

Stadshypotek's interim report

JANUARY–SEPTEMBER 2008



■ Lending increased by SEK 82bn (24) to SEK 605bn, of which SEK 48bn was attributable to the branch in Norway which was added during the third quarter.

■ Operating profits were SEK 2,685m (3,110).

■ Recoveries exceeded loan losses during the period.



Stadshypotek's interim report January – September 2008

Performance

Stadshypotek's operating profit for the period was SEK 2,685m (3,110). As of August 2008, Stadshypotek's branch in Norway has been included, which had a SEK 47m effect on operating profit for the period. Thus, excluding the branch in Norway, operating profit was down by SEK 472m compared with corresponding period in 2007. The decrease was partly due to the net interest income being SEK 204m lower than the same period in the previous year. In addition, net gains/losses on financial operations decreased by SEK 297m, compared to the same period the previous year. This was mainly due to unrealised changes in market value of financial assets and liabilities subject to hedge accounting and derivatives. Unrealised changes in market value were adversely affected in the third quarter, due to the fall in longer-term market interest rates. On the other hand, during the first half of the year, unrealised changes in the market value were positively affected, due to rising market rates.

For a number of years the competition for private customers' mortgage loans has led to reduced margins, which has had a negative impact on net interest income. However, margins for mortgage loans where the rate is newly set were stable in the second half of 2007 and increased during the January to September 2008 period. Stadshypotek's lending volume in the private market continued to perform well during the period. However, when comparing the net interest income to the corresponding period in the previous year, the increase could not offset the falling lending margins. Net interest income was also negatively affected due to the remaining effects from previously repurchased bonds. The crisis on the financial markets has caused an increase in funding costs, chiefly in relation to our short-term borrowing. The rising funding costs have led to increased lending rates to customers.

Loan losses

Recoveries exceeded new loan losses and the net amount recovered was SEK 88m (58), which corresponds to a loan loss ratio of -0.02% (-0.02) of lending.

Before deduction of the provision for probable loan losses, the volume of bad debts was SEK 230m (273). SEK 38m (35) of the bad debts were non-performing loans, while SEK 192m (238) were loans on which the borrowers pay interest and amortisation, but which are considered doubtful in view of the uncertainty as to the borrowers' future repayment capacity and the value of the collateral. In addition, there were non-performing loans of SEK 604m (297) that are not assessed as being bad debts. After deduction of the provision for probable loan losses, the volume of bad debts was SEK 164m (197).

Growth in lending

Lending to the public totalled SEK 605bn. This was an increase of SEK 82bn, of which SEK 48bn was attributable

to the branch in Norway which was added during the third quarter. Stadshypotek's share of the private market in Sweden was unchanged at around 25%. Stadshypotek retained its strong position as a leading player on the Swedish corporate market, with a market share of some 32%.

Capital adequacy

On 1 February 2007, new capital adequacy regulations were implemented – the Basel II regulations. The new regulations entail major changes in how the capital requirement is to be calculated and how a satisfactory capital base is to be ensured. They will be implemented gradually, since the transitional regulations allow for an adaptation over three years. As at 30 September 2008, the capital ratio was 9.6% (9.7). As at 30 September 2008, the Tier 1 capital ratio was 6.8% (6.9). Further information concerning capital adequacy is provided in the 'Capital base and Capital requirement' section.

Rating

Stadshypotek's rating was unchanged.

Stadshypotek		
	Long-term	Short-term
Moody's	Aa1	P-1
Standard & Poor's	AA-	A-1+
Fitch	AA-	F1+

Covered bonds	
Moody's	Aaa

Accounting policies

The accounts comply with the IASB accounting standards adopted by the EU. The regulations of the Annual Accounts Act for Credit Institutions and Securities Companies and the directives issued by the Swedish Financial Supervisory Authority are also applied. The accounting policies are unchanged from the previous annual report.

Stockholm, 22 October 2008



Lars Kahn Lund
Chief executive

This interim report has not been examined by the company's auditors.

