



Market capitalisation 31 December 1990-1998



Net earnings and dividend per ordinary share



Key figures per share

	1998	1997	1996	1995	1994
Operating profit per ordinary share, SEK	23.17	23.50	20.25	15.36	12.41
Net earnings per ordinary share, SEK	25.22	25.15	21.32	15.38	10.14
Dividend per ordinary share, SEK	8.00	6.50	5.00	3.75	3.00
Dividend growth, %	23.1	30.0	33.3	25.0	50.0
Adjusted shareholders' equity per ordinary share, SEK	142.69	134.01	114.47	110.03	96.72
Stock exchange price of ordinary A share, 31 Dec, SEK	342	274	196	137	98
Adjusted stock exchange price of A shares, 31 Dec, SEK ¹⁾	342	272	194	128	91
Average daily turnover on Stockholm Stock Exchange					
Ordinary class A, number	380 440	401 790	393 040	426 220	508 970
Ordinary class B, number	19 145	26 026	28 720	31 580	54 200
Highest/lowest price paid, ordinary class A shares, SEK	392/250	300/183	201/120	140/84	150/88
Direct yield, %	2.3	2.4	2.6	2.7	3.1
P/E ratio	13.6	10.9	9.2	8.9	9.7
Stock exchange price/Equity, %	240	204	171	124	101

Dividend for 1998 in accordance with the Board's recommendation. Adjusted to take account of current accounting principles and definitions.

¹⁾ Stock exchange price 1994-97 has been recalculated to take into account the distribution of Fastighets AB Balder, and stock exchange price 1994-95 has been recalculated to take into account the distribution of Fastighets AB Näckebro.

Shares per shareholder 31 December 1998

Number of shares	Shareholders		Shareholdings		
	Number	Percentage of all shareholders	Number of shares in thousands	Percentage of share capital	Average number per holder
1 – 500 shares	55 520	71.2	8 821	3.4	158
501 – 2 500 shares	18 361	23.5	19 795	7.6	1 078
2 501 – 25 000 shares	3 720	4.8	21 213	8.2	5 702
25 001 – 250 000 shares	311	0.4	23 767	9.1	76 420
250 001 – shares	118	0.1	186 819	71.7	1 583 208
Bonus shares not exercised			40		
Total	78 030	100.0	260 455	100.0	3 337

The major Swedish shareholders 31 December 1998

	% of votes
The Oktogonen Foundation	10.0
Industrivärden	6.6
Robur's securities funds (22)	5.7
National Swedish Pension Fund, 4th fund board	4.3
SPP	4.2
AMF-Pension	4.0
Nordbanken mutual funds (15)	2.6

Shares divided into share classes 31 December 1998

Share class	Number	% of capital	% of votes
Ordinary shares			
Class A	216 649 873	83.18	98.02
Class B	21 599 107	8.29	0.98
Total	238 248 980	91.47	99.00
Index shares	17 205 866	6.61	0.78
Preference shares			
Class A	2 500 000	0.96	0.11
Class B	2 500 000	0.96	0.11
Total	260 454 846	100.00	100.00

Profit and loss accounts and Balance sheets 1994–98

Group

PROFIT AND LOSS ACCOUNT (SEK m) ¹⁾	1994
Net interest income	9 273
Commission	2 561
Other operating income	788
Total operating income	12 622
Personnel expenses	3 001
Other expenses	2 388
Depreciation	317
Total expenses	5 706
Possible and actual losses	2 809
Total operating expenses	8 515
Operating profit	4 107
Minority interests	- 17
Profit before appropriations and taxes excluding minority interests	4 090
Appropriations	- 1 302
Profit before taxes	2 788
Taxes	- 384
Profit for the year	2 404

