

Interim Report

January-June

2018

Stadshypotek's Interim Report

January-June 2018

Income totalled
SEK 6,823m (6,370).

Operating profit rose by
SEK 406m and amounted to
SEK 6,223m (5,817).

Loan losses, including provisions
made under IFRS 9, totalled
SEK -14m (2).

Profit after tax totalled
SEK 4,853m (4,507).

Loans to the public increased by 8%,
or SEK 90bn, to SEK 1,273bn (1,183).

Expenses before loan losses
increased by SEK 31m and amounted
to SEK -586m (-555).

Stadshypotek's Interim Report January–June 2018

JANUARY–JUNE 2018 COMPARED WITH JANUARY–JUNE 2017

Stadshypotek's operating profit increased by 7%, or SEK 406m, to SEK 6,223m (5,817). Net interest income grew by SEK 464m to SEK 6,841m (6,377), mainly due to higher lending volumes to the private market in Sweden. Of the net interest income, SEK 465m (409) was attributable to the branch in Norway, SEK 211m (190) to the branch in Finland and SEK 242m (208) to the branch in Denmark. Excluding the branches, net interest income increased by SEK 296m. Net gains/losses on financial transactions decreased to SEK -5m (6).

Expenses increased by SEK 31m to SEK -586m (-555). This increase was mainly attributable to the higher sales compensation paid to the parent company for the services performed by the branch office operations on behalf of Stadshypotek in relation to the administration and sale of mortgage loans. The increase can also be explained by higher costs for, above all, IT development.

Loan losses totalled SEK -14m (2), calculated in accordance with the new reporting standard IFRS 9.

LENDING

Compared with the end of the corresponding period of the previous year, loans to the public increased by 8%, or SEK 90bn, to SEK 1,273bn (1,183). In Sweden, loans to the public increased by 7%, or SEK 67bn, to SEK 1,084bn (1,017). Loans to the private market in Sweden increased by 7%, or SEK 45bn, to SEK 737bn (692).

The credit quality of lending operations remains very good. At 30 June 2018, Stadshypotek's impaired loans, before deduction of the provision for probable loan losses, amounted to SEK 130m (122). Of this amount, non-performing loans accounted for SEK 58m (57), while SEK 72m (65) related to loans on which the borrowers pay interest and amortisation. There were also non-performing loans of SEK 294m (281) that are not classed as impaired loans.

FUNDING

Issues made under Stadshypotek's Swedish covered bond programme totalled SEK 71.3bn (49.9) for the first six months of the year. A nominal volume totalling SEK 76.6bn matured or was repurchased. In addition, there have been issues of EUR 200m (500), GBP 650m and NOK 5bn, while bonds to the value of EUR 1bn, USD 1.25bn and NOK 4.5bn have matured.

CAPITAL ADEQUACY

The total capital ratio according to CRD IV was 52.8% (55.8) while the common equity tier 1 ratio calculated according to CRD IV was 31.3% (33.2). Further information on capital adequacy is provided in the 'Own funds and capital requirement' section on page 22.

RATING

The 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

SEK m		Jan-Jun 2018	Jan-Jun 2017	Change %	Full year 2017
Interest income		10,152	10,084	1	20,210
Interest expense		-3,311	-3,707	-11	-6,853
Net interest income	Note 3	6,841	6,377	7	13,357
Fee and commission income		7	6	17	12
Fee and commission expense		-20	-19	5	-38
Net fee and commission income		-13	-13	0	-26
Net gains/losses on financial transactions	Note 4	-5	6	-	42
Total income		6,823	6,370	7	13,373
Staff costs		-46	-59	-22	-116
Other administrative expenses	Note 5	-538	-493	9	-1,012
Depreciation and amortisation		-2	-3	-33	-6
Total expenses		-586	-555	6	-1,134
Profit before loan losses		6,237	5,815	7	12,239
Net loan losses	Note 6	-14	2	-	10
Operating profit		6,223	5,817	7	12,249
Taxes		-1,370	-1,310	5	-2,706
Profit for the period		4,853	4,507	8	9,543
Net earnings per share, before and after dilution, SEK		29,956	27,820	8	58,905

Statement of comprehensive income

SEK m		Jan-Jun 2018	Jan-Jun 2017	Change %	Full year 2017
Profit for the period		4,853	4,507	8	9,543
Other comprehensive income					
Items that may subsequently be reclassified to the income statement					
Cash flow hedges		-139	-1,458	-90	-2,391
Translation differences for the period		669	-129	-	-44
Tax on items that may subsequently be reclassified to the income statement <i>of which cash flow hedges</i>		31	321	-90	526
Total comprehensive income for the period		5,414	3,241	67	7,634

Half-yearly performance

SEK m	Jan-Jun 2018	Jul-Dec 2017	Jan-Jun 2017	Jul-Dec 2016	Jan-Jun 2016
Interest income	10,152	10,125	10,084	10,153	10,142
Interest expense	-3,311	-3,146	-3,707	-3,825	-4,108
Net interest income	6,841	6,979	6,377	6,328	6,034
Net fee and commission income	-13	-13	-13	-15	-14
Net gains/losses on financial transactions	-5	36	6	39	43
Total income	6,823	7,002	6,370	6,352	6,063
Staff costs	-46	-57	-59	-46	-48
Other administrative expenses	-538	-519	-493	-480	-467
Depreciation and amortisation	-2	-3	-3	-3	-3
Total expenses	-586	-579	-555	-529	-518
Profit before loan losses	6,237	6,423	5,815	5,823	5,545
Net loan losses	-14	8	2	-7	5
Operating profit	6,223	6,431	5,817	5,816	5,550

