

# Interim Report

January-June

# 2017

# Stadshypotek's Interim Report

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**Income** totalled SEK 6,370m (6,063).

**Expenses before loan losses** increased by SEK 37m and amounted to SEK -555m (-518).

**Net loan losses** totalled SEK 2m (5) as recovered loan losses exceeded new loan losses.

**Operating profit** rose by SEK 267m and amounted to SEK 5,817m (5,550).

**Profit after tax** totalled SEK 4,507m (4,329).

**Loans to the public** increased by 6%, or SEK 65bn, to SEK 1,183bn (1,118).

# Stadshypotek's Interim Report January–June 2017

## JANUARY – JUNE 2017 COMPARED WITH JANUARY – JUNE 2016

Stadshypotek's operating profit increased by 5%, or SEK 267m, to SEK 5,817m (5,550). Net interest income grew by SEK 343m to SEK 6,377m (6,034), mainly due to higher lending volumes to the private market in Sweden. However, this change in net interest income was adversely affected by SEK 196m as a result of the doubling of the fee to the Resolution Fund, effective as of 2017. Of the net interest income, SEK 409m (299) was attributable to the branch in Norway, SEK 190m (191) to the branch in Finland and SEK 208m (160) to the branch in Denmark. The increase in net interest income at the Norwegian branch was mainly attributable to a lower funding cost, but also to an increase in lending volumes. Excluding the branches, net interest income increased by SEK 186m. Net gains/losses on financial transactions decreased by SEK 37m to SEK 6m (43).

Expenses rose by SEK 37m to -555m (-518). This increase can in part be attributed to an increase in staff costs, largely a consequence of higher pension costs. There was also an increase in the 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, above all, higher costs of IT development and costs relating to the updating of funding programmes and ratings.

Recoveries exceeded new loan losses and the net amount recovered was SEK 2m (5).

## LENDING

Compared with the end of the corresponding period of the previous year, loans to the public increased by 6%, or SEK 65bn, to SEK 1,183bn (1,118). In Sweden, loans to the public increased by 6%, or SEK 57bn, to SEK 1,017bn (960). Loans to the private market in Sweden increased by 6%, or SEK 41bn, to SEK 692bn (651).

The credit quality of lending operations remains very good. Impaired loans, before deduction of the provision for probable loan losses, totalled SEK 122m (96). Of this amount, non-performing loans accounted for SEK 57m (50), while SEK 65m (46) 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 281m (305) that are not classed as being impaired loans. After deductions for specific provisions totalling SEK -35m (-24) and collective provisions of SEK -4m (-3) for probable loan losses, impaired loans totalled SEK 83m (69).

## FUNDING

Issues made under Stadshypotek's Swedish covered bond programme totalled SEK 49.9bn (61.5) for the first six months of the year. A nominal volume totalling SEK 76.1bn matured or was repurchased. In addition, bonds to the value of EUR 0.5bn (2.25) and USD 1.25bn (-) were issued, while bonds to the value of EUR 1.5bn and NOK 4bn reached maturity.

## CAPITAL ADEQUACY

The total capital ratio according to CRD IV was 55.8% (69.4), while the common equity tier 1 ratio calculated according to CRD IV was 33.2% (38.3). Further information on capital adequacy is provided in note 15, Capital adequacy, on page 19.

## RATINGS

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 2017	Jan-Jun 2016	Change %	Full year 2016
Interest income		10,084	10,142	-1	20,295
Interest expense		-3,707	-4,108	-10	-7,933
<b>Net interest income</b>	Note 3	<b>6,377</b>	<b>6,034</b>	<b>6</b>	<b>12,362</b>
Fee and commission income		6	7	-14	13
Fee and commission expense		-19	-21	-10	-42
<b>Net fee and commission income</b>		<b>-13</b>	<b>-14</b>	<b>-7</b>	<b>-29</b>
<b>Net gains/losses on financial transactions</b>	Note 4	<b>6</b>	<b>43</b>	<b>-86</b>	<b>82</b>
<b>Total income</b>		<b>6,370</b>	<b>6,063</b>	<b>5</b>	<b>12,415</b>
Staff costs		-59	-48	23	-94
Other administrative expenses	Note 5	-493	-467	6	-947
Depreciation and amortisation		-3	-3	0	-6
<b>Total expenses</b>		<b>-555</b>	<b>-518</b>	<b>7</b>	<b>-1,047</b>
<b>Profit before loan losses</b>		<b>5,815</b>	<b>5,545</b>	<b>5</b>	<b>11,368</b>
Net loan losses	Note 6	2	5	-60	-2
<b>Operating profit</b>		<b>5,817</b>	<b>5,550</b>	<b>5</b>	<b>11,366</b>
Taxes		-1,310	-1,221	7	-2,509
<b>Profit for the period</b>		<b>4,507</b>	<b>4,329</b>	<b>4</b>	<b>8,857</b>
Net earnings per share, before and after dilution, SEK		27,820	26,720	4	54,674

