

# Interim Report

January-June

# 2014



**Stadshypotek**

– a Handelsbanken company

# Stadshypotek's Interim Report

January - June 2014

**Income** totalled  
SEK 4,906m (4,733).

**Operating profit** rose by  
SEK 60m and amounted  
to SEK 4,145m (4,085).

**Net loan losses** totalled SEK 4m (4).

**Profit after tax** totalled  
SEK 3,231m (3,186).

**Loans to the public** increased by  
8%, or SEK 70bn, to SEK 995bn (925).

# Stadshypotek's Interim Report January – June 2014

## JANUARY – JUNE 2014 COMPARED WITH JANUARY – JUNE 2013

Stadshypotek's operating profit increased by 1%, or SEK 60m, to SEK 4,145m (4,085). Net interest income rose by SEK 188m to SEK 4,827m (4,639). SEK 517m (460) of the net interest income was attributable to the branch in Norway, SEK 186m (157) to the branch in Finland and SEK 103m (75) to the branch in Denmark. Excluding the branches, net interest income increased by SEK 74m, mainly due to higher lending volumes to both the private and corporate markets. The increase in net interest income at the Norwegian branch was also mainly attributable to higher lending volumes to both the private and corporate markets. The increase in net interest income at the Finnish branch can mainly be explained by higher lending volumes to the corporate market, while at the Danish branch it was mainly due to an increase in lending volumes to the private market. Net gains/losses on financial transactions decreased to SEK 82m (97).

Expenses rose by SEK 113m to 757m (644). This was mainly due to an increase of SEK 89m in the compensation paid to the parent company for the services performed by the branch operations in Sweden on behalf of Stadshypotek in relation to the sale and administration of mortgage loans.

Net loan losses totalled SEK 4m (4). Before deduction of the provision for probable loan losses, the volume of impaired loans was SEK 247m (233). Of this amount, non-performing loans accounted for SEK 195m (141), while SEK 52m (92) related to loans on which the borrowers pay interest and amortisation, but which are nevertheless considered impaired. There were also non-performing loans of SEK 708m (1,013) that are not classed as being impaired loans. After deductions for specific provisions totalling SEK -34m (-43) and collective provisions of SEK -4m (-4) for probable loan losses, impaired loans totalled SEK 209m (186).

## GROWTH IN LENDING

Loans to the public increased by 8%, or SEK 70bn, compared to the end of the corresponding period in the previous year, and stood at SEK 995bn (925). In Sweden, loans to the public increased by 6%, or SEK 53bn, to SEK 863bn (810). Lending to the private market in Sweden increased by around 5%, or SEK 29bn, to SEK 561bn (532), which was in line with general market trends.

## FUNDING

During the first six months of the year, covered bonds to the value of SEK 73bn were issued (95), with issues of covered bonds from Stadshypotek's benchmark series accounting for SEK 41.6bn (59.1). In Norway, bonds to the value of NOK 4bn (4) were issued during the period. Issues of covered bonds under the EMTCN programme totalled the equivalent of approximately EUR 1.6bn (3.6).

## CAPITAL ADEQUACY

The total capital ratio according to CRD IV was 60.9% (59.5) while the Tier 1 ratio calculated according to CRD IV was 40.2% (44.3). Further information on capital adequacy is provided in the 'Capital base and capital requirement' section on page 21.

## RATING

Stadshypotek's rating was unchanged during the period.

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

# Income statement – Group

SEK m		Jan-Jun 2014	Jan-Jun 2013	Change %	Full year 2013
Interest income		13,886	14,597	-5	29,023
Interest expense		-9,059	-9,958	-9	-19,592
<b>Net interest income</b>	Note 3	<b>4,827</b>	<b>4,639</b>	<b>4</b>	<b>9,431</b>
Fee and commission income		7	7	0	15
Fee and commission expense		-10	-10	0	-20
<b>Net fee and commission income</b>		<b>-3</b>	<b>-3</b>	<b>0</b>	<b>-5</b>
<b>Net gains/losses on financial transactions</b>	Note 4	<b>82</b>	<b>97</b>	<b>-15</b>	<b>70</b>
<b>Total income</b>		<b>4,906</b>	<b>4,733</b>	<b>4</b>	<b>9,496</b>
Staff costs		-42	-38	11	-79
Other administrative expenses	Note 5	-709	-600	18	-1,286
Depreciation and amortisation		-6	-6	0	-13
<b>Total expenses</b>		<b>-757</b>	<b>-644</b>	<b>18</b>	<b>-1,378</b>
<b>Profit before loan losses</b>		<b>4,149</b>	<b>4,089</b>	<b>1</b>	<b>8,118</b>
Net loan losses	Note 6	-4	-4	0	-22
<b>Operating profit</b>		<b>4,145</b>	<b>4,085</b>	<b>1</b>	<b>8,096</b>
Tax		-914	-899	2	-1,805
<b>Profit for the period</b>		<b>3,231</b>	<b>3,186</b>	<b>1</b>	<b>6,291</b>
Net earnings per share, before and after dilution, SEK		19,944	19,668		38,833

# Statement of comprehensive income – Group

SEK m		Jan-Jun 2014	Jan-Jun 2013	Change %	Full year 2013
<b>Profit for the period</b>		<b>3,231</b>	<b>3,186</b>	<b>1</b>	<b>6,291</b>
<b>Items that can be reclassified into profit or loss for the period</b>					
Cash flow hedges		3,183	-918	-	-244
Translation differences for the period		118	-49	-	-115
Taxes on items that can be reclassified into profit or loss for the period					
– cash flow hedges		-700	202	-	54
<b>Total comprehensive income for the period</b>		<b>5,832</b>	<b>2,421</b>	<b>141</b>	<b>5,986</b>

# Half-yearly performance – Group

SEK m	Jan-Jun 2014	Jul-Dec 2013	Jan-Jun 2013	Jul-Dec 2012	Jan-Jun 2012
Interest income	13,886	14,426	14,597	15,642	16,521
Interest expense	-9,059	-9,634	-9,958	-11,527	-12,584
<b>Net interest income</b>	<b>4,827</b>	<b>4,792</b>	<b>4,639</b>	<b>4,115</b>	<b>3,937</b>
Net fee and commission income	-3	-2	-3	-3	-4
Net gains/losses on financial transactions	82	-27	97	75	75
<b>Total income</b>	<b>4,906</b>	<b>4,763</b>	<b>4,733</b>	<b>4,187</b>	<b>4,008</b>
Staff costs	-42	-41	-38	-25	-24
Other administrative expenses	-709	-686	-600	-125	-102
Depreciation and amortisation	-6	-7	-6	-6	-6
<b>Total expenses</b>	<b>-757</b>	<b>-734</b>	<b>-644</b>	<b>-156</b>	<b>-132</b>
<b>Profit before loan losses</b>	<b>4,149</b>	<b>4,029</b>	<b>4,089</b>	<b>4,031</b>	<b>3,876</b>
Net loan losses	-4	-18	-4	-21	0
<b>Operating profit</b>	<b>4,145</b>	<b>4,011</b>	<b>4,085</b>	<b>4,010</b>	<b>3,876</b>

