

Interim Report

January - June

2015

Stadshypotek's Interim Report

January - June 2015

Income totalled SEK 5,925m (4,906).

Operating profit rose by SEK 1,239m and amounted to SEK 5,384m (4,145).

Net loan losses totalled SEK 3m (-4) as recovered loan losses exceeded new loan losses.

Profit after tax totalled SEK 4,181m (3,231).

Loans to the public increased by 5%, or SEK 52bn, to SEK 1,047bn (995).

Administrative expenses decreased by SEK 213m and amounted to SEK -544m (-757).

Stadshypotek's Interim Report January – June 2015

JANUARY – JUNE 2015 COMPARED WITH JANUARY – JUNE 2014

Stadshypotek's operating profit increased to SEK 5,384m (4,145). Net interest income rose by SEK 1,041m to SEK 5,868m (4,827). Of the net interest income, SEK 470m (517) was attributable to the branch in Norway, SEK 211m (186) to the branch in Finland and SEK 130m (103) to the branch in Denmark. Excluding the branches, net interest income increased by SEK 1,036m. This increase was mainly due to higher lending volumes and lower funding costs. The decrease in net interest income at the Norwegian branch was attributable to lower margins for both the private market and corporate markets, although this was offset slightly by an increase in lending volumes. 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. Currency effects also caused branches' net interest income to increase by SEK 14m. Net gains/losses on financial transactions decreased to SEK 59m (82).

Expenses decreased by SEK 213m to SEK -544m (-757). This was mainly due to a reduction in the compensation paid to the parent company for the services performed by the branch operations on behalf of Stadshypotek in relation to the sale and administration of mortgage loans. The decrease was due to further enhancements of IT systems and processes in the Swedish regional bank operations.

Net loan losses totalled SEK 3m (-4) as recovered loan losses exceeded new loan losses.

LENDING

Loans to the public increased by 5%, or SEK 52bn, compared to the end of the corresponding period in the previous year, and stood at SEK 1,047bn (995). In Sweden, loans to the public increased by 5%, or SEK 39bn, to SEK 902bn (863). Lending to the private market in Sweden increased by 6%, or SEK 36bn, to SEK 597bn (561).

The credit quality of lending operations remains very good. The volume of impaired loans, before deduction of the provision for probable loan losses, decreased by SEK 101m and amounted to SEK 146m (247). Of this amount, non-performing loans accounted for SEK 102m (195), while SEK 44m (52) 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 509m (708) that are not classed as being impaired loans. After deductions for specific provisions totalling SEK -35m (-34) and collective provisions of SEK -4m (-4) for probable loan losses, impaired loans totalled SEK 107m (209).

FUNDING

Issues made under Stadshypotek's Swedish covered bonds programme totalled SEK 50.8bn (41.6) for the first six months of the year. A nominal volume totalling SEK 26.2bn matured and SEK 24.8bn was repurchased. In Norway, bonds to the value of NOK 1.5bn (4.0) were issued. Issues made under the US 144A programme totalled USD 1bn (0). During the first six months of the year, EUR 1.25bn, CHF 80m and NOK 3bn matured.

CAPITAL ADEQUACY

The total capital ratio according to CRD IV was 66.7% (60.9) while the common equity tier 1 ratio calculated according to CRD IV was 39.0% (36.9). 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 2015 | Jan-Jun 2014 | Change % | Full year 2014 |
|--|--------|-----------------|-----------------|-------------|-------------------|
| Interest income | | 11,469 | 13,886 | -17 | 26,946 |
| Interest expense | | -5,601 | -9,059 | -38 | -16,706 |
| Net interest income | Note 3 | 5,868 | 4,827 | 22 | 10,240 |
| Fee and commission income | | 8 | 7 | 14 | 14 |
| Fee and commission expense | | -10 | -10 | 0 | -21 |
| Net fee and commission income | | -2 | -3 | -33 | -7 |
| Net gains/losses on financial transactions | Note 4 | 59 | 82 | -28 | 7 |
| Total income | | 5,925 | 4,906 | 21 | 10,240 |
| Staff costs | | -42 | -42 | 0 | -86 |
| Other administrative expenses | Note 5 | -495 | -709 | -30 | -1,422 |
| Depreciation and amortisation | | -7 | -6 | 17 | -13 |
| Total expenses | | -544 | -757 | -28 | -1,521 |
| Profit before loan losses | | 5,381 | 4,149 | 30 | 8,719 |
| Net loan losses | Note 6 | 3 | -4 | -175 | 22 |
| Operating profit | | 5,384 | 4,145 | 30 | 8,741 |
| Tax | | -1,203 | -914 | 32 | -1,968 |
| Profit for the period | | 4,181 | 3,231 | 29 | 6,773 |
| Net earnings per share, before and after dilution, SEK | | 25,806 | 19,944 | | 41,809 |

Statement of comprehensive income – Group

| SEK m | | Jan-Jun 2015 | Jan-Jun 2014 | Change % | Full year 2014 |
|--|--|-----------------|-----------------|-------------|-------------------|
| Profit for the period | | 4,181 | 3,231 | 29 | 6,773 |
| Items that may subsequently be reclassified to the income statement | | | | | |
| Cash flow hedges | | -572 | 3,183 | - | 5,543 |
| Translation differences for the period | | -90 | 118 | - | 149 |
| Tax on items that may subsequently be reclassified to the income statement | | | | | |
| – cash flow hedges | | 126 | -700 | - | -1,220 |
| Total comprehensive income for the period | | 3,645 | 5,832 | -38 | 11,245 |

Half-yearly performance – Group

| SEK m | Jan-Jun 2015 | Jul-Dec 2014 | Jan-Jun 2014 | Jul-Dec 2013 | Jan-Jun 2013 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Interest income | 11,469 | 13,060 | 13,886 | 14,426 | 14,597 |
| Interest expense | -5,601 | -7,647 | -9,059 | -9,634 | -9,958 |
| Net interest income | 5,868 | 5,413 | 4,827 | 4,792 | 4,639 |
| Net fee and commission income | -2 | -4 | -3 | -2 | -3 |
| Net gains/losses on financial transactions | 59 | -75 | 82 | -27 | 97 |
| Total income | 5,925 | 5,334 | 4,906 | 4,763 | 4,733 |
| Staff costs | -42 | -44 | -42 | -41 | -38 |
| Other administrative expenses | -495 | -713 | -709 | -686 | -600 |
| Depreciation and amortisation | -7 | -7 | -6 | -7 | -6 |
| Total expenses | -544 | -764 | -757 | -734 | -644 |
| Profit before loan losses | 5,381 | 4,570 | 4,149 | 4,029 | 4,089 |
| Net loan losses | 3 | 26 | -4 | -18 | -4 |
| Operating profit | 5,384 | 4,596 | 4,145 | 4,011 | 4,085 |