Balance sheet

SEK m		30 Jun 2018	31 Dec 2017	30 Jun 2017
Assets				
Loans to credit institutions		11,024	12,565	11,213
Loans to the public	Note 7	1,272,774	1,222,456	1,182,810
Value change of interest-hedged item in portfolio hedge		37	36	33
Shares and participating interests in Group companies		0	0	0
Assets where the customer bears the value change risk		10	10	-
Derivative instruments	Note 8	21,562	16,895	16,988
Intangible assets		4	6	9
Property and equipment		0	0	1
Current tax assets		0	3	0
Other assets		1,508	3,143	2,968
Prepaid expenses and accrued income		598	1,337	1,704
Total assets		1,307,517	1,256,451	1,215,726
<i>of which Group claims</i>	Note 14	32,668	29,515	28,300
Liabilities and equity				
Due to credit institutions		620,883	557,742	565,093
Liabilities where the customer bears the value change risk		10	10	-
Issued securities	Note 9	623,553	621,958	579,744
Derivative instruments	Note 8	2,186	3,697	4,864
Current tax liability		1,282	341	1,326
Deferred tax liability		179	210	415
Other liabilities		101	12,798	465
Accrued expenses and deferred income		47	5,627	5,860
Subordinated liabilities		-	-	21,700
Total liabilities		1,248,241	1,202,383	1,179,467
Equity				
Share capital		4,050	4,050	4,050
Other funds		31,127	30,567	9,513
Retained earnings		19,246	9,908	18,189
Profit for the year		4,853	9,543	4,507
Total equity		59,276	54,068	36,259
Total liabilities and equity		1,307,517	1,256,451	1,215,726
<i>of which Group liabilities</i>	Note 14	623,108	572,297	581,198

As of 2018, Stadshypotek presents contractual accrued interest on financial assets and financial liabilities as part of the carrying amount for the asset or liability on the balance sheet. The size

of the total balance sheet has not been affected. The presentation of historical comparison figures has not been changed. The contractual accrued interest on financial instruments for previous

periods will continue to be presented under the line items 'Prepaid expenses and accrued income' and 'Accrued expenses and deferred income' on the balance sheet.

Statement of changes in equity

Jan–Jun 2018 SEK m	Restricted equity				Non-restricted equity			Total
	Share capital ¹	Statutory reserve	Capital contributions	Fund for internally developed software	Hedge reserve	Translation reserve	Retained earnings including profit for the year	
Closing equity December 2017	4,050	8,106	21,700	6	742	13	19,451	54,068
Effect of transition to IFRS 9							-98	-98
Tax effect due to transition to IFRS 9							22	22
Opening equity 2018	4,050	8,106	21,700	6	742	13	19,375	53,992
Profit for the period							4,853	4,853
Other comprehensive income ²					-108	669		561
Total comprehensive income for the period					-108	669	4,853	5,414
Fund for internally developed software				-1			1	
Dividend paid							-130	-130
Equity at 30 June 2018	4,050	8,106	21,700	5	634	682	24,099	59,276

Jan–Dec 2017 SEK m	Restricted equity				Non-restricted equity			Total
	Share capital ¹	Statutory reserve	Capital contributions	Fund for internally developed software	Hedge reserve	Translation reserve	Retained earnings including profit for the year	
Equity at 31 December 2016	4,050	8,106		12	2,607	57	18,186	33,018
Profit for the year							9,543	9,543
Other comprehensive income ²					-1,865	-44		-1,909
Total comprehensive income for the year					-1,865	-44	9,543	7,634
Fund for internally developed software				-6			6	0
Reclassification of subordinated loans as equity			21,700					21,700
Dividend paid							-250	-250
Group contributions provided							-10,300	-10,300
Tax effect on Group contributions							2,266	2,266
Equity at 31 December 2017	4,050	8,106	21,700	6	742	13	19,451	54,068

Jan–Jun 2017 SEK m	Restricted equity				Non-restricted equity			Total
	Share capital ¹	Statutory reserve	Capital contributions	Fund for internally developed software	Hedge reserve	Translation reserve	Retained earnings	
Equity at 31 December 2016	4,050	8,106		12	2,607	57	18,186	33,018
Profit for the period							4,507	4,507
Other comprehensive income ²					-1,137	-129		-1,266
Total comprehensive income for the period					-1,137	-129	4,507	3,241
Fund for internally developed software				-3			3	
Equity at 30 June 2017	4,050	8,106		9	1,470	-72	22,696	36,259

¹ Average number of shares, before and after dilution, 162,000.

² Other comprehensive income consists primarily of the effective portion of the change in the fair value of interest rate swaps and cross-currency interest rate swaps used as hedging instruments in cash flow hedging. Cash flow hedges are applied to manage exposures to variations in cash flows relating to changes in the floating interest rates on lending and funding. Cash flow hedging is also used to hedge currency risk in future cash flows relating to funding in foreign currencies. Lending and funding are measured at amortised cost, whereas the derivatives used to hedge these items are measured at market value. Over time, the market values of the derivatives reach zero as each individual hedge reaches maturity, but this entails volatility in other comprehensive income during the term of the hedge. During the period, changes in the value of hedge derivatives in cash flow hedges totalled SEK -108m (-1,137) after tax. The changes in value derive primarily from changes in the discount rates of the respective currencies.

Condensed statement of cash flows

SEK m	Jan–Jun 2018	Jan–Jun 2017	Full year 2017
Operating profit	6,223	5,817	12,249
Adjustment for non-cash items in profit/loss	20	-21	-44
Paid income tax	-431	-172	-284
Changes in the assets and liabilities of operating activities	2,747	3,692	-1,106
Cash flow from operating activities	8,559	9,316	10,815
Cash flow from investing activities	0	0	0
Group contribution paid	-10,300	-10,100	-10,100
Dividend paid	-129	-	-224
Other changes in equity	-77	-	-
Cash flow from financing activities	-10,506	-10,100	-10,324
Cash flow for the period	-1,947	-784	491
Liquid funds at beginning of period	7,565	7,027	7,027
Cash flow for the period	-1,947	-784	491
Exchange rate difference on liquid funds	406	-30	47
Liquid funds at end of period	6,024	6,213	7,565
<i>Liquid funds consist of funds available with banks and equivalent institutions, excluding funds on a blocked account.</i>			
Liquid funds with banks and equivalent institutions	6,024	6,213	7,565
Funds on a blocked account with banks relating to issuance of covered bonds	5,000	5,000	5,000
Loans to credit institutions	11,024	11,213	12,565