# Condensed balance sheet

## – Group

SEK m		30 Jun 2014	31 Dec 2013	30 Jun 2013
<b>Assets</b>				
Loans to credit institutions		10,157	7,966	7,354
Loans to the public	Note 7	994,531	955,251	924,891
Value change of interest-hedged item in portfolio hedge		90	96	2,396
Derivative instruments	Note 8	16,229	15,235	14,878
Other assets		7,308	6,111	12,992
<b>Total assets</b>		<b>1,028,315</b>	<b>984,659</b>	<b>962,511</b>
<b>Liabilities and equity</b>				
Due to credit institutions		375,650	337,097	309,078
Issued securities	Note 9	582,482	572,746	587,557
Derivative instruments	Note 8	5,228	8,186	10,682
Other liabilities and provisions		11,200	18,707	10,133
Subordinated liabilities		21,200	21,200	16,700
<b>Total liabilities</b>		<b>995,760</b>	<b>957,936</b>	<b>934,150</b>
Equity		32,555	26,723	28,361
<b>Total liabilities and equity</b>		<b>1,028,315</b>	<b>984,659</b>	<b>962,511</b>

# Statement of changes in equity

## - Group

Jan-Jun 2014 SEK m	Share capital *	Hedge reserve	Translation reserve	Retained earnings	Total
<b>Equity at 31 December 2013</b>	4,050	-190	-169	23,032	26,723
Profit for the period				3,231	3,231
Other comprehensive income		2,483	118		2,601
<b>Total comprehensive income for the period</b>		<b>2,483</b>	<b>118</b>	<b>3,231</b>	<b>5,832</b>
<b>Equity at 30 June 2014</b>	4,050	2,293	-51	26,263	32,555

Jan-Dec 2013 SEK m	Share capital *	Hedge reserve	Translation reserve	Retained earnings	Total
<b>Equity at 31 December 2012</b>	4,050		-54	21,944	25,940
Profit for the year				6,291	6,291
Other comprehensive income		-190	-115		-305
<b>Total comprehensive income for the year</b>		<b>-190</b>	<b>-115</b>	<b>6,291</b>	<b>5,986</b>
Group contributions provided				-6,670	-6,670
Tax effect on group contributions				1,467	1,467
<b>Equity at 31 December 2013</b>	4,050	-190	-169	23,032	26,723

Jan-Jun 2013 SEK m	Share capital *	Hedge reserve	Translation reserve	Retained earnings	Total
<b>Equity at 31 December 2012</b>	4,050		-54	21,944	25,940
Profit for the period				3,186	3,186
Other comprehensive income		-716	-49		-765
<b>Total comprehensive income for the period</b>		<b>-716</b>	<b>-49</b>	<b>3,186</b>	<b>2,421</b>
<b>Equity at 30 June 2013</b>	4,050	-716	-103	25,130	28,361

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

# Condensed statement of cash flows – Group

SEK m	Jan-Jun 2014	Jan-Jun 2013	Full year 2013
Cash flow from operating activities	8,820	8,771	4,918
Cash flow from investing activities	-1	-6	-11
Cash flow from financing activities	-6,670	-7,080	-2,580
<b>Cash flow for the period</b>	<b>2,149</b>	<b>1,685</b>	<b>2,327</b>
Liquid funds at beginning of period	2,921	686	686
Cash flow for the period	2,149	1,685	2,327
Exchange rate differences on liquid funds	87	-17	-92
<b>Liquid funds at end of period</b>	<b>5,157</b>	<b>2,354</b>	<b>2,921</b>
<i>Liquid funds consist of funds available with banks and equivalent institutions, excluding funds in blocked account.</i>			
Liquid funds with banks and equivalent institutions	5,157	2,354	2,921
Funds in blocked account with banks relating to issuance of covered bonds	5,000	5,000	5,045
<b>Loans to credit institutions</b>	<b>10,157</b>	<b>7,354</b>	<b>7,966</b>

# Key figures – Group

	Jan-Jun 2014	Jan-Jun 2013	Full year 2013
Net interest margin, %	0.96	0.98	0.99
C/I ratio before loan losses, %	15.4	13.6	14.5
C/I ratio after loan losses, %	15.5	13.7	14.7
Return on equity, %	20.2	20.7	20.3
Total capital ratio according to CRD IV, %	60.9	59.5	62.3
Tier 1 ratio according to CRD IV, %	40.2	44.3	41.0



# Segment information

SEK m	Jan-Jun 2014			Jan-Jun 2013			Full year 2013		
	Private	Corporate	Group	Private	Corporate	Group	Private	Corporate	Group
Net interest income	3,427	1,400	4,827	3,325	1,314	4,639	6,709	2,722	9,431
Net fee and commission income	-2	-1	-3	-2	-1	-3	-4	-1	-5
Net gains/losses on financial transactions	58	24	82	68	29	97	49	21	70
<b>Total income</b>	<b>3,483</b>	<b>1,423</b>	<b>4,906</b>	<b>3,391</b>	<b>1,342</b>	<b>4,733</b>	<b>6,754</b>	<b>2,742</b>	<b>9,496</b>
<b>Expenses</b>	<b>-530</b>	<b>-227</b>	<b>-757</b>	<b>-453</b>	<b>-191</b>	<b>-644</b>	<b>-963</b>	<b>-415</b>	<b>-1,378</b>
<b>Profit before loan losses</b>	<b>2,953</b>	<b>1,196</b>	<b>4,149</b>	<b>2,938</b>	<b>1,151</b>	<b>4,089</b>	<b>5,791</b>	<b>2,327</b>	<b>8,118</b>
Net loan losses	-6	2	-4	-8	4	-4	-26	4	-22
<b>Operating profit</b>	<b>2,947</b>	<b>1,198</b>	<b>4,145</b>	<b>2,930</b>	<b>1,155</b>	<b>4,085</b>	<b>5,765</b>	<b>2,331</b>	<b>8,096</b>
Loans to the public	659,148	335,383	994,531	623,062	301,833	924,895	639,871	315,385	955,256

Private market is defined as lending secured by mortgages in single-family or two-family houses, second homes, housing co-operative apartments, owner-occupied apartments or residential farms. Corporate market is defined as lending secured by mortgages in multi-family dwellings, family farms, commercial and office buildings or state and municipal loans.