Condensed balance sheet

– Group

| SEK m | | 30 Jun 2015 | 31 Dec 2014 | 30 Jun 2014 |
|---|--------|------------------|------------------|------------------|
| Assets | | | | |
| Loans to credit institutions | | 9,640 | 10,148 | 10,157 |
| Loans to the public | Note 7 | 1,046,733 | 1,018,533 | 994,531 |
| Value change of interest-hedged item in portfolio hedge | | 42 | 70 | 90 |
| Derivative instruments | Note 8 | 22,058 | 24,960 | 16,229 |
| Other assets | | 7,734 | 5,146 | 7,308 |
| Total assets | | 1,086,207 | 1,058,857 | 1,028,315 |
| Liabilities and equity | | | | |
| Due to credit institutions | | 440,673 | 405,074 | 375,650 |
| Issued securities | Note 9 | 574,321 | 579,485 | 582,482 |
| Derivative instruments | Note 8 | 3,898 | 4,063 | 5,228 |
| Other liabilities | | 10,602 | 17,167 | 11,200 |
| Subordinated liabilities | | 20,700 | 20,700 | 21,200 |
| Total liabilities | | 1,050,194 | 1,026,489 | 995,760 |
| Equity | | 36,013 | 32,368 | 32,555 |
| Total liabilities and equity | | 1,086,207 | 1,058,857 | 1,028,315 |

Statement of changes in equity

– Group

| Jan–Jun 2015 SEK m | Share capital* | Hedge reserve | Translation reserve | Retained earnings | Total |
|--|----------------|---------------|---------------------|-------------------|--------------|
| Equity at 31 December 2014 | 4,050 | 4,133 | -20 | 24,205 | 32,368 |
| Profit for the period | | | | 4,181 | 4,181 |
| Other comprehensive income ** | | -446 | -90 | | -536 |
| Total comprehensive income for the period | | -446 | -90 | 4,181 | 3,645 |
| Equity at 30 June 2015 | 4,050 | 3,687 | -110 | 28,386 | 36,013 |

| Jan–Dec 2014 SEK m | Share capital* | Hedge reserve | Translation reserve | Retained earnings | Total |
|--|----------------|---------------|---------------------|-------------------|---------------|
| Equity at 31 December 2013 | 4,050 | -190 | -169 | 23,032 | 26,723 |
| Profit for the year | | | | 6,773 | 6,773 |
| Other comprehensive income ** | | 4,323 | 149 | | 4,472 |
| Total comprehensive income for the year | | 4,323 | 149 | 6,773 | 11,245 |
| Group contributions provided | | | | -7,180 | -7,180 |
| Tax effect on group contributions | | | | 1,580 | 1,580 |
| Equity at 31 December 2014 | 4,050 | 4,133 | -20 | 24,205 | 32,368 |

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

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

** Other comprehensive income consists primarily of the effective portion of the change in the fair value of interest rate swaps and cross-currency interest rate swaps used as hedging instruments in cash flow hedging, which, including the tax effect, decreased by SEK 2,929m compared with the corresponding period of the previous year and amounted to SEK -446m (2,483). This decrease is explained primarily by the change in fair value relating to interest rate swaps in which fixed interest is received and three months interest is paid, a change which has been adversely affected during the period by rising market rates on long maturities. During the corresponding period of the previous year, there was a positive impact on the change in market value as regards interest rate swaps in which fixed interest is received and three months interest is paid, as a result of declining market rates.

Condensed statement of cash flows – Group

| SEK m | Jan-Jun 2015 | Jan-Jun 2014 | Full year 2014 |
|--|---------------|---------------|----------------|
| Operating profit | 5 384 | 4,145 | 8,741 |
| Adjustment for non-cash items in profit/loss | 295 | -6 | 1,356 |
| Paid income tax | -513 | -370 | -343 |
| Change in the assets and liabilities of operating activities | 1,563 | 5,051 | -482 |
| Cash flow from operating activities | 6,729 | 8,820 | 9,272 |
| Cash flow from investing activities | 0 | -1 | 0 |
| Subordinated loan | - | - | -500 |
| Group contribution paid out | -7,180 | -6,670 | -6,670 |
| Cash flow from financing activities | -7,180 | -6,670 | -7,170 |
| Cash flow for the period | -451 | 2,149 | 2,102 |
| Liquid funds at beginning of period | 5,129 | 2,921 | 2,921 |
| Cash flow for the period | -451 | 2,149 | 2,102 |
| Exchange rate differences on liquid funds | -38 | 87 | 106 |
| Liquid funds at end of period | 4,640 | 5,157 | 5,129 |
| <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 | 4,640 | 5,157 | 5,129 |
| Funds in blocked account with banks relating to issuance of covered bonds | 5,000 | 5,000 | 5,019 |
| Loans to credit institutions | 9,640 | 10,157 | 10,148 |

Key figures – Group

| | Jan-Jun 2015 | Jan-Jun 2014 | Full year 2014 |
|--|--------------|--------------|----------------|
| Net interest margin, % | 1.09 | 0.96 | 1.00 |
| C/I ratio before loan losses, % | 9.2 | 15.4 | 14.9 |
| C/I ratio after loan losses, % | 9.1 | 15.5 | 14.6 |
| Return on equity, % | 24.7 | 20.2 | 20.9 |
| Total capital ratio according to CRD IV, % | 66.7 | 60.9 | 67.1 |
| Tier 1 ratio according to CRD IV, % | 42.0 | 40.2 | 42.4 |
| Common equity tier 1 ratio, CRD IV, % | 39.0 | 36.9 | 39.0 |