Key figures

	Jan–Jun 2018	Jan–Jun 2017	Full year 2017
Net interest margin, %	1.07	1.06	1.09
C/l ratio before loan losses, %	8.6	8.7	8.5
C/l ratio after loan losses, %	8.6	8.7	8.4
Return on equity, %	24.7	24.0	22.6
Total capital ratio, CRD IV, %	52.8	55.8	53.1
Tier 1 ratio according to CRD IV, %	31.3	33.2	30.7
Common equity tier 1 ratio according to CRD IV, %	31.3	33.2	30.7

Notes

NOTE 1 Accounting policies

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting. The contents of the interim report also comply with the applicable provisions of the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) and the Swedish Financial Supervisory Authority's regulations and general guidelines FFFS 2008:25 on annual reports in credit institutions and securities companies. RFR 2 Accounting for legal entities, as well as statements issued by the Swedish Financial Reporting Board, were also applied when preparing the accounts.

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

On 1 January 2018, IFRS 9, Financial Instruments, which replaces IAS 39, came into effect for application within the EU. Since 1 January 2018, Stadshypotek has applied the new rules for classification and measurement and for impairment. Stadshypotek has decided to continue applying the hedge accounting rules in IAS 39 in accordance with the transitional rules in IFRS 9.

The new rules for classification and measurement have resulted in changed classification rules and new measurement categories for

financial assets and liabilities. The new rules for impairment mean that the model based on incurred loan losses has been replaced by a model based on expected loan losses. Stadshypotek does not apply the transitional regulations with regard to capital adequacy. Information on the accounting policies for the areas affected by IFRS 9 is provided in Stadshypotek's Annual Report for 2017. Stadshypotek has not restated the comparison figures for previous periods at the transition date. Instead, adjustments to the carrying amounts of financial assets at the transition date, 1 January 2018, have been recognised in retained earnings in equity. Opening retained earnings decreased by SEK 98m before tax due to the transition to IFRS 9, and this is attributable to the new rules for impairment. Stadshypotek illustrates the transition to IFRS 9 in the table on page 8.

IFRS 15 Revenue from Contracts with Customers also came into effect on 1 January 2018. Stadshypotek has been applying the standard since 1 January 2018. The transition to IFRS 15 has not had any impact on Stadshypotek's financial reports, capital adequacy or large exposures. Information on accounting policies for revenue is provided in Stadshypotek's Annual Report for 2017.

In all other respects, Stadshypotek's interim report has been prepared in accordance with the same accounting policies and calculation methods that were applied in the Annual Report for 2017.

Future regulatory changes

IFRS 16 Leases has been published by the IASB and adopted by the EU for application as of the 2019 financial year. The main change arising from the new standard is that all leases (with the exception of short-term contracts and contracts of minor value) must be recognised as an asset (right-of-use asset) and as a liability on the lessee's balance sheet. In the income statement, the straight-line expense for the operating lease is replaced by a charge for depreciation on the leased asset and an interest expense attributable to the liability. There are also additional disclosure requirements. The main impact on Stadshypotek's accounts is expected to come from the reporting of rental contracts. Stadshypotek is currently analysing the financial effects of the new standard.

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

NOTE 1 Accounting policies, cont.

TRANSITION TO IFRS 9

The table below shows the reclassification of assets and liabilities at the time of the transition to IFRS 9 and the initial effect on equity at 1 January 2018.

SEK m	IAS 39 Classification 31 Dec 2017	IFRS 9 Classification 1 Jan 2018	IAS 39 Carrying amount 31 Dec 2017	IFRS 9 Carrying amount 1 Jan 2018	Impact on equity 1 Jan 2018	Of which revaluation effect due to new rules for impairment
Financial assets						
Loans to credit institutions	1) Loans and receivables	Amortised cost	-	0	0	0
Loans to the public	1) Loans and receivables	Amortised cost	1,222,492	1,222,393	-98	-98
Other assets	Loans and receivables	Amortised cost	3,150	3,150		
Prepaid expenses and accrued income	Loans and receivables	Amortised cost	1,284	1,284		
Total financial assets			1,226,925	1,226,826	-98	-98
Other non-financial assets			29,527	29,549	22	
Total assets			1,256,451	1,256,376	-76	-98
Financial liabilities						
Due to credit institutions	Other financial liabilities	Amortised cost	11	11		
Deposits and borrowing from the public	Other financial liabilities	Amortised cost	0	0		
Issued securities	Other financial liabilities	Amortised cost	621,958	621,958		
Other liabilities	Other financial liabilities	Amortised cost	2,464	2,464		
Accrued expenses and deferred income	Other financial liabilities	Amortised cost	5,059	5,059		
Total financial liabilities	2)		629,492	629,492		
Provisions	3)		-	0	0	0
Other non-financial liabilities			572,892	572,892		
Total liabilities			1,202,383	1,202,384	0	0
Share capital			4,050	4,050		
Other funds			30,567	30,567		0
Retained earnings	4)		9,908	9,832	-76	-98
Profit for the year			9,543	9,543		
Total equity			54,068	53,992	-76	-98
Total liabilities and equity			1,256,451	1,256,376	-76	-98

1) As a result of the IFRS 9 regulations for impairment, the provision for loan losses for assets measured at amortised cost has increased.

2) No financial liabilities have been subject to revaluation as a result of an amended classification in line with IFRS 9.

3) As a result of the IFRS 9 regulations for impairment, the provision for loan losses on off-balance-sheet items has increased.

4) The total effect against retained earnings due to the transition to IFRS 9 is SEK -98m before tax, which is attributable to the new rules for impairment.

The table below shows the transition from the model for incurred loan losses in IAS 39 to the model for expected loan losses in IFRS 9 at the transition to IFRS 9 as of 1 January 2018.