## Geographical breakdown of business segments

SEK m	Jan-Jun 2014		Jan-Jun 2013		Full year 2013	
	Income	Total assets	Income	Total assets	Income	Total assets
Sweden	4,096	895,126	4,037	845,498	7,990	860,405
Norway	517	65,381	461	63,095	1,003	63,570
Denmark	103	22,012	75	16,021	166	19,423
Finland	190	45,796	160	37,897	337	41,261
<b>Group</b>	<b>4,906</b>	<b>1,028,315</b>	<b>4,733</b>	<b>962,511</b>	<b>9,496</b>	<b>984,659</b>

# Income statement – Parent company

SEK m		Jan–Jun 2014	Jan–Jun 2013	Change %	Full year 2013
Interest income		13,886	14,597	-5	29,023
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<b>Net interest income</b>	Note 3	<b>4,827</b>	<b>4,639</b>	<b>4</b>	<b>9,431</b>
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Fee and commission expense		-10	-10	0	-20
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<b>Net gains/losses on financial transactions</b>	Note 4	<b>82</b>	<b>97</b>	<b>-15</b>	<b>70</b>
<b>Total income</b>		<b>4,906</b>	<b>4,733</b>	<b>4</b>	<b>9,496</b>
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<b>Total expense</b>		<b>-757</b>	<b>-644</b>	<b>18</b>	<b>-1,378</b>
<b>Profit before loan losses</b>		<b>4,149</b>	<b>4,089</b>	<b>1</b>	<b>8,118</b>
Net loan losses	Note 6	-4	-4	0	-22
<b>Operating profit</b>		<b>4,145</b>	<b>4,085</b>	<b>1</b>	<b>8,096</b>
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<b>Profit for the period</b>		<b>3,231</b>	<b>3,186</b>	<b>1</b>	<b>6,291</b>

# Statement of comprehensive income – Parent company

SEK m		Jan–Jun 2014	Jan–Jun 2013	Change %	Full year 2013
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<b>Items that can be reclassified into profit or loss for the period</b>					
Cash flow hedges		3,183	-918	-	-244
Translation differences for the period		118	-49	-	-115
Taxes on items that can be reclassified into profit or loss for the period – cash flow hedges		-700	202	-	54
<b>Total comprehensive income for the period</b>		<b>5,832</b>	<b>2,421</b>	<b>141</b>	<b>5,986</b>

# Condensed balance sheet

## – Parent company

SEK m		30 Jun 2014	31 Dec 2013	30 Jun 2013
<b>Assets</b>				
Loans to credit institutions		10,157	7,966	7,354
Loans to the public	Note 7	994,531	955,251	924,891
Value change of interest-hedged item in portfolio hedge		90	96	2,396
Derivative instruments	Note 8	16,229	15,235	14,878
Other assets		7,308	6,111	12,992
<b>Total assets</b>		<b>1,028,315</b>	<b>984,659</b>	<b>962,511</b>
<b>Liabilities and equity</b>				
Due to credit institutions		375,650	337,097	309,078
Issued securities	Note 9	582,482	572,746	587,557
Derivative instruments	Note 8	5,228	8,186	10,682
Other liabilities and provisions		11,200	18,707	10,133
Subordinated liabilities		21,200	21,200	16,700
<b>Total liabilities</b>		<b>995,760</b>	<b>957,936</b>	<b>934,150</b>
Equity		32,555	26,723	28,361
<b>Total liabilities and equity</b>		<b>1,028,315</b>	<b>984,659</b>	<b>962,511</b>
<b>Memorandum items</b>				
Assets pledged for own debt *		624,878	624,110	630,616
Other pledged assets		None	None	None
Contingent liabilities		None	None	None
Undertakings		1,477	2,027	2,395

\* Assets pledged for own debt relates to collateral for covered bonds, which comprises loans against mortgages in single-family dwellings, second homes, multi-family dwellings and housing co-operative apartments with a loan-to-value ratio of up to 75% of the market value, as well as office and commercial properties with a loan-to-value ratio of up to 60% of the market value, and additional collateral in the form of cash funds on a blocked account.

# Notes

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

## NOTE 1 Accounting policies

Information relating to the Group has been stated in accordance with IAS 34. For both the Group and the parent company, the contents of the interim report also comply with the applicable provisions of the Swedish Act on Annual Reports in Credit Institutions and Securities Companies, the Swedish Financial Supervisory Authority's regulations and general guidelines FFFS 2008:25 on annual reports in credit institutions and securities companies and recommendations from the Swedish Financial Reporting Board.

The interim report of the Group and the parent company has been prepared in accordance with the same accounting policies and calculation methods that were applied in the annual report for 2013.

### REGULATORY CHANGES

During the period, the interpretative communication IFRIC 21 Levies has been adopted for application by the EU. IFRIC 21 will be applied as of the 2015 financial year. This regulatory change is not expected to have a material impact on the Group's financial position and earnings, nor will it have an impact on the capital adequacy. IFRS 15 Revenue from contracts with customers has also been adopted by the IASB. Assuming that IFRS 15 is adopted by the EU, this standard will be applied as of the 2017 financial year. The preliminary assessment is that the standard will not have a material impact on the financial reports.

In addition to this, the IASB is revising a number of existing standards. Among these future changes in the regulations, IFRS 9 Financial Instruments, which is to replace IAS 39 Financial Instruments: Recognition and Measurement, is expected to have the greatest impact on Stadshypotek's financial reports. Since much of the work with IFRS 9 remains to be completed, Stadshypotek is refraining from estimating how the financial reports will be affected or when application of the new regulations will start.

None of the other changes in the accounting regulations issued for application are expected to have a material impact on the parent company's or Group's financial reports.

## NOTE 2 Other disclosures

### RISKS AND UNCERTAINTY FACTORS

Although the turbulence in the financial markets has decreased, the structural problems that brought on the crisis remain. The debt problems of certain countries are still a concern and both the financial sector and the real economy continue to be supported by massive stimulus in the form of monetary policy. Sooner or later the players in the economy must adapt to more normal circumstances. For the financial sector, apart from managing these circumstances, it also means adapting to significantly more stringent and extensive regulatory requirements – which have not yet been established in their entirety.

Stadshypotek's historically low tolerance of risk, sound capitalisation and, as part of the Handelsbanken Group, strong liquidity mean that the company is well equipped to cope with substantially more difficult market conditions than those experienced during the period. The operations will continue to be run using the same business model, even under stricter regulations.

### RISK CONTROL

Stadshypotek's operations are conducted with a controlled low level of risk. Stadshypotek's risks are credit risk, market risk, liquidity risk, operational risk and business risk.