BALANCE SHEET (SEK m) ¹⁾	1994
ASSETS	
Cash	1 992
Banks and other financial institutions	63 996
Bonds	60 127
Lending to the general public	243 745
Leasing assets	3 117
Other assets	21 342
Shares and participations	1 854
Equipment	412
Property housing bank premises	1 546
Handelsbanken Liv	7 721
Total assets	405 852
LIABILITIES AND SHAREHOLDERS' EQUITY	
Clearing liabilities and banker's drafts	2 424
Deposits and certificates of deposit	184 554
Banks and other financial institutions	110 589
Other liabilities	19 920
Long-term funding	57 841
Provision for country risks	143
Handelsbanken Liv	7 571
Total liabilities	383 042
Minority interest in shareholders' equity	39
Shareholders' equity	22 771
Total liabilities and shareholders' equity	405 852
Guarantees etc.	37 931
Letters of credit, guaranteed but not utilised	17 866
Pension commitments	—

PROFIT AND LOSS ACCOUNT (SEK m)	1995	1996	1997	1998
Interest income	40 112	40 179	57 209	60 138
Interest expense	- 31 368	- 30 798	- 46 040	- 48 986
Dividends received	65	107	150	139
Commission income	2 770	3 294	4 024	4 077
Commission expense	- 404	- 666	- 687	- 669
Net result on financial operations	1 574	2 143	593	1 520
Other operating income	689	290	566	618
Total operating income	13 438	14 549	15 815	16 837
Staff costs	3 413	3 477	4 150	4 579
Other administrative expenses	2 248	2 237	2 926	3 543
Depreciation and write-downs	340	310	617	685
Total expenses	6 001	6 024	7 693	8 807
Profit before loan losses	7 437	8 525	8 122	8 030
Net loan losses	2 392	1 806	302	319
Operating profit	5 045	6 719	7 820	7 711
Minority interests	10	- 1	- 19	- 22
Appropriations	- 72	201	532	505
Profit before taxes	4 983	6 919	8 333	8 194
Taxes	- 1 340	- 1 829	- 2 326	- 2 168
Net profit	3 643	5 090	6 007	6 026

BALANCE SHEET (SEK m)	1995	1996	1997	1998
ASSETS				
Cash	1 304	7 487	3 025	4 054
Interest-bearing securities	87 758	107 965	65 955	107 826
Lending to credit institutions	92 286	119 166	134 472	139 823
Lending to the general public	259 168	277 790	586 824	587 405
Shares and participations	2 629	4 488	2 299	3 401
Tangible assets	8 560	1 937	9 329	1 780
Other assets	54 849	52 290	57 562	82 161
Total assets	506 554	571 123	859 466	926 450
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities to credit institutions	143 646	170 974	241 436	261 146
Deposits and funding from the general public	137 452	167 507	204 747	206 524
Issued securities	120 741	129 284	284 051	299 378
Other liabilities	65 904	63 492	73 371	101 575
Subordinated liabilities	12 826	12 302	23 231	23 135
Total liabilities	480 569	543 559	826 836	891 758
Minority interest in shareholders' equity	30	7	268	261
Shareholders' equity	25 955	27 557	32 362	34 431
Total liabilities and shareholders' equity	506 554	571 123	859 466	926 450
MEMORANDUM ITEMS				
Collateral pledged for own debt	39 639	48 650	59 437	93 782
Contingent liabilities	62 768	58 984	81 921	76 731
Pension commitments	—	—	—	—
Other commitments	3 258 729	4 445 388	5 452 935	6 304 560

The profit and loss accounts and balance sheets have been adjusted to take into account the accounting principles now applied.

1) As a consequence of the new Annual Accounts Act for Credit Institutions, the layout of the Profit and Loss Account and Balance Sheet was changed in 1996. The Profit and Loss Account and Balance Sheet for 1994 is drawn up in accordance with the layout and principles applying at the end of 1995 since a retroactive recalculation for the year in question entails considerable difficulties. Among the reclassifications carried out, the following can be mentioned:

In the Profit and Loss Account:

a) Net interest income was previously reported in the Profit and Loss Account and included realised profits and losses in the trading portfolio. These items are now reported under Net result on financial operations.

b) The Net result on financial items includes both realised and unrealised changes in value of financial current assets and derivatives as well as the Total result for foreign currencies which was previously reported as Commission income.

c) External expenses for transaction-based services associated with the Bank's income are now reported as Commission expense instead of Other expenses as before.