Specification of the transition to IFRS 9, new rules for impairment			
SEK m	IAS 39 Incurred loan losses 31 Dec 2017	IFRS 9 Expected loan losses 1 Jan 2018	<i>Effect on retained earnings due to new rules for impairment</i>
IAS 39			
Incurred loan losses 31 Dec 2017			
Collective provisions for individually assessed loans	-42		42
Specific provisions for individually assessed loans	-14		14
IFRS 9			
Expected loan losses 1 Jan 2018			
Expected loan losses Stage 1, asset at amortised cost		-81	-81
Expected loan losses Stage 2, asset at amortised cost		-21	-21
Expected loan losses Stage 3, asset at amortised cost		-52	-52
Expected loan losses for off-balance-sheet items, Stage 1		0	0
Tax effect due to transition to IFRS 9		22	22
Total	-56	-132	-76

NOTE 2 Other information

RISKS AND UNCERTAINTY FACTORS

Regulatory developments are continuing at a fast pace. Stadshypotek's low tolerance of risk, sound capitalisation and, as part of the Handelsbanken Group, strong liquidity mean that the company is well equipped to operate in line with the new, stricter regulations and to cope with substantially more difficult market conditions than those experienced in recent 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 its counterparties cannot fulfil their contractual obligations. Market risks stem from price changes in the financial markets. The market risks affecting Stadshypotek are interest rate risk and exchange rate risk. At 30 June 2018, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -386m (-475). Liquidity risk refers to the risk that Stadshypotek will not be able to meet its payment obligations when they fall due without being affected by

unacceptable costs or losses. Operational risks are defined as the risk of loss due to inadequate or failed internal processes, human error, malfunctioning systems, or external events. The definition includes legal risk. The Stadshypotek Board establishes policies describing 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 are integrated with those of Handelsbanken, which means, among other things, that Stadshypotek's lending is carried out via the Bank's branch network. Moreover, Stadshypotek's funding needs are managed by Handelsbanken's Treasury department. 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 encourages 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 large loans are subject to limits and assessed by a dedicated credit organisation. Decisions on limits are made at the branch, regional or central level, depending on the size of the credit limit. As regards the procedures for limiting market risk and liquidity risk at Stadshypotek, the company's Board establishes limits for this purpose.

NOTE 2 Other information, cont.

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 performs daily calculations 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 Group Risk Control. In addition, limit utilisation is reported regularly to Stadshypotek's Chief Executive and Board of Directors.

Stadshypotek is also covered by Group Risk Control at Handelsbanken, which has the task of identifying the Handelsbanken Group's risks, gauging them, and ensuring that management of these risks complies with the Group's low risk tolerance.

Group Risk Control is responsible for the independent reporting of risks for the banking group of which Stadshypotek is a part. Group Risk Control also develops and provides models

for measuring risk that are applied in Stadshypotek's operations and performs certain calculations that provide a basis for some of Stadshypotek's external reporting. 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. Stadshypotek is covered by an agreement regarding liquidity support within the Handelsbanken Group. According to the agreement, Handelsbanken holds a liquidity reserve for the Handelsbanken Group as a whole and is thus responsible for Stadshypotek fulfilling the liquidity reserve requirement as stipulated in the Swedish Financial Supervisory Authority's regulation FFFS 2010:7. The agreement also stipulates that the parties, in accordance with Article 8 of CRR and Chapter 6, Section 1 of

FFFS 2014:12, are required to provide each other with liquidity support as necessary.

Stadshypotek's liquidity situation is regularly stress-tested. The stress tests focus on the short-term effects in the case of certain assumptions of relevance to its operations, for example disruptions in the market for covered bonds. Group Risk Control conducts stress tests 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 consistent manner when the need for capital is assessed.

NOTE 3 Net interest income

SEK m	Jan-Jun 2018	Jan-Jun 2017	Change %	Full year 2017
Interest income				
Loans to the public	10,046	10,000	0	20,024
Loans to credit institutions	106	84	26	186
Total	10,152	10,084	1	20,210
<i>of which interest income according to the effective interest method</i>	<i>10,152</i>	<i>10,084</i>	<i>1</i>	<i>20,210</i>
Interest expense				
Due to credit institutions	-1,391	-1,315	6	-2,659
Issued securities	-2,854	-3,577	-20	-6,608
Subordinated liabilities	-	-121	-	0
Derivative instruments ¹	1,456	1,635	-11	3,071
Fee to Resolution Fund	-521	-329	58	-658
Other	-1	0	0	1
Total	-3,311	-3,707	-11	-6,853
Net interest income	6,841	6,377	7	13,357

¹ 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 2018	Jan–Jun 2017	Change %	Full year 2017
Hedge accounting	-2	4	-	7
<i>of which fair value hedges</i>	-1	-1	0	2
<i>of which ineffective portion of cash flow hedges</i>	-1	5	-120	5
Financial instruments at amortised cost	-13	-27	-52	-6
<i>of which loans</i>	75	97	-23	209
<i>of which issued securities</i>	-88	-124	-29	-215
Other	10	29	-66	41
Total	-5	6	-183	42

Here, '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 expenses relating to hedging 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 ineffective portion of cash flow hedges.

Loans at amortised cost refers to early redemption charges for loans and receivables which have been repaid ahead of time. Issued securities refers to realised price differences when repurchasing bonds.

NOTE 5 Other administrative expenses

SEK m	Jan–Jun 2018	Jan–Jun 2017	Change %	Full year 2017
Cost of premises	-4	-4	0	-8
IT costs	-69	-65	6	-121
Communication	0	0	0	-1
Travel and marketing	-2	-2	0	-3
Purchased services	-459	-407	13	-861
Supplies	0	0	0	0
Other expenses	-4	-15	-73	-18
Total	-538	-493	9	-1,012

NOTE 6 Loan losses

Loan losses IFRS 9 SEK.m	Jan–Jun 2018	Jan–Jun 2017	Change %	Full year 2017
Provision Stage 3				
Provision for the period, Stage 3	-7			
Stage 3 provision reversed to Stage 1 or Stage 2	-3			
Total	-10			
Provision Stage 1 & 2				
Net provision for the period, Stage 2	-28			
Net provision for the period, Stage 1	11			
Total	-17			
Provision for the period for off-balance-sheet items				
Net provision for the period, Stage 3	-			
Net provision for the period, Stage 2	-			
Net provision for the period, Stage 1	0			
Total	0			
Write-offs				
Actual loan losses for the period	-5			
Utilised share of previous provisions	8			
Total	3			
Recoveries	10			
Net loan losses	-14			