Credit risk is the risk of Stadshypotek facing economic loss because of its counterparties' inability to fulfil their contractual obligations. Market risk is the risk of price changes in finan-

cial markets. The market risks affecting Stadshypotek are interest rate risk and exchange rate risk. At 30 June 2014, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -468m (-158), which was well within the limit set by the board. Liquidity risk is the risk that Stadshypotek will not be able to meet its payment obligations when they fall due without being affected by unacceptable costs or losses. Operational risk is the risk of processing errors in procedures and systems, and business risk is the risk of unexpected changes in financial performance. Credit risk is the most significant risk for Stadshypotek. The Stadshypotek board establishes policies which describe how various risks should be managed and reported. In addition, Stadshypotek's chief executive sets guidelines and instructions for managing and controlling all types of risk. These documents have been based on the policies that the Board of Handelsbanken has adopted for managing and reporting risks within the Handelsbanken Group as a whole. Stadshypotek's risk management aims to ensure compliance with the strict approach to risk established by its board.

Stadshypotek's lending operations and treasury function are integrated with those of Handelsbanken, which means that Stadshypotek's lending is carried out via the Bank's branch network. A collaboration agreement regulates the overall relationship between the parties and individual outsourcing agree-

ments specify the services which Handelsbanken is to perform on behalf of Stadshypotek. Thus, the business operations at Stadshypotek are conducted according to the same fundamental principles which apply at Handelsbanken. The Bank's corporate culture is centred around the principle of delegating responsibility to the employees who make business decisions. The person who is most familiar with the customer and the market conditions is also the best person to assess the risk. In Handelsbanken's decentralised organisation, the positive and negative outcomes of each branch are evaluated, which provides a natural risk limitation and caution in business operations.

In addition to the accountability of decision-makers, control procedures are in place to ensure that excessive risks are not taken in individual transactions or local operations. In lending, this means that limits are set for large loans and these loans are assessed by a special credit organisation. Decisions on limits are made at the branch, regional or central level, depending on the size of the credit limit. Procedures also exist to limit market risk and liquidity risk at Stadshypotek. Here, the company's board establishes limits. However, limits set by the board of Stadshypotek must not exceed the limits for market risks and liquidity risks assigned by Handelsbanken to Stadshypotek. Stadshypotek also has risk control independent of business operations which is responsible for the regular follow-up and monitoring of all risks

**NOTE 2** Other disclosures, cont.

applying to operations, primarily credit risk, market risk, liquidity risk and operational risk. The risk control function carries out daily measurements and checks to ensure that risk exposure remains within the set limits. Limit utilisation is reported internally within the company, and to the parent company's Central Risk Control. In addition, limit utilisation is reported regularly to the Chief Executive and Board of Stadshypotek as well as to the Group Chief Executive, CFO and Board of Handelsbanken.

Stadshypotek is also covered by Central Risk Control at Handelsbanken, which is designed to identify the Handelsbanken Group's risks, gauge them, and ensure that management of these risks complies with the Group's low risk tolerance. Central Risk Control is responsible for the independent reporting of risks for the banking group of which Stadshypotek is a part. Central Risk Control also develops and provides models for measuring risk that are applied in Stadshypotek's operations and performs certain calculations that provide a basis for some of Stadshypotek's external reporting.

Information about credit risks regarding loan losses, non-performing loans and impaired loans can be found in notes 6 and 7 of this interim report.

**PREPAREDNESS FOR LIQUIDITY CRISIS**

Stadshypotek has a contingency plan for managing a liquidity shortage, and this plan also describes the company's liquidity-creating measures. An agreement has been drawn up between Stadshypotek and Handelsbanken stating that the parent company is responsible for ensuring that Stadshypotek's liquidity requirements can be met at all times.

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

**CAPITAL PLANNING**

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

**CAPITAL REQUIREMENTS FOR SWEDISH MORTGAGE LOANS IN PILLAR 2**

The Swedish Financial Supervisory Authority decided on 21 May 2013 that, as a supervisory measure within the framework of Pillar 2, it would introduce a capital requirement corresponding to a risk weight floor of 15% for Swedish mortgage loan portfolios. This decision will result in a capital requirement under Pillar 2 of around SEK 8bn for Stadshypotek in 2014, based on the company's Swedish mortgage loan volumes at the end of the first six months of the year. During the second quarter of 2014, the Swedish Financial Supervisory Authority announced that it was proposing that the risk-weight floor in Pillar 2 be increased to 25%. Taking into account the Financial Supervisory Authority's proposed counter-cyclical buffer value of 1%, the implementation of this additional step would increase Stadshypotek's capital requirement under Pillar 2 by around SEK 8bn in 2015.

**MATERIAL EVENTS AFTER BALANCE SHEET DATE**

There have been no material events after the balance sheet date.

**NOTE 3** Net interest income

SEK m	Jan-Jun 2014	Jan-Jun 2013	Change %	Full year 2013
<b>Interest income</b>				
Loans to the public	13,762	14,445	-5	28,729
Loans to credit institutions	124	152	-18	294
<b>Total</b>	<b>13,886</b>	<b>14,597</b>	<b>-5</b>	<b>29,023</b>
<b>Interest expense</b>				
Due to credit institutions	-2,173	-2,297	-5	-4,542
Issued securities	-7,211	-7,946	-9	-15,657
Subordinated liabilities	-320	-282	13	-566
Derivative instruments *	757	666	14	1,386
Fee to the Swedish Stabilisation Fund	-112	-99	13	-211
Other	0	0		-2
<b>Total</b>	<b>-9,059</b>	<b>-9,958</b>	<b>-9</b>	<b>-19,592</b>
<b>Net interest income</b>	<b>4,827</b>	<b>4,639</b>	<b>4</b>	<b>9,431</b>

\* Net interest income from derivative instruments which are related to Stadshypotek's funding and may have both a positive and a negative impact on interest expenses.

## NOTE 4 Net gains/losses on financial transactions

SEK m	Jan-Jun 2014	Jan-Jun 2013	Change %	Full year 2013
Hedge accounting	-57	25	-	-51
<i>of which fair value hedges</i>	-55	24	-	-46
<i>of which ineffectiveness on cash flow hedges</i>	-2	1	-	-5
Loans, valued at cost	122	131	-7	267
Financial liabilities, valued at cost	-106	-132	-20	-247
Derivatives not recognised as hedges	99	72	38	84
Other	24	1	-	17
<b>Total</b>	<b>82</b>	<b>97</b>	<b>-15</b>	<b>70</b>

The profit/loss item 'Fair value hedges' includes the net result of unrealised and realised changes in the fair value of financial assets and liabilities which are subject to hedge accounting. Interest income and interest expenses for these instruments are recognised under net interest income. Changes in the value of hedging instruments in cash flow hedges which exceed the changes in value-hedged future cash flows, are recognised under the item "ineffectiveness on cash flow hedges". Derivatives not recognised as hedges are included in the held-for-trading category.