Segment information

| SEK m | Jan-Jun 2015 | | | Jan-Jun 2014 | | | Full year 2014 | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|----------------|--------------|---------------|
| | Private | Corporate | Group | Private | Corporate | Group | Private | Corporate | Group |
| Net interest income | 4,262 | 1,606 | 5,868 | 3,427 | 1,400 | 4,827 | 7,274 | 2,966 | 10,240 |
| Net fee and commission income | -1 | -1 | -2 | -2 | -1 | -3 | -5 | -2 | -7 |
| Net gains/losses on financial transactions | 43 | 16 | 59 | 58 | 24 | 82 | 5 | 2 | 7 |
| Total income | 4,304 | 1,621 | 5,925 | 3,483 | 1,423 | 4,906 | 7,274 | 2,966 | 10,240 |
| Expenses | -395 | -149 | -544 | -530 | -227 | -757 | -1,072 | -449 | -1,521 |
| Profit before loan losses | 3,909 | 1,472 | 5,381 | 2,953 | 1,196 | 4,149 | 6,202 | 2,517 | 8,719 |
| Net loan losses | 1 | 2 | 3 | -6 | 2 | -4 | 14 | 8 | 22 |
| Operating profit | 3,910 | 1,474 | 5,384 | 2,947 | 1,198 | 4,145 | 6,216 | 2,525 | 8,741 |
| Loans to the public | 698,931 | 347,802 | 1,046,733 | 659,148 | 335,383 | 994,531 | 676,022 | 342,511 | 1,018,533 |

Private market is defined as lending secured by mortgages in single-family or two-family dwellings, 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 2015 | | Jan-Jun 2014 | | Full year 2014 | |
|--------------|--------------|------------------|--------------|------------------|----------------|------------------|
| | Income | Total assets | Income | Total assets | Income | Total assets |
| Sweden | 5,108 | 938,390 | 4,096 | 895,126 | 8,599 | 916,701 |
| Norway | 470 | 70,053 | 517 | 65,381 | 1,014 | 65,748 |
| Denmark | 131 | 28,420 | 103 | 22,012 | 221 | 26,484 |
| Finland | 216 | 49,344 | 190 | 45,796 | 406 | 49,924 |
| Group | 5,925 | 1,086,207 | 4,906 | 1,028,315 | 10,240 | 1,058,857 |

Income statement – Parent company

| SEK m | | Jan-Jun 2015 | Jan-Jun 2014 | Change % | Full year 2014 |
|---|--------|-----------------|-----------------|-------------|-------------------|
| Interest income | | 11,469 | 13,886 | -17 | 26,946 |
| Interest expense | | -5,601 | -9,059 | -38 | -16,706 |
| Net interest income | Note 3 | 5,868 | 4,827 | 22 | 10,240 |
| Fee and commission income | | 8 | 7 | 14 | 14 |
| Fee and commission expense | | -10 | -10 | 0 | -21 |
| Net fee and commission income | | -2 | -3 | -33 | -7 |
| Net gains/losses on financial transactions | Note 4 | 59 | 82 | -28 | 7 |
| Total income | | 5,925 | 4,906 | 21 | 10,240 |
| Staff costs | | -42 | -42 | 0 | -86 |
| Other administrative expenses | Note 5 | -495 | -709 | -30 | -1,422 |
| Depreciation and amortisation | | -7 | -6 | 17 | -13 |
| Total expense | | -544 | -757 | -28 | -1,521 |
| Profit before loan losses | | 5,381 | 4,149 | 30 | 8,719 |
| Net loan losses | Note 6 | 3 | -4 | -175 | 22 |
| Operating profit | | 5,384 | 4,145 | 30 | 8,741 |
| Tax | | -1,203 | -914 | 32 | -1,968 |
| Profit for the period | | 4,181 | 3,231 | 29 | 6,773 |

Statement of comprehensive income – Parent company

| SEK m | | Jan-Jun 2015 | Jan-Jun 2014 | Change % | Full year 2014 |
|--|--|-----------------|-----------------|-------------|-------------------|
| Profit for the period | | 4,181 | 3,231 | 29 | 6,773 |
| Items that may subsequently be reclassified to the income statement | | | | | |
| Cash flow hedges | | -572 | 3,183 | - | 5,543 |
| Translation differences for the period | | -90 | 118 | - | 149 |
| Tax on items that may subsequently be reclassified to the income statement | | | | | |
| – cash flow hedges | | 126 | -700 | - | -1,220 |
| Total comprehensive income for the period | | 3,645 | 5,832 | -38 | 11,245 |

Condensed balance sheet

– Parent company

| SEK m | | 30 Jun 2015 | 31 Dec 2014 | 30 Jun 2014 |
|---|--------|------------------|------------------|------------------|
| Assets | | | | |
| Loans to credit institutions | | 9,640 | 10,148 | 10,157 |
| Loans to the public | Note 7 | 1,046,733 | 1,018,533 | 994,531 |
| Value change of interest-hedged item in portfolio hedge | | 42 | 70 | 90 |
| Derivative instruments | Note 8 | 22,058 | 24,960 | 16,229 |
| Other assets | | 7,734 | 5,146 | 7,308 |
| Total assets | | 1,086,207 | 1,058,857 | 1,028,315 |
| Liabilities and equity | | | | |
| Due to credit institutions | | 440,673 | 405,074 | 375,650 |
| Issued securities | Note 9 | 574,321 | 579,485 | 582,482 |
| Derivative instruments | Note 8 | 3,898 | 4,063 | 5,228 |
| Other liabilities | | 10,602 | 17,167 | 11,200 |
| Subordinated liabilities | | 20,700 | 20,700 | 21,200 |
| Total liabilities | | 1,050,194 | 1,026,489 | 995,760 |
| Equity | | 36,013 | 32,368 | 32,555 |
| Total liabilities and equity | | 1,086,207 | 1,058,857 | 1,028,315 |
| Memorandum items | | | | |
| Assets pledged for own debt * | | 616,357 | 628,244 | 624,878 |
| Other pledged assets | | 0 | None | None |
| Contingent liabilities | | None | None | None |
| Commitments | | 3,282 | 2,164 | 1,477 |

* Assets pledged for own debt refers to collateral for covered bonds, which comprises loans against mortgages in single-family housing, 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 – Interim Financial Reporting. 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.