Loan losses IAS 39 SEK.m	Jan–Jun 2018	Jan–Jun 2017	Change %	Full year 2017
Specific provision for individually assessed loans				
Provisions for the period		-7	-100	-11
Reversal of previous provisions		2	-100	4
Total		-5	-100	-7
Collective provision				
Collective provision for individually assessed loans		0	0	0
Write-offs				
Actual loan losses for the period		-3	-100	-12
Utilised share of previous provisions		2	-100	6
Reversal of actual loan losses in previous years		8	-100	23
Total		7	-100	17
Net loan losses		2	-100	10

Loan losses IFRS 9 – Key figures	30 Jun 2018	31 Dec 2017	30 Jun 2017
SEK m			
Loan loss ratio expressed as a percentage of loans to the public, accumulated	0.00		
Total reserve ratio loans to the public, %	0.01		
Reserve ratio Stage 1 to the public, %	0.01		
Reserve ratio Stage 2 to the public, %	0.21		
Reserve ratio Stage 3 to the public, %	6.46		
Proportion of loans to the public in Stage 3, %	0.04		
Loan losses IAS 39 – Key figures	30 Jun 2018	31 Dec 2017	30 Jun 2017
SEK m			
Impaired loans		135	122
Specific provision for individually assessed loans		-33	-35
Collective provision for individually assessed loans		-4	-4
Net impaired loans		98	83
Proportion of impaired loans, %		0.01	0.01
Impaired loans reserve ratio, %		24.3	28.9
Loan loss ratio, %		-0.00	-0.00
Non-performing loans which are not impaired loans		236	281

NOTE 7 Loans to the public

30 Jun 2018	Gross			Provisions			Net	
Loans to the public (IFRS 9), by borrower category							Stage 2 volumes overdue longer than 30 days	
SEK m	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		
Households	870,877	14,985	490	-48	-27	-16	886,261	258
Public sector, municipal companies	9,714	22	0	0	0	0	9,736	0
Housing co-operative associations	182,703	2,492	29	-8	-1	-11	185,204	34
Other legal entities	184,748	6,818	53	-16	-22	-8	191,573	13
Total loans to the public	1,248,042	24,317	572	-72	-50	-35	1,272,774	305
of which in operations outside Sweden								
Households	131,505	2,356	86	-19	-8	-1	133,918	72
Public sector, municipal companies	8,064	22	0	0	0	0	8,086	-
Housing co-operative associations	30,576	183	0	-1	0	0	30,758	-
Other legal entities	14,973	626	22	-1	-4	-1	15,615	-
Total loans to the public in operations outside Sweden	185,118	3,187	108	-21	-12	-2	188,377	72

Loans to the public (IAS 39), by borrower category	30 Jun 2018		31 Dec 2017			30 Jun 2017		
SEK m			Loans before provisions	Provisions for proba- ble loan losses	Loans after provisions	Loans before provisions	Provisions for proba- ble loan losses	Loans after provisions
Households			882,017	-20	881,997	852,295	-21	852,274
Public sector, municipal companies			19,682	-	19,682	21,030	-	21,030
Housing co-operative associations			177,964	-11	177,953	168,892	-12	168,880
Other legal entities			142,830	-2	142,828	140,632	-2	140,630
Total loans to the public, before collective provision			1,222,493	-33	1,222,460	1,182,849	-35	1,182,814
Collective provision				-4	-4		-4	-4
Total loans to the public			1,222,493	-37	1,222,456	1,182,849	-39	1,182,810
of which in operations outside Sweden								
Households			123,172	-3	123,169	119,721	-1	119,720
Public sector, municipal companies			8,345	-	8,345	8,771	-	8,771
Housing co-operative associations			32,141	-	32,141	30,265	-	30,265
Other legal entities			7,258	-	7,258	7,161	-	7,161
Total loans to the public in operations outside Sweden before collective provision			170,916	-3	170,913	165,918	-1	165,917
Collective provision				-1	-1		-1	-1
Total loans to the public in operations outside Sweden			170,916	-4	170,912	165,918	-2	165,916

Non-performing loans by borrower category	30 Jun 2018		31 Dec 2017		30 Jun 2017	
	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	289	51	215	50	249	50
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-
Other legal entities	5	7	21	8	32	7
Total	294	58	236	58	281	57
of which in operations outside Sweden						
Households	54	4	47	10	40	7
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-
Other legal entities	-	-	0	0	5	0
Total non-performing loans in operations outside Sweden	54	4	47	10	45	7

Impaired loans by borrower category	30 Jun 2018			31 Dec 2017			30 Jun 2017		
	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	94	-22	72	100	-20	80	88	-21	67
Public sector, municipal companies	-	-	-	-	-	-	-	-	-
Housing co-operative associations	27	-11	16	27	-11	16	27	-12	15
Other legal entities	9	-2	7	8	-2	6	7	-2	5
Total	130	-35	95	135	-33	102	122	-35	87
of which in operations outside Sweden									
Households	17	-1	16	24	-2	22	13	-2	11
Public sector, municipal companies	-	-	-	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-	-	-	-
Other legal entities	-	-	-	0	0	0	0	0	0
Total impaired loans in operations outside Sweden	17	-1	16	24	-2	22	13	-2	11

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

NOTE 8 Derivative instruments

SEK m	Market value 30 Jun 2018	Market value 31 Dec 2017	Market value 30 Jun 2017
Positive values			
Interest rate instruments	7,382	6,456	6,202
Currency instruments	14,180	10,439	10,786
Total	21,562	16,895	16,988
Negative values			
Interest rate instruments	1,601	1,506	1,443
Currency instruments	585	2,191	3,421
Total	2,186	3,697	4,864
Net	19,376	13,198	12,124

NOTE 9 Issued securities

SEK m	30 Jun 2018	30 Jun 2017
Issued securities at beginning of period	621,958	612,787
Issued	89,099	70,063
Repurchased	-29,383	-31,042
Matured	-72,333	-64,047
Price differences, exchange rate effects, etc.	14,212	-8,017
Issued securities at end of period	623,553	579,744