Loans, valued at cost, refers to the early redemption charge for loans and receivables which are repaid ahead of time. Financial liabilities, valued at cost, refers to realised price differences when repurchasing bonds.

## NOTE 5 Other administrative expenses

SEK m	Jan-Jun 2014	Jan-Jun 2013	Change %	Full year 2013
Cost of premises	-4	-3	33	-6
IT costs	-61	-51	20	-101
Communication	0	0	0	-1
Travel and marketing	-2	-2	0	-3
Purchased services	-634	-539	18	-1,156
Supplies	0	0	0	0
Other expenses	-8	-5	60	-19
<b>Total</b>	<b>-709</b>	<b>-600</b>	<b>18</b>	<b>-1,286</b>

## NOTE 6 Loan losses

SEK m	Jan-Jun 2014	Jan-Jun 2013	Change %	Full year 2013
<b>Specific provision for individually assessed loans</b>				
Provision for the period	-7	-11	-36	-24
Reversal of previous provisions	4	4	0	7
<b>Total</b>	<b>-3</b>	<b>-7</b>	<b>-57</b>	<b>-17</b>
<b>Collective provision</b>				
Collective provision for individually assessed loans	1	0	-	-1
<b>Write-offs</b>				
Actual loan losses for the period	-33	-32	3	-59
Utilised share of previous provisions	17	14	21	19
Reversal of actual loan losses in previous years	14	21	-33	36
<b>Total</b>	<b>-2</b>	<b>3</b>	<b>-</b>	<b>-4</b>
<b>Net loan losses</b>	<b>-4</b>	<b>-4</b>	<b>0</b>	<b>-22</b>

Impaired loans SEK m	30 Jun 2014	31 Dec 2013	30 Jun 2013
Impaired loans	247	283	233
Specific provision for individually assessed loans	-34	-48	-43
Collective provision for individually assessed loans	-4	-5	-4
<b>Net impaired loans</b>	<b>209</b>	<b>230</b>	<b>186</b>
Proportion of impaired loans, %	0.02	0.02	0.02
Reserve ratio for impaired loans, %	13.6	17.0	18.3
Loan loss ratio, %	0.00	0.00	0.00
Non-performing loans which are not impaired loans	708	833	1,013

## NOTE 7 Loans to the public

Loans to the public, by borrower category	30 Jun 2014			31 Dec 2013			30 Jun 2013		
	Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses	Loans after provisions
SEK m									
Households	690,239	-22	690,217	668,204	-36	668,168	650,159	-32	650,127
Public sector, municipal companies	33,305	-	33,305	30,904	-	30,904	29,477	-	29,477
Housing co-operative associations	136,205	-9	136,196	129,273	-9	129,264	124,471	-9	124,462
Other legal entities	134,820	-3	134,817	126,923	-3	126,920	120,831	-2	120,829
<b>Total loans to the public, before collective provision</b>	<b>994,569</b>	<b>-34</b>	<b>994,535</b>	<b>955,304</b>	<b>-48</b>	<b>955,256</b>	<b>924,938</b>	<b>-43</b>	<b>924,895</b>
Collective provision		-4	-4		-5	-5		-4	-4
<b>Total loans to the public</b>	<b>994,569</b>	<b>-38</b>	<b>994,531</b>	<b>955,304</b>	<b>-53</b>	<b>955,251</b>	<b>924,938</b>	<b>-47</b>	<b>924,891</b>
<b>of which in operations outside Sweden</b>									
Households	96,329	-	96,329	90,876	-	90,876	89,040	0	89,040
Public sector, municipal companies	9,027	-	9,027	9,431	-	9,431	7,033	-	7,033
Housing co-operative associations	19,683	-	19,683	15,337	-	15,337	13,792	-	13,792
Other legal entities	6,429	-	6,429	4,760	-	4,760	4,614	-	4,614
<b>Total loans to the public in operations outside Sweden</b>	<b>131,468</b>	<b>-</b>	<b>131,468</b>	<b>120,404</b>	<b>-</b>	<b>120,404</b>	<b>114,479</b>	<b>0</b>	<b>114,479</b>

Loans to the public, by type of collateral	30 Jun 2014			31 Dec 2013			30 Jun 2013		
	Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses	Loans after provisions	Loans before provisions	Provisions for probable loan losses	Loans after provisions
SEK m									
Single-family housing	490,495	-21	490,474	481,331	-29	481,302	470,831	-25	470,806
Housing co-operative apartments	153,122	-	153,122	145,354	-1	145,353	139,828	-1	139,827
Owner-occupied apartments	15,556	-	15,556	12,674	-	12,674	12,429	-	12,429
<b>Private market</b>	<b>659,173</b>	<b>-21</b>	<b>659,152</b>	<b>639,359</b>	<b>-30</b>	<b>639,329</b>	<b>623,088</b>	<b>-26</b>	<b>623,062</b>
Multi-family housing	261,808	-13	261,795	247,875	-17	247,858	236,135	-17	236,118
Offices and commercial buildings	73,588	-	73,588	68,070	-1	68,069	65,715	0	65,715
<b>Corporate market</b>	<b>335,396</b>	<b>-13</b>	<b>335,383</b>	<b>315,945</b>	<b>-18</b>	<b>315,927</b>	<b>301,850</b>	<b>-17</b>	<b>301,833</b>
<b>Total loans to the public, before collective provision</b>	<b>994,569</b>	<b>-34</b>	<b>994,535</b>	<b>955,304</b>	<b>-48</b>	<b>955,256</b>	<b>924,938</b>	<b>-43</b>	<b>924,895</b>
Collective provision		-4	-4		-5	-5		-4	-4
<b>Total loans to the public</b>	<b>994,569</b>	<b>-38</b>	<b>994,531</b>	<b>955,304</b>	<b>-53</b>	<b>955,251</b>	<b>924,938</b>	<b>-47</b>	<b>924,891</b>
<b>of which in operations outside Sweden</b>									
Single-family housing	77,280	-	77,280	75,640	-	75,640	73,869	0	73,869
Housing co-operative apartments	4,449	-	4,449	4,215	-	4,215	4,452	-	4,452
Owner-occupied apartments	15,556	-	15,556	12,674	-	12,674	12,429	-	12,429
<b>Private market</b>	<b>97,285</b>	<b>-</b>	<b>97,285</b>	<b>92,529</b>	<b>-</b>	<b>92,529</b>	<b>90,750</b>	<b>0</b>	<b>90,750</b>
Multi-family housing	33,735	-	33,735	27,417	-	27,417	23,273	-	23,273
Offices and commercial buildings	448	-	448	458	-	458	456	-	456
<b>Corporate market</b>	<b>34,183</b>	<b>-</b>	<b>34,183</b>	<b>27,875</b>	<b>-</b>	<b>27,875</b>	<b>23,729</b>	<b>-</b>	<b>23,729</b>
<b>Total loans to the public in operations outside Sweden</b>	<b>131,468</b>	<b>-</b>	<b>131,468</b>	<b>120,404</b>	<b>-</b>	<b>120,404</b>	<b>114,479</b>	<b>0</b>	<b>114,479</b>



NOTE 7 Loans to the public, cont.