Income statement – Group

SEK m	Jan-Sep 2008	Jan-Sep 2007	Change %	Q3 2008	Q3 2007	Change %	Full year 2007
Interest income	20,614	15,818	30%	7,678	5,559	38%	21,787
Interest expense	-17,878	-12,932	38%	-6,678	-4,641	44%	-18,084
Net interest income	2,736	2,886	-5%	1,000	918	9%	3,703
Net result on financial operations	22	319	-93%	-184	6	-	360
Fee and commission income	9	8	13%	3	2	50%	11
Fee and commission expense	-32	-38	-16%	-11	-12	-8%	-50
Net fee and commission income	-23	-30	-23%	-8	-10	-20%	-39
Total income	2,735	3,175	-14%	808	914	-12%	4,024
General administrative expenses							
Staff costs	-32	-24	33%	-10	-9	11%	-35
Other	-105	-99	6%	-38	-33	15%	-133
Depreciation according to plan	-1	0	-	0	0	-	0
Total expenses	-138	-123	12%	-48	-42	14%	-168
Profit before loan losses	2,597	3,052	-15%	760	872	-13%	3,856
Net loan losses	Note 1 88	58	52%	60	9	-	70
Operating profit	2,685	3,110	-14%	820	881	-7%	3,926
Taxes	-751	-871	-14%	-229	-247	-7%	-1,100
Profit for the period	1,934	2,239	-14%	591	634	-7%	2,826
Net earnings per share, SEK	11,937	13,821					17,447

Balance sheet – Group

SEK m		30 Sep 2008	30 Sep 2007	31 Dec 2007
Assets				
Loans to credit institutions		5,663	5,191	5,600
Loans to the public	Note 2	605,445	511,354	523,758
Derivatives	Note 3	6,750	2,187	3,270
Plant and equipment		1	0	0
Other assets		8,285	14,252	8,272
Total assets		626,144	532,984	540,900
Liabilities and shareholders' equity				
Due to credit institutions		165,063	128,762	103,638
Issued securities		415,755	360,751	392,807
Derivatives	Note 3	2,434	3,503	3,606
Other liabilities and provisions		12,786	9,557	12,676
Subordinated loans		8,300	8,300	8,300
Total liabilities		604,338	510,873	521,027
Shareholders' equity	Note 4	21,806	22,111	19,873
Total liabilities and shareholders' equity		626,144	532,984	540,900

Income statement – Parent company

SEK m	Jan-Sep 2008	Jan-Sep 2007	Change %	Q3 2008	Q3 2007	Change %	Full year 2007	
Interest income	20,614	15,818	30%	7,678	5,559	38%	21,787	
Interest expense	-17,878	-12,932	38%	-6,678	-4,641	44%	-18,084	
Net interest income	2,736	2,886	-5%	1,000	918	9%	3,703	
Net result on financial operations	22	319	-93%	-184	6	-	360	
Fee and commission income	9	8	13%	3	2	50%	11	
Fee and commission expense	-32	-38	-16%	-11	-12	-8%	-50	
Net fee and commission income	-23	-30	-23%	-8	-10	-20%	-39	
Total income	2,735	3,175	-14%	808	914	-12%	4,024	
General administrative expenses								
Staff costs	-32	-24	33%	-10	-9	11%	-35	
Other	-105	-99	6%	-38	-33	15%	-133	
Depreciation according to plan	-1	0	-	0	0	-	0	
Total expenses	-138	-123	12%	-48	-42	14%	-168	
Profit before loan losses	2,597	3,052	-15%	760	872	-13%	3,856	
Net loan losses	Note 1	88	58	52%	60	9	-	70
Operating profit	2,685	3,110	-14%	820	881	-7%	3,926	
Tax	-751	-871	-14%	-229	-247	-7%	-1,100	
Profit for the period	1,934	2,239	-14%	591	634	-7%	2,826	