In the Balance Sheet:

a) Trade date accounting has been introduced for transactions in interest-bearing securities and equities instead of, as previously, settlement date accounting.

b) Positive/negative market values of derivative instruments are reported as Other assets/liabilities respectively and are no longer reported net.

Parent Company

PROFIT AND LOSS ACCOUNT (SEK m) ¹⁾	1994
Net interest income	7 588
Commission	2 607
Other operating income	445
Total operating income	10 640
Personnel expenses	2 622
Other expenses	2 190
Depreciation	229
Total expenses	5 041
Possible and actual losses	1 900
Total operating expenses	6 941
Operating profit/loss	3 699
Appropriations	1 783
Profit before taxes	5 482
Taxes	- 1 362
Profit for the year	4 120
Dividend for the year	701

BALANCE SHEET (SEK m) ¹⁾	1994
ASSETS	
Cash and clearing assets	1 988
Swedish financial institutions	44 381
Foreign banks	41 192
Bonds and government securities	84 098
Lending to the general public	142 475
Other assets	10 433
Shares and participations	6 986
Equipment	358
Property	1 397
Total assets	333 308
Pledged assets	13 187
Lending to the general public, amount granted	168 142
LIABILITIES AND SHAREHOLDERS' EQUITY	
Clearing liabilities and banker's drafts	2 410
Deposits from the general public	137 122
Certificates of deposit	26 026
Swedish financial institutions	12 802
Foreign banks	104 855
Other securities issued abroad	0
Other liabilities	15 108
Long-term funding	15 215
Provision for country risks	143
Total liabilities	313 681
Untaxed reserves	3 217
Shareholders' equity	16 410
Total liabilities, untaxed reserves and shareholders' equity	333 308
Guarantees etc.	58 378
Letters of credit, granted but not utilised	17 866
Pension commitments	—

PROFIT AND LOSS ACCOUNT (SEK m)	1995	1996	1997	1998
Interest income	29 342	28 822	28 976	36 471
Interest expense	- 22 669	- 21 864	- 22 941	- 30 990
Dividends received	385	1 839	1 729	2 552
Commission income	2 948	3 389	3 736	3 656
Commission expense	- 430	- 576	- 608	- 614
Net result on financial operations	1 598	2 093	570	1 489
Other operating income	175	244	2 037	648
Total income	11 349	13 947	13 499	13 212
Staff costs	3 100	3 183	3 520	4 108
Other administrative expenses	2 028	2 045	2 347	2 991
Depreciation and write-downs	275	249	321	370
Total expenses	5 403	5 477	6 188	7 469
Profit before loan losses	5 946	8 470	7 311	5 743
Net loan losses	1 672	1 332	- 123	131
Write-down of financial fixed assets	—	306	—	—
Operating profit	4 274	6 832	7 434	5 612
Appropriations	- 1 071	- 882	- 129	188
Profit before taxes	3 203	5 950	7 305	5 800
Taxes	- 768	- 1 344	- 1 050	- 771
Profit for the year	2 435	4 606	6 255	5 029
Dividend for the year	3 877	1 208	3 515	1 922 ²⁾