On 1 January 2015, the interpretative communication IFRIC 21 Levies came into effect in the EU. This regulatory change has not had a material impact on the Group's financial position and earnings, nor has it had any impact on capital adequacy.

In all other respects, 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 2014.

REGULATORY CHANGES

IFRS 9 Financial Instruments, which is to replace IAS 39 Financial Instruments: Recognition and Measurement, was adopted by the IASB in July 2014. Provided that IFRS 9 is adopted by the EU, and the date proposed by the IASB for its coming into effect is not changed, the standard will be applied as of the 2018 financial year. The standard covers three areas: classification and measurement, impairment, and general hedge accounting. Stadshypotek is working to analyse the financial

effects of the new standard in greater detail.

Further, IFRS 15 Revenue from contracts with customers has been adopted by the IASB. Provided that IFRS 15 is adopted by the EU, and the date proposed by the IASB for its coming into effect is not changed, the standard will be applied as of the 2017 financial year. Stadshypotek is working to analyse the financial effects of the new standard in greater detail.

None of the other changes in the accounting regulations issued for application are expected to have a material impact on Stadshypotek's financial reports, capital adequacy, major exposures or other circumstances covered by applicable operating regulations.

NOTE 2 Other disclosures

RISKS AND UNCERTAINTY FACTORS

The situation with regard to regulatory developments continues to evolve rapidly. Stadshypotek's historically low tolerance of risk, sound capitalisation and, as a part of the Handelsbanken Group, its strong liquidity situation mean that the company is well equipped to operate under the new, stricter regulations and also under substantially more difficult market conditions than those experienced during the last few years.

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 financial markets. The market risks affecting Stadshypotek are interest rate risk and exchange rate risk. At 30 June 2015, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -364m (-468). 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 are based on the policies that the Board of Handelsbanken has adopted for managing and reporting risks within the Handelsbanken Group as a whole. Stadshypotek's risk management aims to ensure compliance with the strict approach to risk established by its Board.

Stadshypotek's lending operations are integrated with those of Handelsbanken, which, among other things, means that Stadshypotek's lending is carried out via the Bank's branch network. Further, Stadshypotek's funding is handled by Handelsbanken's Treasury Department. A collaboration agreement regulates the overall relationship between the parties and individual outsourcing agreements 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 characterised by a clear division of responsibility where each part of the business operations bears full responsibility for its business and for risk management. The person who is most familiar with the customer and the market conditions is the person best equipped to assess the risk and also take action at an early stage in the event of problems. Each branch and each

profit centre bears the responsibility for dealing with any problems that arise. This provides strong incentives for high risk awareness and a cautious approach in the 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. With regard to market risk and liquidity risk, the corresponding procedures at Stadshypotek consist of limits set by the company's Board designed to limit these risks.

Stadshypotek also has risk control independent of business operations which is responsible for the regular follow-up and monitoring of all risks applying to operations, primarily credit risk, market risk, liquidity risk 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, whose task is to identify the Handelsbanken Group's risks,

NOTE 2 Other disclosures, cont.

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 complies with the requirement of a liquidity reserve in accordance with regulations issued by the Swedish Financial Supervisory Authority, FFFS 2010:7, regarding the management and disclosure of liquidity risks in credit institutions and securities companies. According to the agreement, Handelsbanken undertakes to continuously

provide Stadshypotek with liquidity support in the form of liquid assets that can be used without delay in order to secure Stadshypotek's short-term payment capacity in the event that Stadshypotek loses access to or experiences a reduction in those funding sources normally available to the company. Handelsbanken's commitment is equivalent to the liquidity demands that can be made on Stadshypotek for it to be able to withstand serious liquidity strain without changing its business model. The size of the guaranteed amount is set and reported to Stadshypotek at the end of every month.

Stadshypotek's liquidity situation is regularly stress-tested. The stress tests focus on the short-term effects based on 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 REQUIREMENT

On 8 September 2014, following the Riksdag's decision on 26 June 2014 regarding strengthened capital adequacy regulations, the Swedish Financial Supervisory Authority published a memorandum on the structure of the new capital requirements for Swedish credit companies.

The memorandum stated that the risk weight floor for Swedish mortgage loans within Pillar 2 is increased to 25%. The Swedish Financial Supervisory Authority has also included a risk weight floor for Norwegian exposures. The counter-cyclical capital buffer is currently set at 1% for Swedish exposures, and applies from 13 September 2015. The Swedish Financial Supervisory Authority has decided to increase the capital buffer to 1.5% as of 27 June 2016.

Stadshypotek's assessment is that the company is well-capitalised, even when taking future regulations into account.

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 2015 | Jan-Jun 2014 | Change % | Full year 2014 |
|---------------------------------------|-----------------|-----------------|-------------|-------------------|
| Interest income | | | | |
| Loans to the public | 11,370 | 13,762 | -17 | 26,709 |
| Loans to credit institutions | 99 | 124 | -20 | 237 |
| Total | 11,469 | 13,886 | -17 | 26,946 |
| Interest expense | | | | |
| Due to credit institutions | -1,250 | -2,173 | -42 | -4,056 |
| Issued securities | -5,430 | -7,211 | -25 | -13,636 |
| Subordinated liabilities | -253 | -320 | -21 | -611 |
| Derivative instruments* | 1,435 | 757 | 90 | 1,802 |
| Fee to the Swedish Stabilisation Fund | -103 | -112 | -8 | -203 |
| Other | 0 | 0 | 0 | -2 |
| Total | -5,601 | -9,059 | -38 | -16,706 |
| Net interest income | 5,868 | 4,827 | 22 | 10,240 |

* 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 expense.