Non-performing loans by borrower category	30 Jun 2014		31 Dec 2013		30 Jun 2013	
	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans
SEK m						
Households	624	59	707	95	873	128
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	1	-	1	-	1	5
Other legal entities	83	136	125	132	139	8
<b>Total</b>	<b>708</b>	<b>195</b>	<b>833</b>	<b>227</b>	<b>1,013</b>	<b>141</b>
<b>of which in operations outside Sweden</b>						
Households	99	11	73	11	93	5
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-
Other legal entities	16	-	6	-	3	-
<b>Total non-performing loans in operations outside Sweden</b>	<b>115</b>	<b>11</b>	<b>79</b>	<b>11</b>	<b>96</b>	<b>5</b>

Non-performing loans by type of collateral	30 Jun 2014		31 Dec 2013		30 Jun 2013	
	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans	Non-performing loans which are not impaired loans	Non-performing loans which are included in impaired loans
SEK m						
Single-family housing	520	58	592	87	726	91
Housing co-operative apartments	89	4	84	5	84	29
Owner-occupied apartments	32	1	27	1	26	-
<b>Private market</b>	<b>641</b>	<b>63</b>	<b>703</b>	<b>93</b>	<b>836</b>	<b>120</b>
Multi-family housing	32	78	87	79	123	14
Offices and commercial buildings	35	54	43	55	54	7
<b>Corporate market</b>	<b>67</b>	<b>132</b>	<b>130</b>	<b>134</b>	<b>177</b>	<b>21</b>
<b>Total</b>	<b>708</b>	<b>195</b>	<b>833</b>	<b>227</b>	<b>1,013</b>	<b>141</b>
<b>of which in operations outside Sweden</b>						
Single-family housing	80	10	52	10	64	5
Housing co-operative apartments	3	-	-	-	6	-
Owner-occupied apartments	32	1	27	1	26	-
<b>Private market</b>	<b>115</b>	<b>11</b>	<b>79</b>	<b>11</b>	<b>96</b>	<b>5</b>
Multi-family housing	-	-	-	-	-	-
Offices and commercial buildings	-	-	-	-	-	-
<b>Corporate market</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total non-performing loans in operations outside Sweden</b>	<b>115</b>	<b>11</b>	<b>79</b>	<b>11</b>	<b>96</b>	<b>5</b>

NOTE 7 Loans to the public, cont.

Impaired loans by borrower category	30 Jun 2014			31 Dec 2013			30 Jun 2013		
	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans
SEK m									
Households	86	-22	64	124	-36	88	148	-32	116
Public sector, municipal companies	-	-	-	-	-	-	-	-	-
Housing co-operative associations	26	-9	17	26	-9	17	27	-9	18
Other legal entities	135	-3	132	133	-3	130	58	-2	56
<b>Total</b>	<b>247</b>	<b>-34</b>	<b>213</b>	<b>283</b>	<b>-48</b>	<b>235</b>	<b>233</b>	<b>-43</b>	<b>190</b>
<b>of which in operations outside Sweden</b>									
Households	11	0	11	11	0	11	5	0	5
Public sector, municipal companies	-	-	-	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-	-	-	-
Other legal entities	-	-	-	0	0	0	-	-	-
<b>Total impaired loans in operations outside Sweden</b>	<b>11</b>	<b>0</b>	<b>11</b>	<b>11</b>	<b>0</b>	<b>11</b>	<b>5</b>	<b>0</b>	<b>5</b>

Impaired loans by type of collateral	30 Jun 2014			31 Dec 2013			30 Jun 2013		
	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans	Impaired loans	Provision for probable loan losses	Net impaired loans
SEK m									
Single-family housing	83	-21	62	115	-30	85	111	-25	86
Housing co-operative apartments	4	0	4	6	-1	5	31	-1	30
Owner-occupied apartments	1	0	1	1	0	1	-	-	-
<b>Private market</b>	<b>88</b>	<b>-21</b>	<b>67</b>	<b>122</b>	<b>-31</b>	<b>91</b>	<b>142</b>	<b>-26</b>	<b>116</b>
Multi-family housing	104	-13	91	106	-17	89	69	-17	52
Offices and commercial buildings	55	0	55	55	0	55	22	0	22
<b>Corporate market</b>	<b>159</b>	<b>-13</b>	<b>146</b>	<b>161</b>	<b>-17</b>	<b>144</b>	<b>91</b>	<b>-17</b>	<b>74</b>
<b>Total</b>	<b>247</b>	<b>-34</b>	<b>213</b>	<b>283</b>	<b>-48</b>	<b>235</b>	<b>233</b>	<b>-43</b>	<b>190</b>
<b>of which in operations outside Sweden</b>									
Single-family housing	10	0	10	10	0	10	5	0	5
Housing co-operative apartments	-	-	-	-	-	-	-	-	-
Owner-occupied apartments	1	0	1	1	0	1	-	-	-
<b>Private market</b>	<b>11</b>	<b>0</b>	<b>11</b>	<b>11</b>	<b>0</b>	<b>11</b>	<b>5</b>	<b>0</b>	<b>5</b>
Multi-family housing	-	-	-	-	-	-	-	-	-
Offices and commercial buildings	-	-	-	-	-	-	-	-	-
<b>Corporate market</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total impaired loans in operations outside Sweden</b>	<b>11</b>	<b>0</b>	<b>11</b>	<b>11</b>	<b>0</b>	<b>11</b>	<b>5</b>	<b>0</b>	<b>5</b>

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

## NOTE 8 Derivative instruments

SEK m	Market value 30 Jun 2014	Market value 31 Dec 2013	Market value 30 Jun 2013
<b>Positive values</b>			
Interest rate instruments	12,596	13,684	12,993
Currency instruments	3,633	1,551	1,885
<b>Total</b>	<b>16,229</b>	<b>15,235</b>	<b>14,878</b>
<b>Negative values</b>			
Interest rate instruments	2,681	3,470	4,034
Currency instruments	2,547	4,716	6,648
<b>Total</b>	<b>5,228</b>	<b>8,186</b>	<b>10,682</b>
<b>Net</b>	<b>11,001</b>	<b>7,049</b>	<b>4,196</b>