# Statement of comprehensive income

SEK m		Jan-Jun 2017	Jan-Jun 2016	Change %	Full year 2016
<b>Profit for the period</b>		<b>4,507</b>	<b>4,329</b>	<b>4</b>	<b>8,857</b>
<b>Other comprehensive income</b>					
<b>Items that may subsequently be reclassified to the income statement</b>					
Cash flow hedges		-1,458	2,053	-	-1,262
Translation differences for the period		-129	237	-	407
Tax on items that may subsequently be reclassified to the income statement					
– cash flow hedges		321	-452	-	278
<b>Total comprehensive income for the period</b>		<b>3,241</b>	<b>6,167</b>	<b>-47</b>	<b>8,280</b>

# Half-yearly performance

SEK m	Jan-Jun 2017	Jul-Dec 2016	Jan-Jun 2016	Jul-Dec 2015	Jan-Jun 2015
Interest income	10,084	10,153	10,142	10,415	11,469
Interest expense	-3,707	-3,825	-4,108	-4,527	-5,601
<b>Net interest income</b>	<b>6,377</b>	<b>6,328</b>	<b>6,034</b>	<b>5,888</b>	<b>5,868</b>
Net fee and commission income	-13	-15	-14	-4	-2
Net gains/losses on financial transactions	6	39	43	-30	59
<b>Total income</b>	<b>6,370</b>	<b>6,352</b>	<b>6,063</b>	<b>5,854</b>	<b>5,925</b>
Staff costs	-59	-46	-48	-47	-42
Other administrative expenses	-493	-480	-467	-468	-495
Depreciation and amortisation	-3	-3	-3	-6	-7
<b>Total expenses</b>	<b>-555</b>	<b>-529</b>	<b>-518</b>	<b>-521</b>	<b>-544</b>
<b>Profit before loan losses</b>	<b>5,815</b>	<b>5,823</b>	<b>5,545</b>	<b>5,333</b>	<b>5,381</b>
Net loan losses	2	-7	5	-1	3
<b>Operating profit</b>	<b>5,817</b>	<b>5,816</b>	<b>5,550</b>	<b>5,332</b>	<b>5,384</b>

# Balance sheet

SEK m		30 Jun 2017	31 Dec 2016	30 Jun 2016
<b>Assets</b>				
Loans to credit institutions		11,213	12,027	10,598
Loans to the public	Note 7	1,182,810	1,150,611	1,117,530
Value change of interest-hedged item in portfolio hedge		33	35	45
Shares and participating interests in Group companies		0	0	0
Derivative instruments	Note 8	16,988	22,746	22,255
Intangible assets		9	12	12
Property and equipment		1	0	0
Current tax assets		0	-	-
Other assets		2,968	701	5,514
Prepaid expenses and accrued income		1,704	1,393	1,556
<b>Total assets</b>		<b>1,215,726</b>	<b>1,187,525</b>	<b>1,157,510</b>
<i>of which Group claims</i>	Note 14	28,300	34,849	32,930
<b>Liabilities and equity</b>				
Due to credit institutions		565,093	497,110	463,693
Issued securities	Note 9	579,744	612,787	613,012
Derivative instruments	Note 8	4,864	4,429	3,873
Current tax liability		1,326	188	864
Deferred tax liability		415	735	1,464
Other liabilities		465	10,143	4,219
Accrued expenses and deferred income		5,860	7,415	6,902
Subordinated liabilities		21,700	21,700	24,700
<b>Total liabilities</b>		<b>1,179,467</b>	<b>1,154,507</b>	<b>1,118,727</b>
<b>Equity</b>				
Share capital		4,050	4,050	4,050
Other funds		9,513	10,782	13,197
Retained earnings		18,189	9,329	17,207
Profit for the year		4,507	8,857	4,329
<b>Total equity</b>		<b>36,259</b>	<b>33,018</b>	<b>38,783</b>
<b>Total liabilities and equity</b>		<b>1,215,726</b>	<b>1,187,525</b>	<b>1,157,510</b>
<i>of which Group liabilities</i>	Note 14	581,198	533,896	490,268