NOTE 4 Net gains/losses on financial transactions

| SEK m | Jan-Jun 2015 | Jan-Jun 2014 | Change % | Full year 2014 |
|---|-----------------|-----------------|-------------|-------------------|
| Hedge accounting | -75 | -57 | 32 | -101 |
| <i>of which fair value hedges</i> | -77 | -55 | 40 | -99 |
| <i>of which ineffective portion of cash flow hedges</i> | 2 | -2 | - | -2 |
| Loans, valued at cost | 160 | 122 | 31 | 304 |
| Financial liabilities, valued at cost | -155 | -106 | 46 | -408 |
| Derivatives not recognised as hedges | 128 | 99 | 29 | 188 |
| Other | 1 | 24 | -96 | 24 |
| Total | 59 | 82 | -28 | 7 |

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 this hedge accounting. Interest income and interest expense for hedging instruments are recognised under net interest income. Changes in the value of hedging instruments in cash flow hedges which exceed the changes in the value of hedged future cash flows are recognised under 'ineffective portion of cash flow hedges'. 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 2015 | Jan-Jun 2014 | Change % | Full year 2014 |
|----------------------|-----------------|-----------------|-------------|-------------------|
| Cost of premises | -3 | -4 | -25 | -7 |
| IT costs | -59 | -61 | -3 | -117 |
| Communication | 0 | 0 | 0 | -1 |
| Travel and marketing | -2 | -2 | 0 | -3 |
| Purchased services | -421 | -634 | -34 | -1,277 |
| Supplies | 0 | 0 | 0 | 0 |
| Other expenses | -10 | -8 | 25 | -17 |
| Total | -495 | -709 | -30 | -1,422 |

NOTE 6 Loan losses

| SEK m | Jan-Jun 2015 | Jan-Jun 2014 | Change % | Full year 2014 |
|---|-----------------|-----------------|-------------|-------------------|
| Specific provision for individually assessed loans | | | | |
| Provisions for the period | -7 | -7 | 0 | -22 |
| Reversal of previous provisions | 3 | 4 | -25 | 7 |
| Total | -4 | -3 | 33 | -15 |
| Collective provision | | | | |
| Collective provision for individually assessed loans | 1 | 1 | 0 | 1 |
| Write-offs | | | | |
| Actual loan losses for the period | -24 | -33 | -27 | -50 |
| Utilised share of previous provisions | 12 | 17 | -29 | 20 |
| Reversal of actual loan losses in previous years | 18 | 14 | 29 | 66 |
| Total | 6 | -2 | - | 36 |
| Net loan losses | 3 | -4 | - | 22 |

| Impaired loans SEK m | 30 Jun 2015 | 31 Dec 2014 | 30 Jun 2014 |
|--|----------------|----------------|----------------|
| Impaired loans | 146 | 175 | 247 |
| Specific provision for individually assessed loans | -35 | -43 | -34 |
| Collective provision for individually assessed loans | -4 | -4 | -4 |
| Net impaired loans | 107 | 128 | 209 |
| Proportion of impaired loans, % | 0.01 | 0.01 | 0.02 |
| Reserve ratio for impaired loans, % | 24.0 | 24.4 | 13.6 |
| Loan loss ratio, % | -0.00 | -0.00 | 0.00 |
| Non-performing loans which are not impaired loans | 509 | 607 | 708 |

NOTE 7 Loans to the public

| Loans to the public, by borrower category | 30 Jun 2015 | | | 31 Dec 2014 | | | 30 Jun 2014 | | |
|---|----------------------------|---|---------------------------|----------------------------|---|---------------------------|----------------------------|---|---------------------------|
| | 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 | 735,501 | -24 | 735,477 | 709,974 | -29 | 709,945 | 690,239 | -22 | 690,217 |
| Public sector, municipal companies | 33,055 | - | 33,055 | 35,492 | - | 35,492 | 33,305 | - | 33,305 |
| Housing co-operative associations | 145,045 | -7 | 145,038 | 139,948 | -9 | 139,939 | 136,205 | -9 | 136,196 |
| Other legal entities | 133,171 | -4 | 133,167 | 133,166 | -5 | 133,161 | 134,820 | -3 | 134,817 |
| Total loans to the public, before collective provision | 1,046,772 | -35 | 1,046,737 | 1,018,580 | -43 | 1,018,537 | 994,569 | -34 | 994,535 |
| Collective provision | | -4 | -4 | | -4 | -4 | | -4 | -4 |
| Total loans to the public | 1,046,772 | -39 | 1,046,733 | 1,018,580 | -47 | 1,018,533 | 994,569 | -38 | 994,531 |
| of which in operations outside Sweden | | | | | | | | | |
| Households | 102,808 | - | 102,808 | 98,933 | - | 98,933 | 96,329 | - | 96,329 |
| Public sector, municipal companies | 11,472 | - | 11,472 | 11,424 | - | 11,424 | 9,027 | - | 9,027 |
| Housing co-operative associations | 24,129 | - | 24,129 | 22,091 | - | 22,091 | 19,683 | - | 19,683 |
| Other legal entities | 6,196 | - | 6,196 | 6,677 | - | 6,677 | 6,429 | - | 6,429 |
| Total loans to the public in operations outside Sweden | 144,605 | - | 144,605 | 139,125 | - | 139,125 | 131,468 | - | 131,468 |

| Loans to the public, by type of collateral | 30 Jun 2015 | | | 31 Dec 2014 | | | 30 Jun 2014 | | |
|---|----------------------------|---|---------------------------|----------------------------|---|---------------------------|----------------------------|---|---------------------------|
| | 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 | 511,881 | -23 | 511,858 | 499,306 | -29 | 499,277 | 490,495 | -21 | 490,474 |
| Housing co-operative apartments | 170,909 | - | 170,909 | 160,422 | -1 | 160,421 | 153,122 | - | 153,122 |
| Owner-occupied apartments | 16,164 | - | 16,164 | 16,324 | - | 16,324 | 15,556 | - | 15,556 |
| Private market | 698,954 | -23 | 698,931 | 676,052 | -30 | 676,022 | 659,173 | -21 | 659,152 |
| Multi-family dwellings | 275,810 | -12 | 275,798 | 269,843 | -11 | 269,832 | 261,808 | -13 | 261,795 |
| Offices and commercial buildings | 72,008 | - | 72,008 | 72,685 | -2 | 72,683 | 73,588 | - | 73,588 |
| Corporate market | 347,818 | -12 | 347,806 | 342,528 | -13 | 342,515 | 335,396 | -13 | 335,383 |
| Total loans to the public, before collective provision | 1,046,772 | -35 | 1,046,737 | 1,018,580 | -43 | 1,018,537 | 994,569 | -34 | 994,535 |
| Collective provision | | -4 | -4 | | -4 | -4 | | -4 | -4 |
| Total loans to the public | 1,046,772 | -39 | 1,046,733 | 1,018,580 | -47 | 1,018,533 | 994,569 | -38 | 994,531 |
| of which in operations outside Sweden | | | | | | | | | |
| Single-family housing | 81,223 | - | 81,223 | 77,743 | - | 77,743 | 77,280 | - | 77,280 |
| Housing co-operative apartments | 4,448 | - | 4,448 | 4,218 | - | 4,218 | 4,449 | - | 4,449 |
| Owner-occupied apartments | 16,164 | - | 16,164 | 16,324 | - | 16,324 | 15,556 | - | 15,556 |
| Private market | 101,835 | - | 101,835 | 98,285 | - | 98,285 | 97,285 | - | 97,285 |
| Multi-family dwellings | 42,480 | - | 42,480 | 40,315 | - | 40,315 | 33,735 | - | 33,735 |
| Offices and commercial buildings | 290 | - | 290 | 525 | - | 525 | 448 | - | 448 |
| Corporate market | 42,770 | - | 42,770 | 40,840 | - | 40,840 | 34,183 | - | 34,183 |
| Total loans to the public in operations outside Sweden | 144,605 | - | 144,605 | 139,125 | - | 139,125 | 131,468 | - | 131,468 |