## NOTE 9 Issued securities

SEK m	30 Jun 2014
<b>Issued securities at beginning of period</b>	<b>572,746</b>
Issued	104,207
Repurchased	-42,660
Matured	-51,381
Price differences, exchange rate effects, etc	-430
<b>Issued securities at end of period</b>	<b>582,482</b>

## NOTE 10 Classification of financial assets and liabilities

30 Jun 2014 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives desig- nated as hedging instruments	Financial liabilities valued at amortised cost	Non-financial assets/liabilities	Total	Fair value
<b>Assets</b>							
Loans to credit institutions	10,157					10,157	10,157
Loans to the public	994,531					994,531	1,003,848
Value change of interest- hedged item in portfolio hedge	90					90	
Derivative instruments		700	15,529			16,229	16,229
Other assets	7,274				34	7,308	7,308
<b>Total assets</b>	<b>1,012,052</b>	<b>700</b>	<b>15,529</b>		<b>34</b>	<b>1,028,315</b>	<b>1,037,542</b>
<b>Liabilities</b>							
Due to credit institutions				375,650		375,650	376,466
Issued securities				582,482		582,482	593,362
Derivative instruments		205	5,023			5,228	5,228
Other liabilities				10,034	1,166	11,200	11,200
Subordinated liabilities				21,200		21,200	22,828
<b>Total liabilities</b>		<b>205</b>	<b>5,023</b>	<b>989,366</b>	<b>1,166</b>	<b>995,760</b>	<b>1,009,084</b>

31 Dec 2013 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives desig- nated as hedging instruments	Financial liabilities valued at amortised cost	Non-financial assets/liabilities	Total	Fair value
<b>Assets</b>							
Loans to credit institutions	7,966					7,966	7,966
Loans to the public	955,251					955,251	958,625
Value change of interest- hedged item in portfolio hedge	96					96	
Derivative instruments		361	14,874			15,235	15,235
Other assets	5,993				118	6,111	6,111
<b>Total assets</b>	<b>969,306</b>	<b>361</b>	<b>14,874</b>		<b>118</b>	<b>984,659</b>	<b>987,937</b>
<b>Liabilities</b>							
Due to credit institutions				337,097		337,097	336,856
Issued securities				572,746		572,746	577,554
Derivative instruments		455	7,731			8,186	8,186
Other liabilities				18,707		18,707	18,707
Subordinated liabilities				21,200		21,200	22,996
<b>Total liabilities</b>		<b>455</b>	<b>7,731</b>	<b>949,750</b>		<b>957,936</b>	<b>964,299</b>

## NOTE 11 Fair value measurement of financial instruments

30 Jun 2014				
SEK m				
Assets	Level 1	Level 2	Level 3	Total
Derivative instruments	-	16,229	-	16,229
<b>Total financial assets at fair value</b>	-	<b>16,229</b>	-	<b>16,229</b>
Liabilities				
Derivative instruments	-	5,228	-	5,228
<b>Total financial liabilities at fair value</b>	-	<b>5,228</b>	-	<b>5,228</b>

31 Dec 2013				
SEK m				
Assets	Level 1	Level 2	Level 3	Total
Derivative instruments	-	15,235	-	15,235
<b>Total financial assets at fair value</b>	-	<b>15,235</b>	-	<b>15,235</b>
Liabilities				
Derivative instruments	-	8,186	-	8,186
<b>Total financial liabilities at fair value</b>	-	<b>8,186</b>	-	<b>8,186</b>

### Valuation process

Stadshypotek's independent risk control is responsible for the existence of fit-for-purpose instructions and processes for fair value measurement of financial instruments. In general, the valuations are based on externally generated data as far as is possible considering the circumstances in each case. In the case of model valuation, valuation models that are established in the market are always used. The models and input data which form the basis of the valuations are regularly validated by the independent risk control function to ensure that they are consistent with market practices and established financial theory. New and revised valuation models are always validated before they come into use. Stadshypotek is also subject to the Handelsbanken Group's guidelines and instructions for valuation of financial instruments. Valuation matters which are of principle importance are discussed by the Handelsbanken Group's valuation committee, which includes representatives of both central and local risk control as well as financial functions. The valuation committee ensures that general instructions for valuation of financial instruments are consistently followed throughout the Handelsbanken Group and serve as support for decision-making in valuation and accounting matters.

### Principles for fair value measurement of financial instruments

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

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

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

### Valuation hierarchy

In the tables, financial instruments at fair value have been categorised in terms of how the valuations have been carried out and the extent of market data used in the valuation. The categorisation is shown as levels 1-3 in the table and is based on the valuation method used on the balance sheet date. Financial instruments which are valued at the current market price are categorised as level 1. Financial instruments which are valued using valuation models which are essentially based on market data are categorised as level 2. Level 2 includes interest and currency-related derivatives. Financial instruments valued using models which to a material extent are based on input data that is not possible to verify using external market information are categorised as level 3.

# Related-party transactions

Group claims/Group liabilities SEK m	30 Jun 2014	31 Dec 2013	30 Jun 2013
<b>BALANCE SHEET</b>			
<b>Group claims</b>			
Loans to credit institutions	10,157	7,966	7,354
Derivative instruments	16,224	15,235	14,295
Other assets	77	55	88
<b>Total</b>	<b>26,458</b>	<b>23,256</b>	<b>21,737</b>
<b>Group liabilities</b>			
Due to credit institutions	375,620	337,096	308,837
Derivative instruments	5,227	8,186	10,609
Other liabilities	764	7,342	609
Subordinated liabilities	21,200	21,200	16,700
<b>Total</b>	<b>402,811</b>	<b>373,824</b>	<b>336,755</b>
<b>INCOME STATEMENT</b>			
Interest income	124	289	147
Interest expense	-2,491	-4,892	-2,568
Fee and commission expense	-1	-2	-1
Other administrative expenses	-693	-1,251	-586
<b>Total</b>	<b>-3,061</b>	<b>-5,856</b>	<b>-3,008</b>

The business operations of Stadshypotek are highly decentralised. The basic principle is that organisation and working practices are determined by the branch offices of the Handelsbanken Group, which are responsible for all the business of individual customers. One consequence of this approach is that Stadshypotek's lending operations are run via Handelsbanken's Swedish branch operations and the lending operations in Stadshypotek's branches in Norway, Denmark and Finland are run via Handelsbanken's branch operations in the respective countries. Lending is to be carried out to the extent and on the terms stated in guidelines for granting credits, established annually by the board of Stadshypotek. These guidelines include the maximum permitted loan-to-value ratio for various property types, as well as the decision limits which apply to the branches' lending. In addition, for loans in excess of a certain amount, an advance examination of the case is to be conducted by Stadshypotek's credit department before the loan can be disbursed. Stadshypotek's treasury function is also integrated with Handelsbanken's treasury department. Functions necessary for management and control of the company remain within Stadshypotek. Those services which Handelsbanken performs on behalf of Stadshypotek are regulated in outsourcing agreements between the parties.