# Statement of changes in equity

Jan-Jun 2017 SEK m	Restricted equity			Non-restricted equity			Total
	Share capital <sup>1</sup>	Statutory reserve	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 <sup>2</sup>				-1,137	-129		-1,266
<b>Total comprehensive income for the period</b>				<b>-1,137</b>	<b>-129</b>	<b>4,507</b>	<b>3,241</b>
Fund for internally developed software			-3			3	
<b>Equity at 30 June 2017</b>	<b>4,050</b>	<b>8,106</b>	<b>9</b>	<b>1,470</b>	<b>-72</b>	<b>22,696</b>	<b>36,259</b>

Jan-Dec 2016 SEK m	Restricted equity			Non-restricted equity			Total
	Share capital <sup>1</sup>	Statutory reserve	Fund for internally developed software	Hedge reserve	Translation reserve	Retained earnings	
Equity at 31 December 2015	4,050	8,106		3,591	-350	17,219	32,616
Profit for the year						8,857	8,857
Other comprehensive income <sup>2</sup>				-984	407		-577
<b>Total comprehensive income for the year</b>				<b>-984</b>	<b>407</b>	<b>8,857</b>	<b>8,280</b>
Fund for internally developed software			12			-12	
Group contributions provided						-10,100	-10,100
Tax effect on Group contributions						2,222	2,222
<b>Equity at 31 December 2016</b>	<b>4,050</b>	<b>8,106</b>	<b>12</b>	<b>2,607</b>	<b>57</b>	<b>18,186</b>	<b>33,018</b>

Jan-Jun 2016 SEK m	Restricted equity			Non-restricted equity			Total
	Share capital <sup>1</sup>	Statutory reserve	Fund for internally developed software	Hedge reserve	Translation reserve	Retained earnings	
Equity at 31 December 2015	4,050	8,106		3,591	-350	17,219	32,616
Profit for the period						4,329	4,329
Other comprehensive income <sup>2</sup>				1,601	237		1,838
<b>Total comprehensive income for the period</b>				<b>1,601</b>	<b>237</b>	<b>4,329</b>	<b>6,167</b>
Fund for internally developed software			12			-12	
<b>Equity at 30 June 2016</b>	<b>4,050</b>	<b>8,106</b>	<b>12</b>	<b>5,192</b>	<b>-113</b>	<b>21,536</b>	<b>38,783</b>

<sup>1</sup> Average number of shares, before and after dilution, 162,000.

<sup>2</sup> 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 -1,137m (1,601) after tax. The changes in value are primarily derived from changes in the discount rates of each of the respective currencies.

# Condensed statement of cash flows

SEK m	Jan-Jun 2017	Jan-Jun 2016	Full year 2016
Operating profit	5,817	5,550	11,366
Adjustment for non-cash items in profit/loss	-21	147	186
Paid income tax	-172	-428	-169
Changes in the assets and liabilities of operating activities	3,692	-79	-1,841
<b>Cash flow from operating activities</b>	<b>9,316</b>	<b>5,190</b>	<b>9,542</b>
<b>Cash flow from investing activities</b>	<b>0</b>	<b>-</b>	<b>-3</b>
Subordinated loans	-	4,000	1,000
Group contribution provided	-10,100	-9,235	-9,235
<b>Cash flow from financing activities</b>	<b>-10,100</b>	<b>-5,235</b>	<b>-8,235</b>
<b>Cash flow for the period</b>	<b>-784</b>	<b>-45</b>	<b>1,304</b>
Liquid funds at beginning of period	7,027	5,516	5,516
Cash flow for the period	-784	-45	1,304
Exchange rate difference on liquid funds	-30	127	207
<b>Liquid funds at end of period</b>	<b>6,213</b>	<b>5,598</b>	<b>7,027</b>
<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	6,213	5,598	7,027
Funds on a blocked account with banks relating to issuance of covered bonds	5,000	5,000	5,000
<b>Loans to credit institutions</b>	<b>11,213</b>	<b>10,598</b>	<b>12,027</b>