Note 7 Loans to the public, cont.

| Non-performing loans, by borrower category | 30 Jun 2015 | | 31 Dec 2014 | | 30 Jun 2014 | |
|--|---|---|---|---|---|---|
| | 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 | 452 | 85 | 545 | 71 | 624 | 59 |
| Public sector, municipal companies | - | - | - | - | - | - |
| Housing co-operative associations | 1 | - | 1 | 5 | 1 | - |
| Other legal entities | 56 | 17 | 61 | 52 | 83 | 136 |
| Total | 509 | 102 | 607 | 128 | 708 | 195 |
| of which in operations outside Sweden | | | | | | |
| Households | 89 | 3 | 115 | 12 | 99 | 11 |
| Public sector, municipal companies | - | - | - | - | - | - |
| Housing co-operative associations | - | - | - | - | - | - |
| Other legal entities | 15 | 2 | 30 | 1 | 16 | - |
| Total non-performing loans in operations outside Sweden | 104 | 5 | 145 | 13 | 115 | 11 |

| Non-performing loans, by type of collateral | 30 Jun 2015 | | 31 Dec 2014 | | 30 Jun 2014 | |
|--|---|---|---|---|---|---|
| | 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 | 351 | 79 | 440 | 76 | 520 | 58 |
| Housing co-operative apartments | 51 | 11 | 71 | 2 | 89 | 4 |
| Owner-occupied apartments | 36 | 1 | 50 | 0 | 32 | 1 |
| Private market | 438 | 91 | 561 | 78 | 641 | 63 |
| Multi-family dwellings | 30 | 11 | 24 | 8 | 32 | 78 |
| Offices and commercial buildings | 41 | 0 | 22 | 42 | 35 | 54 |
| Corporate market | 71 | 11 | 46 | 50 | 67 | 132 |
| Total | 509 | 102 | 607 | 128 | 708 | 195 |
| of which in operations outside Sweden | | | | | | |
| Single-family housing | 67 | 4 | 92 | 13 | 80 | 10 |
| Housing co-operative apartments | 1 | - | 3 | - | 3 | - |
| Owner-occupied apartments | 36 | 1 | 50 | 0 | 32 | 1 |
| Private market | 104 | 5 | 145 | 13 | 115 | 11 |
| Multi-family dwellings | - | - | - | - | - | - |
| Offices and commercial buildings | - | - | - | - | - | - |
| Corporate market | - | - | - | - | - | - |
| Total non-performing loans in operations outside Sweden | 104 | 5 | 145 | 13 | 115 | 11 |

Note 7 Loans to the public, cont.

| Impaired loans, by borrower category | 30 Jun 2015 | | | 31 Dec 2014 | | | 30 Jun 2014 | | |
|--|-------------------|--|-----------------------|-------------------|--|-----------------------|-------------------|--|-----------------------|
| | 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 | 108 | -24 | 84 | 96 | -30 | 66 | 86 | -22 | 64 |
| Public sector, municipal companies | - | - | - | - | - | - | - | - | - |
| Housing co-operative associations | 21 | -7 | 14 | 26 | -8 | 18 | 26 | -9 | 17 |
| Other legal entities | 17 | -4 | 13 | 53 | -5 | 48 | 135 | -3 | 132 |
| Total | 146 | -35 | 111 | 175 | -43 | 132 | 247 | -34 | 213 |
| of which in operations outside Sweden | | | | | | | | | |
| Households | 3 | 0 | 3 | 12 | 0 | 12 | 11 | 0 | 11 |
| Public sector, municipal companies | - | - | - | - | - | - | - | - | - |
| Housing co-operative associations | - | - | - | - | - | - | - | - | - |
| Other legal entities | 2 | 0 | 2 | 1 | 0 | 1 | - | - | - |
| Total impaired loans in operations outside Sweden | 5 | 0 | 5 | 13 | 0 | 13 | 11 | 0 | 11 |

| Impaired loans, by type of collateral | 30 Jun 2015 | | | 31 Dec 2014 | | | 30 Jun 2014 | | |
|--|-------------------|--|-----------------------|-------------------|--|-----------------------|-------------------|--|-----------------------|
| | 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 | 101 | -23 | 78 | 101 | -30 | 71 | 83 | -21 | 62 |
| Housing co-operative apartments | 12 | 0 | 12 | 3 | 0 | 3 | 4 | 0 | 4 |
| Owner-occupied apartments | 1 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 1 |
| Private market | 114 | -23 | 91 | 104 | -30 | 74 | 88 | -21 | 67 |
| Multi-family dwellings | 32 | -12 | 20 | 30 | -11 | 19 | 104 | -13 | 91 |
| Offices and commercial buildings | 0 | 0 | 0 | 41 | -2 | 39 | 55 | 0 | 55 |
| Corporate market | 32 | -12 | 20 | 71 | -13 | 58 | 159 | -13 | 146 |
| Total | 146 | -35 | 111 | 175 | -43 | 132 | 247 | -34 | 213 |
| of which in operations outside Sweden | | | | | | | | | |
| Single-family housing | 4 | 0 | 4 | 13 | 0 | 13 | 10 | 0 | 10 |
| Housing co-operative apartments | - | - | - | - | - | - | - | - | - |
| Owner-occupied apartments | 1 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 1 |
| Private market | 5 | 0 | 5 | 13 | 0 | 13 | 11 | 0 | 11 |
| Multi-family dwellings | - | - | - | - | - | - | - | - | - |
| Offices and commercial buildings | - | - | - | - | - | - | - | - | - |
| Corporate market | - | - | - | - | - | - | - | - | - |
| Total impaired loans in operations outside Sweden | 5 | 0 | 5 | 13 | 0 | 13 | 11 | 0 | 11 |