NOTE 10 Classification of financial assets and liabilities

30 Jun 2018 SEK m	Fair value through profit and loss	Derivatives designated as hedging instruments	Amortised cost	Total carrying amount	Fair value
Assets					
Loans to credit institutions			11,024	11,024	11,024
Loans to the public			1,272,774	1,272,774	1,280,121
Value change of interest-hedged item in portfolio hedge			37	37	
Assets where the customer bears the value change risk	10			10	10
Derivative instruments		21,562		21,562	21,562
Other assets			2,107	2,107	2,107
Total financial assets	10	21,562	1,285,942	1,307,514	1,314,824
Other non-financial assets				4	
Total assets	10	21,562	1,285,942	1,307,518	
Liabilities					
Due to credit institutions			620,883	620,883	625,831
Issued securities			623,553	623,553	630,751
Liabilities where the customer bears the value change risk	10			10	10
Derivative instruments		2,186		2,186	2,186
Other liabilities			149	149	149
Total financial liabilities	10	2,186	1,244,585	1,246,781	1,258,927
Other non-financial liabilities				1,461	
Total liabilities	10	2,186	1,244,585	1,248,242	

31 Dec 2017 SEK m	Loans and receivables	Derivatives designated as hedging instruments	Financial liabilities at amortised cost	Total carrying amount	Fair value
Assets					
Loans to credit institutions	12,565			12,565	12,565
Loans to the public	1,222,456			1,222,456	1,227,923
Value change of interest-hedged item in portfolio hedge	36			36	
Derivative instruments		16,895		16,895	16,895
Other assets	4,490			4,490	4,496
Total financial assets	1,239,547	16,895	-	1,256,442	1,261,879
Other non-financial assets				9	
Total assets	1,239,547	16,895	-	1,256,451	
Liabilities					
Due to credit institutions			557,742	557,742	562,418
Issued securities			621,958	621,958	629,457
Derivative instruments		3,697		3,697	3,697
Other liabilities			12,598	12,598	13,358
Subordinated liabilities			5,628	5,628	5,628
Total financial liabilities		3,697	1,197,926	1,201,623	1,214,558
Other non-financial liabilities				760	
Total liabilities	-	3,697	1,197,926	1,202,383	

NOTE 11 Fair value measurement of financial instruments

30 June 2018 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Assets where the customer bears the value change risk	10	-	-	10
Derivative instruments	-	21,562	-	21,562
Total financial assets at fair value	10	21,562	-	21,572
Liabilities				
Liabilities where the customer bears the value change risk	10	-	-	10
Derivative instruments	-	2,186	-	2,186
Total financial liabilities at fair value	10	2,186	-	2,196

30 Jun 2017 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Assets where the customer bears the value change risk	10	-	-	10
Derivative instruments	-	16,988	-	16,988
Total financial assets at fair value	10	16,988	-	16,998
Liabilities				
Liabilities where the customer bears the value change risk	10	-	-	10
Derivative instruments	-	4,864	-	4,864
Total financial liabilities at fair value	10	4,864	-	4,874

VALUATION PROCESS

Stadshypotek's independent risk control is responsible for the existence of fit-for-purpose instructions and processes for the 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 practice and established financial theory. New and changed valuation models are always validated before they come into use. Stadshypotek is also included in 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 that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants. For financial instruments traded on an active market, the fair value is the same as the quoted market price. An active market is one where quoted prices are readily and regularly available from a regulated market, execution venue, reliable news service or equivalent, and where the price information received can be verified by means of regularly occurring transactions. The current market price is generally the same as the current bid price for financial assets or the current asking price for financial liabilities.

For financial instruments where there is no reliable information about market prices, fair value is established using valuation models. The valuation models used are based on input data which essentially can be verified using market observations such as market rates. If necessary, an adjustment is made for other variables which a market participant would be expected to take into consideration when setting a price. Stadshypotek's derivative contracts, including interest rate swaps and various types of linear currency derivatives, are valued using valuation models

based on listed market rates and other market prices. The valuation of non-linear derivative contracts that are not actively traded is also based on a reasonable assumption of market-based input data such as volatility.

VALUATION HIERARCHY

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

Financial instruments which are valued at the current market price are categorised as level 1. Financial instruments which are valued using valuation models which are substantially 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.

NOTE 12 Pledged assets and contingent liabilities

SEK m	30 Jun 2018	31 Dec 2017	30 Jun 2017
Assets pledged for own debt ¹	663,334	665,805	627,731
Other pledged assets	0	-	0
Pledged assets	663,334	665,805	627,731
Commitments	1,332	1,615	1,685
Contingent liabilities	1,332	1,615	1,685

¹ The cover pool 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 buildings with a loan-to-value ratio of up to 60% of the market value plus additional collateral in the form of cash funds on a blocked account. A separate specification is kept of the assets and the covered bonds, and also derivatives relating to these. In the event of the company's insolvency, pursuant to the Swedish Right of Priority Act, the holders of Stadshypotek's covered bonds have prior rights to the assets registered as collateral. If, at the time of a bankruptcy decision, the assets in the cover pool fulfil the terms of the Act, these must instead be kept separate from the bankruptcy estate's other assets and liabilities. In this event, the holders of the bonds must receive contractual payments under the terms of the bond for the period until maturity.