## Key figures

	Jan-Jun 2017	Jan-Jun 2016	Full year 2016
Net interest margin, %	1.06	1.06	1.07
C/I ratio before loan losses, %	8.7	8.5	8.4
C/I ratio after loan losses, %	8.7	8.5	8.4
Return on equity, %	24.0	24.2	24.4
Total capital ratio, CRD IV, %	55.8	69.4	67.4
Tier 1 ratio, according to CRD IV, %	33.2	40.7	39.2
Common equity tier 1 ratio, according to CRD IV, %	33.2	38.3	39.2



# 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.

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 2016.

### REGULATORY CHANGES

IFRS 9 Financial Instruments, which is to replace IAS 39 Financial Instruments: Recognition and Measurement, has been adopted for application by the EU. The standard is to be applied as of the 2018 financial year and covers three areas: classification and measurement, impairment and general hedge accounting.

Stadshypotek is currently analysing the financial effects of the new standard in more detail.

Further, IFRS 15 Revenue from contracts with customers has also been adopted for application by the EU. The standard is to be applied as of the 2018 financial year. The current assessment is that the new standard will not have any material impact on Stadshypotek's financial reports, capital adequacy and large exposures.

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 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 2017, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -475m (-427). 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 vari-

ous 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 whereby 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.

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

## NOTE 2 Other information, cont.

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 2017	Jan-Jun 2016	Change %	Full year 2016
<b>Interest income</b>				
Loans to the public	10,000	10,051	-1	20,116
Loans to credit institutions	84	91	-8	179
<b>Total</b>	<b>10,084</b>	<b>10,142</b>	<b>-1</b>	<b>20,295</b>
<b>Interest expense</b>				
Due to credit institutions	-1,315	-1,045	26	-2,241
Issued securities	-3,577	-4,498	-20	-8,479
Subordinated liabilities	-121	-213	-43	-448
Derivative instruments <sup>1</sup>	1,635	1,783	-8	3,503
Fee to Resolution Fund	-329	-134	146	-267
Other	0	-1	0	-1
<b>Total</b>	<b>-3,707</b>	<b>-4,108</b>	<b>-10</b>	<b>-7,933</b>
<b>Net interest income</b>	<b>6,377</b>	<b>6,034</b>	<b>6</b>	<b>12,362</b>

<sup>1</sup> 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 2017	Jan-Jun 2016	Change %	Full year 2016
Hedge accounting	4	-4	-	-8
<i>of which fair value hedges</i>	-1	-5	-80	-11
<i>of which ineffective portion of cash flow hedges</i>	5	1	400	3
Loans, valued at cost	97	136	-29	272
Financial liabilities, valued at cost	-124	-112	11	-224
Derivatives not recognised as hedges	0	-1	-	-4
Other	29	24	21	46
<b>Total</b>	<b>6</b>	<b>43</b>	<b>-86</b>	<b>82</b>

The profit/loss item "fair value hedges" includes the net result of unrealised and realised changes in the fair value of financial assets and liabilities which are subject to 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 the item "ineffective portion of cash flow hedges". Derivatives not recognised as hedges are included in the held-for-trading category.

The line item Loans, valued at cost refers to early redemption charges for loans and receivables which have been repaid ahead of time. The line item Financial liabilities, valued at cost refers to realised price differences when repurchasing bonds.

## NOTE 5 Other administrative expenses

SEK m	Jan-Jun 2017	Jan-Jun 2016	Change %	Full year 2016
Cost of premises	-4	-3	33	-7
IT costs	-65	-58	12	-114
Communication	0	0	0	-1
Travel and marketing	-2	-2	0	-3
Purchased services	-407	-395	3	-802
Supplies	0	0	0	0
Other expenses	-15	-9	67	-20
<b>Total</b>	<b>-493</b>	<b>-467</b>	<b>6</b>	<b>-947</b>