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

NOTE 8 Derivative instruments

| SEK m | Market value 30 Jun 2015 | Market value 31 Dec 2014 | Market value 30 Jun 2014 |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Positive values | | | |
| Interest rate-related contracts | 11,762 | 14,475 | 12,596 |
| Currency-related contracts | 10,296 | 10,485 | 3,633 |
| Total | 22,058 | 24,960 | 16,229 |
| Negative values | | | |
| Interest rate-related contracts | 1,792 | 2,375 | 2,681 |
| Currency-related contracts | 2,106 | 1,688 | 2,547 |
| Total | 3,898 | 4,063 | 5,228 |
| Net | 18,160 | 20,897 | 11,001 |

NOTE 9 Issued securities

| SEK m | 30 Jun 2015 | 30 Jun 2014 |
|---|----------------|----------------|
| Issued securities at beginning of period | 579,485 | 572,746 |
| Issued | 82,449 | 104,207 |
| Repurchased | -25,169 | -42,660 |
| Matured | -56,487 | -51,381 |
| Price differences, exchange rate effects, etc. | -5,957 | -430 |
| Issued securities at end of period | 574,321 | 582,482 |

NOTE 10 Classification of financial assets and liabilities

| 30 Jun 2015 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 |
|---|--------------------------|--|---|--|-------------------------------------|------------------|------------------|
| Assets | | | | | | | |
| Loans to credit institutions | 9,640 | | | | | 9,640 | 9,640 |
| Loans to the public | 1,046,733 | | | | | 1,046,733 | 1,057,066 |
| Value change of interest- hedged item in portfolio hedge | 42 | | | | | 42 | |
| Derivative instruments | | 139 | 21,919 | | | 22,058 | 22,058 |
| Other assets | 7,713 | | | | 21 | 7,734 | 7,734 |
| Total assets | 1,064,128 | 139 | 21,919 | | 21 | 1,086,207 | 1,096,498 |
| Liabilities | | | | | | | |
| Due to credit institutions | | | | 440,673 | | 440,673 | 441,825 |
| Issued securities | | | | 574,321 | | 574,321 | 586,652 |
| Derivative instruments | | 176 | 3,722 | | | 3,898 | 3,898 |
| Other liabilities | | | | 8,851 | 1,751 | 10,602 | 10,602 |
| Subordinated liabilities | | | | 20,700 | | 20,700 | 22,313 |
| Total liabilities | | 176 | 3,722 | 1,044,545 | 1,751 | 1,050,194 | 1,065,290 |

| 31 Dec 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 |
|---|--------------------------|--|---|--|-------------------------------------|------------------|------------------|
| Assets | | | | | | | |
| Loans to credit institutions | 10,148 | | | | | 10,148 | 10,148 |
| Loans to the public | 1,018,533 | | | | | 1,018,533 | 1,030,415 |
| Value change of interest- hedged item in portfolio hedge | 70 | | | | | 70 | |
| Derivative instruments | | 751 | 24,209 | | | 24,960 | 24,960 |
| Other assets | 5,098 | | | | 48 | 5,146 | 5,146 |
| Total assets | 1,033,849 | 751 | 24,209 | | 48 | 1,058,857 | 1,070,669 |
| Liabilities | | | | | | | |
| Due to credit institutions | | | | 405,074 | | 405,074 | 406,208 |
| Issued securities | | | | 579,485 | | 579,485 | 594,239 |
| Derivative instruments | | 242 | 3,821 | | | 4,063 | 4,063 |
| Other liabilities | | | | 16,001 | 1,166 | 17,167 | 17,167 |
| Subordinated liabilities | | | | 20,700 | | 20,700 | 22,553 |
| Total liabilities | | 242 | 3,821 | 1,021,260 | 1 166 | 1,026,489 | 1,044,230 |

NOTE 11 Fair value measurement of financial instruments

| 30 Jun 2015 SEK m | Level 1 | Level 2 | Level 3 | Total |
|---|----------|---------------|----------|---------------|
| Assets | | | | |
| Derivative instruments | - | 22,058 | - | 22,058 |
| Total financial assets measured at fair value | - | 22,058 | - | 22,058 |
| Liabilities | | | | |
| Derivative instruments | - | 3,898 | - | 3,898 |
| Total financial liabilities measured at fair value | - | 3,898 | - | 3,898 |

| 31 Dec 2014 SEK m | Level 1 | Level 2 | Level 3 | Total |
|---|----------|---------------|----------|---------------|
| Assets | | | | |
| Derivative instruments | - | 24,960 | - | 24,960 |
| Total financial assets measured at fair value | - | 24,960 | - | 24,960 |
| Liabilities | | | | |
| Derivative instruments | - | 4,063 | - | 4,063 |
| Total financial liabilities measured at fair value | - | 4,063 | - | 4,063 |

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 ask 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 derivatives 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 2015 | 31 Dec 2014 | 30 Jun 2014 |
|---|----------------|----------------|----------------|
| BALANCE SHEET | | | |
| Group claims | | | |
| Loans to credit institutions | 9,640 | 10,148 | 10,157 |
| Derivative instruments | 22,056 | 24,956 | 16,224 |
| Other assets | 76 | 53 | 77 |
| Total | 31,772 | 35,157 | 26,458 |
| Group liabilities | | | |
| Due to credit institutions | 440,673 | 405,074 | 375,620 |
| Derivative instruments | 3,898 | 4,063 | 5,227 |
| Other liabilities | 511 | 7,735 | 764 |
| Subordinated liabilities | 20,700 | 20,700 | 21,200 |
| Total | 465,782 | 437,572 | 402,811 |
| INCOME STATEMENT | | | |
| Interest income | 101 | 232 | 124 |
| Interest expense | -1,506 | -4,664 | -2,491 |
| Fee and commission expense | 0 | 0 | -1 |
| Other administrative expenses | -477 | -1,392 | -693 |
| Total | -1,882 | -5,824 | -3,061 |

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 in Sweden are run via Handelsbanken's Swedish branch operations, while 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 exceeding a specific 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, relate primarily to sales remuneration, 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.