Balance sheet – Parent company

SEK m		30 Sep 2008	30 Sep 2007	31 Dec 2007
Assets				
Loans to credit institutions		5 663	5 191	5 600
Loans to the public	Note 2	605 445	511 354	523 758
Derivatives	Note 3	6 750	2 187	3 270
Plant and equipment		1	0	0
Other assets		8 285	14 252	8 272
Total assets		626 144	532 984	540 900
Liabilities and shareholders' equity				
Due to credit institutions		174 954	131 807	113 875
Issued securities		405 864	357 706	382 570
Derivatives	Note 3	2 434	3 503	3 606
Other liabilities and provisions		12 786	9 557	12 676
Subordinated loans		8 300	8 300	8 300
Total liabilities		604 338	510 873	521 027
Shareholders' equity	Note 4	21 806	22 111	19 873
Total liabilities and shareholders' equity		626 144	532 984	540 900

Notes

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

Note 1 Loan losses

SEK m	Jan - Sep 2008	Jan - Sep 2007	Full year 2007
Specific provision for individually assessed loan receivables:			
The period's write-down for actual loan losses	-10	-7	-10
Writeback of previous provisions for probable loan losses reported as actual loan losses in the period's accounts	6	4	5
The period's provision relating to probable loan losses	-5	-5	-11
Writeback from actual loan losses in previous years	87	33	48
Writeback of provisions for probable loan losses which are no longer necessary	10	33	38
Net recoveries for the period for individually assessed loan receivables	88	58	70

As of the third quarter, recoveries on previous loan losses are included in 'Writeback from actual loan losses in previous years', which had a SEK 26m effect on net recoveries in the period. Up until the end of 2007, the equivalent amount, which during the January to September 2007 period totalled SEK 25m, was included in net interest income.

Note 2 Loans to the public

LOANS TO THE PUBLIC, BY SECTOR

30 September	2008			2007		
	Loans before deduction of provisions	Provisions for probable loan losses	Loans after deduction of provisions	Loans before deduction of provisions	Provisions for probable loan losses	Loans after deduction of provisions
SEK m						
Households	450,386	-12	450,374	368,982	-10	368,972
Public sector, municipal companies	5,337	-	5,337	6,149	-	6,149
Housing co-operative associations	89,459	-30	89,429	82,483	-39	82,444
Other legal entities	60,329	-24	60,305	53,816	-27	53,789
Total loans to the public	605,511	-66	605,445	511,430	-76	511,354

Of which in the Norwegian operations

Households	39,958	-	39,958
Public sector, municipal companies	-	-	-
Housing co-operative associations	4,616	-	4,616
Other legal entities	3,144	-	3,144
Total loans to the public in the Norwegian operations	47,718	-	47,718

LOANS TO THE PUBLIC, BY TYPE OF PROPERTY

30 September	2008			2007		
	Loans before deduction of provisions	Provisions for probable loan losses	Loans after deduction of provisions	Loans before deduction of provisions	Provisions for probable loan losses	Loans after deduction of provisions
SEK m						
Single family housing	338 403	-7	338 396	276 700	-6	276 694
Housing co-operative apartments	89 109	-1	89 108	73 068	-1	73 067
Owner-occupied apartments*	4 604	-	4 604	-	-	-
Private market	432 116	-8	432 108	349 768	-7	349 761
Multi-family housing	152 150	-55	152 095	144 373	-66	144 307
Offices and commercial buildings	21 245	-3	21 242	17 289	-3	17 286
Corporate market	173 395	-58	173 337	161 662	-69	161 593
Total loans to the public	605 511	-66	605 445	511 430	-76	511 354

Of which in the Norwegian operations

Single family housing	35 329	-	35 329
Housing co-operative apartments	25	-	25
Owner-occupied apartments*	4 604	-	4 604
Private market	39 958	-	39 958
Multi-family housing	5 512	-	5 512
Offices and commercial buildings	2 248	-	2 248
Corporate market	7 760	-	7 760
Total loans to the public in the Norwegian operations	47 718	-	47 718

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

NON-PERFORMING LOANS, BY BORROWER CATEGORY

30 September	2008		2007	
SEK m	Non-performing loans which are not bad debts	Non-performing loans which are included in bad debts	Non-performing loans which are not bad debts	Non-performing loans which are included in bad debts
Households	452	13	252	6
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	4	3	6	3
Other legal entities	148	22	39	26
Total	604	38	297	35