Most of the inter-company transactions are thus with the parent company, Handelsbanken. The services that Stadshypotek purchases from the parent company, which are included in other administrative expenses, consist primarily of sales compensation, IT services and the treasury function. In addition, inter-company transactions consist of funding from the parent company, derivative transactions and lending to the parent company.

# Capital base and capital requirements

Figures reported in this section refer to the minimum capital requirements under Pillar 1, according to the capital adequacy regulations applying from time to time. On 1 January 2014, the European Capital Requirements Regulation (CRR) came into force. The capital base and capital requirement as at 30 June 2014 are calculated in accordance with the new EU regulations.

<b>Capital base *</b> SEK m	<b>30 Jun 2014</b>	<b>31 Dec 2013</b>	<b>30 Jun 2013</b>
Equity	32,555	26,723	28,361
Deduction for the period's profit	-3,231	-	-
Deduction for intangible assets	-34	-40	-41
Adjustment for cash flow hedges	-2,293	190	716
Special deduction for IRB institutions	-253	-190	-174
<b>Common equity tier 1 capital</b>	<b>26,744</b>	<b>26,683</b>	<b>28,862</b>
Additional tier 1 instruments	2,400	3,000	3,000
<b>Total tier 1 capital</b>	<b>29,144</b>	<b>29,683</b>	<b>31,862</b>
Perpetual subordinated loans	5,300	5,300	5,300
Dated subordinated loans	9,755	10,100	5,600
<b>Tier 2 capital</b>	<b>15,055</b>	<b>15,400</b>	<b>10,900</b>
<b>Capital base</b>	<b>44,199</b>	<b>45,083</b>	<b>42,762</b>
<b>Capital requirement</b> SEK m	<b>30 Jun 2014</b>	<b>31 Dec 2013</b>	<b>30 Jun 2013</b>
Credit risk according to standardised approach	42	21	40
Credit risk according to IRB approach	4,732	4,907	4,853
Operational risk	1,032	857	857
<b>Total capital requirement</b>	<b>5,806</b>	<b>5,785</b>	<b>5,750</b>
Adjustment according to Basel 1 floor	32,771	31,095	30,039
<b>Capital requirement Basel 1 floor</b>	<b>38,577</b>	<b>36,880</b>	<b>35,789</b>
<b>Capital adequacy analysis *</b>	<b>30 Jun 2014</b>	<b>31 Dec 2013</b>	<b>30 Jun 2013</b>
Common equity tier 1 ratio, CRD IV	36.9%	36.9%	40.2%
Tier 1 ratio, CRD IV	40.2%	41.0%	44.3%
Total capital ratio, CRD IV	60.9%	62.3%	59.5%
Risk exposure amount CRD IV, SEK m	72,569	72,313	71,875
Capital base in relation to capital requirement according to Basel 1 floor	115%	122%	119%

\* In the table above, the figures stated for historical comparison refer to CRR/CRD IV and are based on the company's interpretation of the regulations at the respective reporting date and assuming full implementation of the regulations.

# Credit risks

Credit risks SEK m	Standardised approach		IRB approach	
	Capital requirement	Exposure after credit risk protection (EAD)	Average risk weight	Capital requirement
<b>30 Jun 2014</b>				
Institutions	0	-	-	-
Corporate	3	286,548	8.2%	1,876
<i>of which advanced approach</i>	-	285,740	8.2%	1,871
<i>of which foundation approach</i>	-	808	7.8%	5
Households	-	669,378	5.3%	2,856
Other	39	-	-	-
<b>Total</b>	<b>42</b>	<b>955,926</b>	<b>6.2%</b>	<b>4,732</b>

Credit risks SEK m	Standardised approach		IRB approach	
	Capital requirement	Exposure after credit risk protection (EAD)	Average risk weight	Capital requirement
<b>31 Dec 2013</b>				
Institutions	0	-	-	-
Corporate	2	273,836	10.0%	2,184
<i>of which advanced approach</i>	-	273,311	10.0%	2,180
<i>of which foundation approach</i>	-	525	9.8%	4
Households	16	647,809	5.3%	2,723
Other	3	-	-	-
<b>Total</b>	<b>21</b>	<b>921,645</b>	<b>6.7%</b>	<b>4,907</b>

Credit risks SEK m	Standardised approach		IRB approach	
	Capital requirement	Exposure after credit risk protection (EAD)	Average risk weight	Capital requirement
<b>30 Jun 2013</b>				
Institutions	12	-	-	-
Corporate	9	262,219	10.4%	2,172
<i>of which advanced approach</i>	-	261,756	10.4%	2,168
<i>of which foundation approach</i>	-	463	10.0%	4
Households	16	630,379	5.3%	2,681
Other	3	-	-	-
<b>Total</b>	<b>40</b>	<b>892,598</b>	<b>6.8%</b>	<b>4,853</b>



We hereby confirm that this six-monthly report gives a true and fair overview of the parent company's and the Group's operations, position and results and describes material risks and uncertainties which the parent company and the Group companies are facing.

Stockholm, 16 July 2014

Håkan Sandberg  
*Chairman*

Yonnie Bergqvist

Michael Bertorp

Olle Lindstrand

Camilla Persson  
*Employee representative*

Ulrica Stolt Kirkegaard  
*Chief Executive*

# Auditor's report concerning review of interim report

**TO THE BOARD OF STADSHYPOTEK AB (PUBL), CORPORATE IDENTITY NUMBER 556459-6715**

## **Introduction**

We have reviewed the interim report for Stads-hypotek AB (publ) as at 30 June 2014 and for the six-month period ending as at this date. The Board of Directors and the Chief Executive are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

## **Focus and scope of the review**

We have conducted our review in accordance with the International Standard on Review Enga-

gements ISRE 2410 *Review of interim financial information performed by the auditors elected by the company*. A review consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review differs from and is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing and generally accepted auditing practices in Sweden. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim report is not, in all material respects, in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies for the Group and in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies for the parent company.

Stockholm, 16 July 2014

KPMG AB  
Stefan Holmström, Authorised Public Accountant

# Facts about the company

**Registered name:** Stadshypotek AB (publ).

**Corporate identity no:** 556459-6715.

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

## **ADDRESS**

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**Website:** [www.stadshypotek.se](http://www.stadshypotek.se)