Own funds and capital requirements

Figures reported in this section refer to the minimum capital requirements under Pillar 1. On 1 January 2014, the European Capital Requirements Regulation (CRR) came into force and on 2 August, CRD IV was implemented in Sweden. Own funds and capital requirements are calculated in accordance with the new EU regulations.

| Own funds SEK m | 30 Jun 2015 | 31 Dec 2014 | 30 Jun 2014 |
|---|--------------------|--------------------|--------------------|
| Equity | 36,013 | 32,368 | 32,555 |
| Deduction for the period's profit | -4,181 | - | -3,231 |
| Deduction for intangible assets | -21 | -28 | -34 |
| Value adjustments (fair value) | 0 | | |
| Adjustment for cash flow hedges | -3,687 | -4,134 | -2,293 |
| Special deduction for IRB institutions | -221 | -243 | -253 |
| Common equity tier 1 capital | 27,903 | 27,963 | 26,744 |
| Tier 1 capital contributions | 2,100 | 2,400 | 2,400 |
| Tier 1 capital | 30,003 | 30,363 | 29,144 |
| Perpetual subordinated loans | 5,300 | 5,300 | 5,300 |
| Dated subordinated loans | 12,400 | 12,400 | 9,755 |
| Tier 2 capital | 17,700 | 17,700 | 15,055 |
| Own funds | 47,703 | 48,063 | 44,199 |
| Capital requirements SEK m | 30 Jun 2015 | 31 Dec 2014 | 30 Jun 2014 |
| Credit risk according to standardised approach | 38 | 49 | 42 |
| Credit risk according to IRB approach | 4,475 | 4,651 | 4,732 |
| Operational risk | 1,205 | 1,032 | 1,032 |
| Total capital requirements | 5,718 | 5,732 | 5,806 |
| Adjustment according to Basel I floor | 34,953 | 33,703 | 32,771 |
| Capital requirements Basel I floor | 40,671 | 39,435 | 38,577 |
| Total own funds, Basel 1 floor | 47,923 | 48,307 | 44,452 |
| Capital adequacy analysis | 30 Jun 2015 | 31 Dec 2014 | 30 Jun 2014 |
| Common equity tier 1 ratio, CRD IV | 39.0% | 39.0% | 36.9% |
| Tier 1 ratio, CRD IV | 42.0% | 42.4% | 40.2% |
| Total capital ratio, CRD IV | 66.7% | 67.1% | 60.9% |
| Risk exposure amount CRD IV, SEK m | 71,475 | 71,648 | 72,569 |
| Own funds in relation to capital requirement according to Basel I floor | 118% | 122% | 115% |
| Institution-specific buffer requirement | 2.5% | 2.5% | |
| <i>of which capital conservation buffer requirement</i> | 2.5% | 2.5% | |
| Common equity tier 1 capital available for use as a buffer | 34.5% | 34.5% | |

Credit risks

| Credit risks IRB SEK m | Exposure amount | | Average risk weight % | | Capital requirement | |
|--|------------------|----------------|-----------------------|-------------|---------------------|--------------|
| | 30 Jun 2015 | 31 Dec 2014 | 30 Jun 2015 | 31 Dec 2014 | 30 Jun 2015 | 31 Dec 2014 |
| Corporate | 293,967 | 288,301 | 7.1 | 7.7 | 1,668 | 1,777 |
| <i>of which repos and securities loans</i> | - | - | - | - | - | - |
| <i>of which other lending, foundation approach</i> | 776 | 486 | 8.0 | 7.6 | 5 | 3 |
| <i>of which other lending, advanced approach</i> | 293,191 | 287,815 | 7.1 | 7.7 | 1,663 | 1,774 |
| - Large corporates | 268 | 302 | 43.8 | 46.7 | 9 | 11 |
| - Medium-sized companies | 8,521 | 7,616 | 22.0 | 22.6 | 150 | 138 |
| - Property companies | 145,051 | 145,250 | 10.4 | 11.4 | 1,211 | 1,322 |
| - Housing co-operative associations | 139,351 | 134,647 | 2.6 | 2.8 | 293 | 303 |
| Retail | 712,719 | 688,825 | 4.9 | 5.2 | 2,807 | 2,874 |
| <i>of which Private individuals</i> | 706,145 | 682,189 | 4.8 | 5.1 | 2,726 | 2,787 |
| <i>of which Small companies</i> | 6,574 | 6,636 | 15.4 | 16.4 | 81 | 87 |
| Total IRB | 1,006,686 | 977,126 | 5.2 | 6.0 | 4,475 | 4,651 |

| Capital requirements credit risks, Standardised approach* | 30 Jun 2015 | | | 31 Dec 2014 | | |
|--|----------------|-----------------------|---------------------|----------------|-----------------------|---------------------|
| | Exposure value | Average risk weight % | Capital requirement | Exposure value | Average risk weight % | Capital requirement |
| Sovereign and central banks | 4,777 | 0.0 | 0 | 5,160 | 0.0 | 0 |
| Municipalities | 31,692 | 0.0 | 0 | 32,262 | 0.0 | 0 |
| Institutions | 47,044 | 0.0 | 0 | 49,202 | 0.0 | 0 |
| Corporate | 3 | 100.0 | 0 | 45 | 100.0 | 4 |
| Retail | 0 | 75.0 | 0 | 15 | 75.0 | 1 |
| Past due items | 0 | 0.0 | 0 | 3 | 0.0 | 0 |
| Other items | 470 | 100.0 | 38 | 550 | 100.0 | 44 |
| Total | 83,986 | 0.6 | 38 | 87,237 | 0.7 | 49 |

* Details of capital requirements for exposure classes where there are exposures.

We hereby confirm that this interim 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, 20 July 2015

Yonnie Bergqvist
Chairman

Michael Bertorp

Michael Green

Olof Lindstrand

Monica Morén
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 2015 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

Engagements 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. 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, 20 July 2015

KPMG AB
Anders Bäckström
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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