NOTE 13 Segment information

Income statement SEK m	Jan-Jun 2018			Jan-Jun 2017			Full year 2017		
	Private	Corporate	Total	Private	Corporate	Total	Private	Corporate	Total
Net interest income	5,140	1,701	6,841	4,810	1,567	6,377	10,036	3,321	13,357
Net fee and commission income	-10	-3	-13	-10	-3	-13	-19	-7	-26
Net gains/losses on financial transactions	-4	-1	-5	5	1	6	32	10	42
Total income	5,126	1,697	6,823	4,805	1,565	6,370	10,049	3,324	13,373
Expenses	-440	-146	-586	-419	-136	-555	-852	-282	-1,134
Profit before loan losses	4,686	1,551	6,237	4,386	1,429	5,815	9,197	3,042	12,239
Net loan losses	-14	-	-14	1	1	2	9	1	10
Operating profit	4,672	1,551	6,223	4,387	1,430	5,817	9,206	3,043	12,249
Loans to the public	886,261	386,513	1,272,774	811,426	371,384	1,182,810	840,119	382,337	1,222,456

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 2018		Jan-Jun 2017		Full year 2017	
	Income	Total assets	Income	Total assets	Income	Total assets
Sweden	5,897	1,112,551	5,552	1,044,352	11,677	1,079,229
Norway	468	89,993	414	78,586	896	79,832
Denmark	242	50,561	209	41,695	422	44,781
Finland	216	54,412	195	51,093	377	52,609
Total	6,823	1,307,517	6,370	1,215,726	13,372	1,256,451

NOTE 14 Related-party transactions

Group claims/Group liabilities SEK m	30 Jun 2018	31 Dec 2017	30 Jun 2017
BALANCE SHEET			
Group claims			
Loans to credit institutions	11,024	12,565	11,213
Derivative instruments	21,562	16,895	16,988
Other assets	29	3	49
Prepaid expenses and accrued income	53	52	50
Total	32,668	29,515	28,300
Group liabilities			
Due to credit institutions	620,882	557,742	554,054
Derivative instruments	2,186	3,697	4,864
Other liabilities	40	10,344	580
Accrued expenses and deferred income ¹	-	514	571
Subordinated liabilities	-	-	21,700
Total	623,108	572,297	581,769
INCOME STATEMENT			
Interest income	106	188	85
Interest expense ¹	54	397	190
Fee and commission expense	-2	-6	-3
Other administrative expenses	-513	-958	-464
Total	-355	-379	-192

¹ Interest expense includes interest from derivative instruments which may have both a positive and a negative impact on interest expenses.

As of 2018, Stadshypotek presents contractual accrued interest on financial assets and financial liabilities as part of the carrying amount for the asset or liability on the balance sheet. The size of the total balance sheet has not been affected. The presentation of historical comparison figures has not been changed. The contractual accrued interest on financial instruments for previous periods will continue to be presented under the line items 'Prepaid expenses and accrued income' and 'Accrued expenses and deferred income' on the balance sheet.

The business operations of Stadshypotek are highly decentralised. The basic principle is that the organisation and working practices are centred around the Handelsbanken Group's branch offices, 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 each of the respective countries. Lending is to be carried out to the extent and on the terms stated in

Stadshypotek's Credit Policy and Credit Instructions, established annually by the Board of Stadshypotek. The Credit Instructions include the maximum permitted loan-to-value ratio for various property types, as well as the decision levels applying to Stadshypotek's lending via the Bank's branches. The Credit Instructions also state that for loan amounts in excess of a certain limit, an advance examination of the case and an approval of the property is to be provided by Stadshypotek's credit committee before the loan is disbursed. Moreover, Stadshypotek's funding needs are managed by Handelsbanken's Treasury department. The 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.

NOTE 15 Capital adequacy

The disclosures 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 effect, and on 2 August 2014, the CRD IV Directive was implemented in Sweden. Own funds and capital requirement are calculated in accordance with the new EU regulations. All references to CRD IV in this report refer to the new regulations in their entirety regardless of legislative form (regulation, directive, executive decree or national implementation).

Own funds SEK m	30 Jun 2018	31 Dec 2017	30 Jun 2017
Equity	59,276	54,068	36,259
Deduction for profit for the year		-1,509	
Accumulated Group contribution, current year	-4,853	-	-2,507
Deduction for puttable financial instruments classified as equity	-21,700	-21,700	
Deduction for intangible assets	-5	-6	-9
Price adjustments (fair value)	-1	-1	-1
Adjustment for cash flow hedges	-633	-741	-1,470
Special deduction for IRB institutions	-325	-418	-317
Common equity tier 1 capital	31,759	29,693	31,955
Additional tier 1 capital	-	-	-
Tier 1 capital	31,759	29,693	31,955
Perpetual subordinated loans	-	-	5,300
Dated subordinated loans	-	-	16,400
Puttable financial instruments classified as equity	21,700	21,700	-
Tier 2 capital	21,700	21,700	21,700
Own funds	53,459	51,393	53,655
Capital requirement SEK m	30 Jun 2018	31 Dec 2017	30 Jun 2017
Credit risk according to standardised approach	52	14	37
Credit risk according to IRB Approach	6,440	6,239	6,177
Operational risk	1,613	1,484	1,484
Total capital requirement	8,105	7,737	7,698
Adjustment according to Basel I floor		40,730	39,101
Capital requirement, Basel I floor		48,467	46,799
Total own funds, Basel I floor		51,812	53,973

As of 1 January 2018, capital requirements and reporting according to the Basel I floor ceased, as a result of Article 500(1) of Regulation (EU) No 575/2013.

Capital adequacy analysis	30 Jun 2018	31 Dec 2017	30 Jun 2017
Common equity tier 1 ratio, CRD IV	31.3%	30.7%	33.2%
Tier 1 ratio, CRD IV	31.3%	30.7%	33.2%
Total capital ratio, CRD IV	52.8%	53.1%	55.8%
Risk exposure amount CRD IV, SEK m	101,322	96,697	96,227
Own funds in relation to capital requirement according to Basel I floor		107%	115%
Institution-specific buffer requirements	4.2%	4.2%	4.2%
<i>of which capital conservation buffer requirement</i>	2.5%	2.5%	2.5%
<i>of which countercyclical capital buffer requirement</i>	1.7%	1.7%	1.7%
Common equity tier 1 capital available for use as a buffer	26.8%	26.2%	28.7%

Credit risks IRB SEK m	Exposure amount		Average risk weight, %		Capital requirement	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Sovereign and central banks	25,698	26,920	7.7	7.8	158	169
Corporate exposures	354,929	337,246	9.6	9.9	2,717	2,683
<i>of which other lending, foundation approach</i>	-	-	-	-	-	-
<i>of which other lending, advanced approach</i>	354,929	337,246	16.4	9.9	2,717	2,683
- Large corporates	692	250	32.6	36.3	18	7
- Medium-sized companies	13,498	12,689	22.6	24.1	244	244
- Property companies	156,395	153,464	15.8	16.3	1,980	2,000
- Housing co-operative associations	184,344	170,843	3.2	3.2	475	432
Retail exposures	888,993	856,150	5.0	4.9	3,565	3,387
<i>of which private individuals</i>	883,023	850,021	4.9	4.9	3,484	3,304
<i>of which small companies</i>	5,970	6,129	16.9	17.0	81	83
Total IRB	1,269,620	1,220,316	6.3	6.4	6,440	6,239

As of the second quarter of 2017, Stadshypotek applies the IRB Approach without own estimates of LGD and CCF for sovereign exposures.