NON-PERFORMING LOANS, BY TYPE OF PROPERTY

30 September	2008		2007	
SEK m	Non-performing loans which are not bad debts	Non-performing loans which are included in bad debts	Non-performing loans which are not bad debts	Non-performing loans which are included in bad debts
Single-family housing	372	9	205	7
Housing co-operative apartments	71	1	40	0
Private market	443	10	245	7
Multi-family housing	130	26	47	27
Offices and commercial buildings	31	2	5	1
Corporate market	161	28	52	28
Total	604	38	297	35

BAD DEBTS, BY BORROWER CATEGORY

30 September	2008			2007		
SEK m	Bad debts	Provision for probable losses	Net bad debts	Bad debts	Provision for probable losses	Net bad debts
Households	25	-12	13	26	-10	16
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	106	-30	76	132	-39	93
Other legal entities	99	-24	75	115	-27	88
Total	230	-66	164	273	-76	197

BAD DEBTS, BY TYPE OF PROPERTY

30 September	2008			2007		
SEK m	Bad debts	Provision for probable losses	Net bad debts	Bad debts	Provision for probable losses	Net bad debts
Single-family housing	15	-7	8	16	-6	10
Housing co-operative apartments	1	-1	0	1	-1	0
Private market	16	-8	8	17	-7	10
Multi-family housing	161	-55	106	193	-66	127
Offices and commercial buildings	53	-3	50	63	-3	60
Corporate market	214	-58	156	256	-69	187
Total	230	-66	164	273	-76	197

Non-performing loans and bad debts relating in their entirety to the Swedish operations. The reserved amount for probable losses refers to a specific provision for individually assessed receivables.

Note 3 Derivatives

30 September 2008	Interest-rate related instruments		Currency-related instruments		Total	
	Fair value	Book value	Fair value	Book value	Fair value	Book value
SEK m						
Positive values	2,297	2,297	4,453	4,453	6,750	6,750
Negative values	2,387	2,387	47	47	2,434	2,434

30 September 2007	Interest-rate related instruments		Currency-related instruments		Total	
	Fair value	Book value	Fair value	Book value	Fair value	Book value
SEK m						
Positive values	1,857	1,857	330	330	2,187	2,187
Negative values	3,187	3,187	316	316	3,503	3,503

Stadshypotek mainly uses interest rate swaps as instruments to hedge against changes in value due to changes in market interest rates. Hedge accounting is applied for these hedges in accordance with the company's accounting policies. Interest rate swaps, currency futures and interest rate options are also used as hedges for fair value changes without hedge accounting being applied.

Note 4 Change in shareholders' equity

SEK m	30 Sep 2008	30 Sep 2007	31 Dec 2007
Opening shareholders' equity	19,873	19,872	19,872
Group contribution provided	-	-	-3,925
Tax on group contribution	-	-	1,100
Change in translation difference	-1	-	-
Profit for the period	1,934	2,239	2,826
Closing shareholders' equity	21,806	22,111	19,873

CASH FLOW STATEMENT

SEK m	Jan - Sep 2008	Jan - Sep 2007	Full year 2007
Cash flow from operating activities	4,009	-1,633	-1,223
Cash flow from investing activities	-20	0	-2
Cash flow from financing activities	-3,760	362	197
Cash flow for the period	229	-1,271	-1,028
Liquid funds at beginning of period	434	1,462	1,462
Cash flow for the period	229	-1,271	-1,028
Liquid funds at end of period	663	191	434

TURNOVER – OWN DEBT INSTRUMENTS

Stadshypotek issues and repurchases debt instruments which it has issued on its own account. This is for the purposes of financing its operations.