BALANCE SHEET (SEK m)	1995	1996	1997	1998
ASSETS				
Cash	1 303	7 347	3 023	4 050
Interest-bearing securities	106 530	122 262	90 166	115 556
Lending to credit institutions	116 084	133 517	175 771	215 541
Lending to the general public	148 259	160 451	223 426	242 056
Shares and participations	8 147	8 023	30 385	31 505
Tangible assets	1 826	1 732	1 788	1 612
Other assets	53 449	49 806	47 829	73 767
Total assets	435 598	483 138	572 388	684 087
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities to credit institutions	153 265	177 362	172 855	215 730
Deposits and funding from the general public	154 677	175 827	222 161	212 187
Issued securities	30 749	38 264	72 311	119 501
Other liabilities	63 203	57 033	58 441	88 342
Subordinated liabilities	10 126	8 934	15 609	15 742
Total liabilities	412 020	457 420	541 377	651 502
Untaxed reserves	4 215	5 298	5 959	6 282
Shareholders' equity	19 363	20 420	25 052	26 303
Total liabilities and shareholders' equity	435 598	483 138	572 388	684 087
MEMORANDUM ITEMS				
Collateral pledged for own debt	38 840	47 573	59 193	93 758
Contingent liabilities	75 234	65 736	83 648	79 081
Pension commitments	—	—	—	—
Other commitments	3 359 828	4 482 371	5 408 299	6 290 006

2) According to the Board of Directors' recommendation

Addresses

CENTRAL HEAD OFFICE

Kungsträdgårdsgatan 2
Postal address:
SE-106 70 Stockholm, Sweden
Telephone +46 8 701 10 00
Registered no. 502007-7862

Handelsbanken Markets

Blasieholmstorg 11 and 12
Postal address:
SE-106 70 Stockholm
Telephone +46 8 701 10 00

Information Systems Department

Tegeluddsvägen 10
Postal address:
SE-115 82 Stockholm
Telephone +46 8 701 10 00

SUBSIDIARIES

Handelsbanken Finans

Mäster Samuelsgatan 42
Postal address:
SE-106 35 Stockholm
Telephone +46 8 701 46 00
Registered no. 556053-0841

Handelsbanken Fonder

Blasieholmstorg 12
Postal address:
SE-106 70 Stockholm
Telephone +46 8 701 10 00
Registered no. 556070-0683

Handelsbanken Hypotek

Smålandsgatan 12
Postal address:
SE-103 70 Stockholm
Telephone +46 8 701 10 00
Registered no. 556000-7618

Handelsbanken Liv

Torsgatan 12
Box 1325
SE-111 83 Stockholm
Telephone +46 8 613 20 00
Registered no. 516401-8326

Stadshypotek

Smålandsgatan 12
Postal address:
SE-103 70 Stockholm
Telephone +46 8 701 10 00
Registered no. 556459-6715

Stadshypotek Bank

Arenavägen 33
Box 10085
SE-121 27 Stockholm
Telephone +46 8 725 53 00
Registered no. 516401-9803

REGIONAL BANKS' HEAD OFFICES

Northern Norrland

Storgatan 48
Box 1002
SE-901 20 Umeå
Telephone +46 90 15 45 60

Southern Norrland

Nygatan 20
Box 196
SE-801 03 Gävle
Telephone +46 26 17 20 60

Stockholm City

Kungsträdgårdsgatan 20
Postal address:
SE-106 70 Stockholm
Telephone +46 8 701 10 00

Central Sweden

Kungsträdgårdsgatan 2
Postal address:
SE-106 70 Stockholm
Telephone +46 8 701 10 00

Eastern Sweden

Nygatan 20
Box 421
SE-581 04 Linköping
Telephone +46 13 28 91 00

Western Sweden

Östra Hamngatan 23
Box 1530
SE-401 50 Göteborg
Telephone +46 31 774 80 00

Southern Sweden

Södergatan 10
Postal address:
SE-205 40 Malmö
Telephone +46 40 24 50 00

Handelsbanken Denmark

Amaliegade 3
Postboks 1032
DK-1007 Copenhagen K
Denmark
Telephone +45 33 418200
Telex 15051 HAND DK
Fax +45 33 418260

Handelsbanken Finland

Södra kajen 8
P O Box 315
FI-00131 Helsinki, Finland
Telephone +358 9 166771
Telex 125003 SHB SF
Fax +358 0 16677299

Handelsbanken Norway

Rådhusgaten 27
Postboks 1342 Vika
NO-0113 Oslo, Norway
Telephone +47 22 940700
Fax +47 22 411524