Capital requirement credit risks standardised approach ¹ SEK m	30 Jun 2018			31 Dec 2017		
	Exposure value	Average risk weight, %	Capital requirement	Exposure value	Average risk weight, %	Capital requirement
Sovereign and central banks	-	-	-	-	-	-
Municipalities	-	-	-	-	-	-
Institutions	47,536	0.0	0	41,885	0.0	0
Companies	6	100.0	0	57	100.0	5
Other items	648	100.0	52	110	100.0	9
Total	48,190	1.4	52	42,052	0.3	14

¹ Details of capital requirement for exposure classes where there are exposures.

Leverage ratio

As of 2015, a disclosure requirement applies under CRD IV regarding a non-risk-based leverage ratio.

No legally binding requirement has yet been decided, but on 23 November 2016, the EU Commission published its proposal that 3% be applied.

SEK m	30 Jun 2018	31 Dec 2017
Balance sheet according to the reporting regulations	1,307,517	1,256,451
Adjustment for differences between the carrying amount and leverage exposure – derivatives	6,637	7,310
Assets recognised off the balance sheet, gross (before adjustment of credit conversion factors)	47	93
Deduction from assets off the balance sheet after applying credit conversion factors	-24	-47
Assets reported off the balance sheet, net	23	46
Further adjustments according to CRR, Article 429.4	-963	-1,167
Deductions for exposures to Group companies as referred to in CRR Article 429.7	-39,318	-36,843
Assets on which the leverage ratio is calculated	1,273,896	1,225,798
Capital on which the leverage ratio can be calculated		
Tier 1 capital	31,759	29,693
Leverage ratio		
Leverage ratio calculated using tier 1 capital	2.49%	2.42%

NOTE 16 Material events after balance sheet date

No material events have occurred after the balance sheet date.

Calculation of key figures

For definitions, see page 27.

Return on equity, SEK m	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Equity at 30 June and 31 December	37,576	36,259	32,368
Adjustment hedge reserve	-633	-1,470	-741
Reversal of Group contribution provided	-	-	8,034
Total adjusted equity	36,943	34,789	39,661
Adjusted equity average ¹	39,328	37,570	37,924
Profit for the period	4,853	4,507	9,543
Return on equity	24.7%	24.0%	25.2%

¹ An average of the closing balance for the past three and five quarters respectively.

We hereby declare that this half-yearly report provides a true and fair view of the company's operations, financial position and performance and describes material risks and uncertainty factors faced by the company.

Stockholm, 17 July 2018

Mikael Hallåker,
Chairman

Michael Bertorp
Board member

Johanna Lundberg
Board member

Helena Öström Nimander
Board member

Göran Stille
Board member

Helena Håkansson
*Employee representative,
Board member*

Maria Lidström Andersson
Chief Executive

Auditor's review report

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

INTRODUCTION

We have reviewed the interim report for Stadshypotek AB as at 30 June 2018 and for the six-month period then ended. 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 conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Statements Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing and other generally accepted auditing practices in Sweden.

The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

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

Stockholm, 18 July 2018

Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Definitions

ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures (APMs) are financial measures of historical and future performance, financial position or cash flow that are defined neither in IFRS nor the Capital Requirements Regulation. Stadshypotek uses APMs to describe the performance of the operations and to increase comparability between periods. These need not be comparable with similar key figures (performance measures) presented by other companies.

C/I ratio

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

Impaired loan

Loans are classified as impaired loans if contracted cash flows are not likely to be fulfilled. The full amount of all claims which give rise to a specific provision are included in impaired loans even if parts are covered by collateral.

Impaired loans reserve ratio excluding collective provisions

Total provisions excluding collective provisions in relation to gross impaired loans.

Loan loss ratio

Loan losses in relation to loans to the public at the beginning of the year.

Net interest margin

Net interest income in relation to average total assets.

Non-performing loan

A loan where interest, repayments or overdrafts have been due for payment for more than 60 days.

Proportion of impaired loans

Net impaired loans in relation to total loans to the public and credit institutions (excluding banks).

Return on equity

Profit for the period in relation to average equity adjusted for rights issues, dividends and changes in the value of derivatives in cash flow hedges, as well as puttable financial instruments classified as equity.

KEY FIGURES DEFINED IN THE CAPITAL REQUIREMENTS REGULATION

Additional tier 1 capital

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

Common equity tier 1 capital

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

Common equity tier 1 ratio

Common equity tier 1 capital in relation to risk-weighted assets.

Common equity tier 1 ratio available for use as a buffer

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

Leverage ratio

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

Own funds/Total capital

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

Risk-weighted assets

Total risk exposure amounts on which the statutory capital requirement is based.

Tier 1 capital

Common equity tier 1 capital including additional tier 1 capital.

Tier 1 ratio

Tier 1 capital in relation to risk-weighted assets.

Tier 2 capital

Tier 2 capital is a sub-component of own funds and comprises subordinated loans which meet the requirements stated in Regulation (EU) No 575/2013 and can therefore be included in the tier 2 capital.

Total capital ratio

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

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.

ADDRESS

Stadshypotek AB

Office address: Torsgatan 12

Postal address: SE-103 70 Stockholm, Sweden

Tel: +46 (0)8 701 54 00. **Fax:** 08-701 55 40

Website: www.stadshypotek.se