Turnover during the period was as follows:

Issued (sold):	SEK 227bn
Repurchased:	SEK 35bn
Maturity:	SEK 167bn

Quarterly performance

SEK m	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Interest income	7,678	6,618	6,318	5,969	5,559
Interest expense	-6,678	-5,753	-5,447	-5,152	-4,641
Net interest income	1,000	865	871	817	918
Net result on financial operations	-184	268	-62	41	6
Net fee and commission income	-8	-7	-8	-9	-10
Total income	808	1,126	801	849	914
General administrative expenses					
Staff costs	-10	-11	-11	-11	-9
Other	-38	-33	-34	-34	-33
Depreciation according to plan	0	-1	0	0	0
Total expenses	-48	-45	-45	-45	-42
Profit before loan losses	760	1,081	756	804	872
Net loan losses	60	17	11	12	9
Operating profit	820	1,098	767	816	881

Segment information

Jan-Sep SEK m	2008			2007		
	Private	Corporate	Total	Private	Corporate	Total
Net interest income	2,020	716	2,736	2,130	756	2,886
Net result on financial operations	16	6	22	235	84	319
Net fee and commission income	-17	-6	-23	-22	-8	-30
Total income	2,019	716	2,735	2,343	832	3,175
Total expenses	-102	-36	-138	-91	-32	-123
Profit before loan losses	1,917	680	2,597	2,252	800	3,052
Net loan losses	15	73	88	23	35	58
Operating profit	1,932	753	2,685	2,275	835	3,110

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

Related party transactions

30 September	Group		Parent company	
Group claims/Group liabilities, SEK m	2008	2007	2008	2007
BALANCE SHEET				
Group claims				
Loans to credit institutions	5,624	5,174	5,624	5,174
Derivatives	4,561	2,187	4,561	2,187
Other assets	212	156	212	156
Total	10,397	7,517	10,397	7,517
Group liabilities				
Due to credit institutions	149,056	114,924	158,947	114,924
Derivatives	2,434	3,378	2,434	3,378
Other liabilities	1,687	230	1,687	230
Subordinated loans	8,300	8,300	8,300	8,300
Total	161,477	126,832	171,368	126,832
INCOME STATEMENT				
Interest income	302	209	302	209
Interest expense	-4,021	-3,085	-4,361	-3,085
Fee and commission expense	-16	-25	-16	-25
Other administrative expenses	-85	-80	-85	-80
Total	-3,820	-2,981	-4,160	-2,981

Under the above headings in the income statement and balance sheet, inter-company transactions occur either between the companies in the Stadshypotek Group or between these and other companies in the Handelsbanken Group.

Key figures

	Jan - Sep 2008	Jan - Sep 2007	Full year 2007
Overall interest margin, %	0.64	0.76	0.72
C/I ratio before loan losses, %	5.00	3.90	4.2
C/I ratio after loan losses, %	1.80	2.00	2.4
Loan loss ratio, %	-0.02	-0.02	-0.01
Proportion of bad debts, %	0.03	0.03	0.04
Bad debt provision ratio, %	28.6	29.7	28.7
Return on shareholders' equity, %	11.6	13.4	12.6
Capital ratio, %	9.6	9.7	9.3
Tier 1 capital ratio, %	6.8	6.9	6.6

Disclosures

Risk

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. A description of material risks and uncertainty factors and how they are handled by the Group is presented in the company's 2007 annual report. No material changes have occurred since the annual report was published that are not presented in this report. Information about credit risks regarding loan losses and non-performing loans and bad debts can be found in note 2 of this report. As at 30 September 2008, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -172m (-52).

Capital-related matters

At the start of the transition to Basel II, Stadshypotek entered into a guarantee facility relating to mortgages for housing co-operative properties, to speed up the transition. In June, Stadshypotek utilised the guarantee, which had a +0.66 percentage point effect on the Tier 1 ratio as at 30 September 2008. The transaction affects only capital adequacy in accordance with the transitional rules.