UNITS OUTSIDE THE NORDIC COUNTRIES

Svenska Handelsbanken

Beijing ⓘ
CITIC Building No. 220
19 Jianguomenwai Dajie
Beijing, 100004 China
Telephone +86 10 65004310
Fax +86 10 65126692

Svenska Handelsbanken

Birmingham ⓘ
Centre Court
1301 Stratford Road
Birmingham B28 9HH, U.K.
Telephone +44 121 7707341
Fax +44 121 7797768

Svenska Handelsbanken

Côte d'Azur ⓘ
Résidence Les Valescure
Bât. A2, Avenue de Valescure
FR-83700 St-Raphaël, France
Telephone +33 4 94 95 39 11
Fax +33 4 94 95 39 11

Svenska Handelsbanken

Frankfurt am Main ⓘ
Mittlerer Hasenpfad 25
Postfach 700955
DE-60559 Frankfurt am Main
Germany
Telephone +49 69 605060
Fax +49 69 60506252

Svenska Handelsbanken

Hamburg ⓘ
Grosser Burstah 31
Postfach 113332
DE-20433 Hamburg, Germany
Telephone +49 40 3697120
Fax +49 40 36971252

Svenska Handelsbanken

Hong Kong ⓘ
2008 Hutchison House
10 Harcourt Road,
Central Hong Kong
Telephone +852 28682131
Fax +852 28684339

Svenska Handelsbanken

London ⓘ
Trinity Tower
9 Thomas More Street
London E19WY, U.K.
Telephone +44 171 5788000
Fax +44 171 5788300

Svenska Handelsbanken

Luxembourg ⓘ ⓘ
146, Boulevard de la Pétrusse
P O Box 678
LU-2016 Luxembourg
Telephone +352 4998111
Fax +352 490004

Svenska Handelsbanken

Manchester ⓘ
302 Sunlight House
Quay Street
Manchester M3 3JZ, U.K.
Telephone +44 161 8390568
Fax +44 161 8390570

Svenska Handelsbanken

Marbella ⓘ
Centro Plaza 2
Nueva Andalucia
ES-29660 Marbella
(Málaga), Spain
Telephone +34 52 817550
Fax +34 52 817567

Svenska Handelsbanken

Moscow ⓘ
Khlebny per., 19A, 2nd floor
RU-121069 Moscow, Russia
Telephone +7 502 2204200
Fax +7 503 2306256

Svenska Handelsbanken

New York ⓘ ⓘ
153 East 53rd Street, 37th floor
New York, NY 10022-4678, USA
Telephone +1 212 3265100
Fax +1 212 3265196

Svenska France S.A.

Paris ⓘ
29-31, rue Saint-Augustin
FR-75002 Paris, France
Telephone +33 1 42665898
Fax +33 1 42669612

Svenska Handelsbanken

Singapore ⓘ
65 Chulia Street, Units 21-00
OCBC Centre, Singapore 049513
Telephone +65 5 323800
Fax +65 5 344909

Svenska Handelsbanken

Taipei ⓘ
Room 0813, International
Trade Building
333, Keelung Road
Section 1, Taipei, Taiwan
Telephone +886 22 7577112
Fax +886 22 7576270

Svenska Handelsbanken

Tallinn ⓘ
15, Pämu mnt.
EE-10141 Tallinn, Estonia
Telephone +372 6 651748
Fax +372 6 651750

Svenska Handelsbanken

Warsaw ⓘ
ul. Szpitalna 1, room 16
PL-00-020 Warsaw, Poland
Telephone +48 39 121176
Fax +48 22 8280180

Svenska Handelsbanken

Zürich ⓘ
Gothardstrasse 21
P O Box 4378
CH-8022 Zürich, Switzerland
Telephone +41 1 2871020
Fax +41 1 2871029

ⓘ = Subsidiary

Ⓜ = Branch

Ⓜ = Representative office



Produced by: Ulla Jansson Information AB
Photographs: Victor Brott unless otherwise stated
Repro: Typografen Text&Bild
Printing: Tryckcentra AB





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