Capital base and capital requirement

CAPITAL BASE

SEK m	30 Sep 2008	30 Sep 2007	31 Dec 2007
Tier 1 capital ¹⁾	19,607	19,872	
Tier 1 capital ²⁾	21,541	22,111	19,683
Tier 2 capital	8,034	8,300	8,110
Capital base ¹⁾	27,641	28,172	
Capital base ²⁾	29,575	30,411	27,793

CAPITAL REQUIREMENT

SEK m	30 Sep 2008	30 Sep 2007	31 Dec 2007
Credit risk according to standardised approach	189	1	118
Credit risk according to IRB approach	5,606	4,712	4,776
Operational risk	615	630 ³⁾	630 ³⁾
Total capital requirement according to Basel II	6,410	5,343	5,524
Adjustment according to transitional rules	16,719	17,778	18,327
Capital requirement according to Basel II, transitional rules	23,129	23,121	23,851
Risk-weighted assets according to Basel I	328,618	304,218	313,824
Capital requirement according to Basel I (8% of risk-weighted assets)	26,289	24,337	25,106
Transitional rules result in lowest permitted capital requirement	23,129	23,121	23,851
Operational risk, according to Basel II	615	666	666

¹⁾ Excluding profits generated during the period since the interim report has not been examined by the auditors.

²⁾ Including profit generated during the period.

³⁾ Operational risk, reduced in accordance with transitional rules 2007.

CAPITAL ADEQUACY ANALYSIS

	30 Sep 2008	30 Sep 2007	31 Dec 2007
Capital requirement in Basel II compared to Basel I	24%	22%	22%
Capital requirement in Basel II compared to transitional rules	28%	23%	23%
Capital ratio according to Basel II ¹⁾	34.5%	42.2%	
Capital ratio according to Basel I ¹⁾	8.4%	9.3%	
Capital ratio according to transitional rules ¹⁾	9.6%	9.7%	
Capital ratio according to Basel II ²⁾	36.9%	45.5%	40.3%
Capital ratio according to Basel I ²⁾	9.0%	10.0%	8.9%
Capital ratio according to transitional rules ²⁾	10.2%	10.5%	9.3%
Tier 1 ratio according to Basel II ¹⁾	24.5%	29.8%	
Tier 1 ratio according to Basel I ¹⁾	6.0%	6.5%	
Tier 1 ratio according to transitional rules ¹⁾	6.8%	6.9%	
Tier 1 ratio according to Basel II ²⁾	26.9%	33.1%	28.5%
Tier 1 ratio according to Basel I ²⁾	6.6%	7.3%	6.3%
Tier 1 ratio according to transitional rules ²⁾	7.5%	7.7%	6.6%
Capital base in relation to capital requirement Basel II ²⁾	461%	569%	503%
Capital base in relation to capital requirement Basel I ²⁾	112%	125%	111%
Capital base in relation to capital requirement according to transitional rules ²⁾	128%	132%	117%

Figures reported in this section refer to the minimum capital requirements under Pillar 1 of the new capital adequacy rules. In the tables, "According to Basel II" means that the figures are based on the minimum capital requirements in 2010, that is after the transitional rules have ceased to apply. Stadshypotek intends to use the advanced IRB method for corporate exposures in 2010 and this is expected to further reduce the minimum capital requirement.

CREDIT RISKS

30 September 2008	Standardised model		IRB model	
	Capital requirement	Exposure after credit risk protection (EAD)	Average risk weight	Capital requirement
SEK m				
Institutions	157	-	-	-
Companies	-	160,600	28.8%	3,705
Households	12	431,984	5.5%	1,901
Other	20	-	-	-
Total IRB	189	592,584	11.8%	5,606

The capital requirement according to Basel II is 76% lower than the requirement in accordance with Basel I. Households represent about 85% of the reduction and companies about 15%. Due to a large proportion of credits to households with property as collateral, the capital requirement is smaller. Capital requirements are also lower for corporate loans and the average risk weight was 29% of the exposure, EAD. The capital requirement is smaller because Stadshypotek has a selective customer base and high-quality borrowers.

Facts about the company

Registered name: Stadshypotek AB (publ)

Corporate identity number: 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.

Highlights of annual report: Published 10 February 2009

ADDRESSES

Stadshypotek AB

Street address: Torgatan 12

Postal address: 103 70 Stockholm

Telephone: +46 8 701 54 00, Fax: +46 8-701 55 40

Website: www.stadshypotek.se