## NOTE 6 Loan losses

SEK m	Jan-Jun 2017	Jan-Jun 2016	Change %	Full year 2016
<b>Specific provision for individually assessed loans</b>				
Provisions for the period	-7	-1	600	-15
Reversal of previous provisions	2	2	0	5
<b>Total</b>	<b>-5</b>	<b>1</b>	<b>-600</b>	<b>-10</b>
<b>Collective provision</b>				
Collective provision for individually assessed loans	0	2	-100	1
<b>Write-offs</b>				
Actual loan losses for the period	-3	-12	-75	-24
Utilised share of previous provisions	2	7	-71	10
Reversal of actual loan losses in previous years	8	7	14	21
<b>Total</b>	<b>7</b>	<b>2</b>	<b>250</b>	<b>7</b>
<b>Net loan losses</b>	<b>2</b>	<b>5</b>	<b>-60</b>	<b>-2</b>

Impaired loans SEK m	30 Jun 2017	31 Dec 2016	30 Jun 2016
Impaired loans	122	103	96
Specific provision for individually assessed loans	-35	-32	-24
Collective provision for individually assessed loans	-4	-4	-3
<b>Net impaired loans</b>	<b>83</b>	<b>67</b>	<b>69</b>
Proportion of impaired loans, %	0.01	0.01	0.01
Impaired loans reserve ratio, %	28.9	31.2	25.3
Loan loss ratio, %	-0.00	-0.00	-0.00
Non-performing loans which are not impaired loans	281	328	305

## NOTE 7 Loans to the public

Loans to the public, by borrower category	30 Jun 2017			31 Dec 2016			30 Jun 2016		
	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	852,295	-21	852,274	830,089	-18	830,071	801,573	-13	801,560
Public sector, municipal companies	21,030	-	21,030	24,701	-	24,701	25,294	-	25,294
Housing co-operative associations	168,892	-12	168,880	162,125	-12	162,113	157,640	-7	157,633
Other legal entities	140,632	-2	140,630	133,732	-2	133,730	133,050	-4	133,046
<b>Total loans to the public, before collective provision</b>	<b>1,182,849</b>	<b>-35</b>	<b>1,182,814</b>	<b>1,150,647</b>	<b>-32</b>	<b>1,150,615</b>	<b>1,117,557</b>	<b>-24</b>	<b>1,117,533</b>
Collective provision		-4	-4		-4	-4		-3	-3
<b>Total loans to the public</b>	<b>1,182,849</b>	<b>-39</b>	<b>1,182,810</b>	<b>1,150,647</b>	<b>-36</b>	<b>1,150,611</b>	<b>1,117,557</b>	<b>-27</b>	<b>1,117,530</b>
<b>of which in operations outside Sweden</b>									
Households	119,721	-1	119,720	120,154	-1	120,153	111,866	-	111,866
Public sector, municipal companies	8,771	-	8,771	10,383	-	10,383	10,324	-	10,324
Housing co-operative associations	30,265	-	30,265	30,067	-	30,067	28,040	-	28,040
Other legal entities	7,161	-	7,161	6,735	-	6,735	7,144	-	7,144
<b>Total loans to the public in operations outside Sweden before collective provision</b>	<b>165,918</b>	<b>-1</b>	<b>165,917</b>	<b>167,339</b>	<b>-1</b>	<b>167,338</b>	<b>157,374</b>	<b>-</b>	<b>157,374</b>
Collective provision		-1	-1		-1	-1		-1	-1
<b>Total loans to the public in operations outside Sweden</b>	<b>165,918</b>	<b>-2</b>	<b>165,916</b>	<b>167,339</b>	<b>-2</b>	<b>167,337</b>	<b>157,374</b>	<b>-1</b>	<b>157,373</b>

Loans to the public, by type of collateral	30 Jun 2017			31 Dec 2016			30 Jun 2016		
	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	573,694	-20	573,674	564,661	-16	564,645	548,607	-12	548,595
Housing co-operative apartments	220,496	-2	220,494	209,448	-2	209,446	198,073	-1	198,072
Owner-occupied apartments	17,258	-	17,258	16,848	-	16,848	16,133	-	16,133
<b>Private market</b>	<b>811,448</b>	<b>-22</b>	<b>811,426</b>	<b>790,957</b>	<b>-18</b>	<b>790,939</b>	<b>762,813</b>	<b>-13</b>	<b>762,800</b>
Multi-family dwellings	301,662	-13	301,649	293,904	-14	293,890	286,303	-11	286,292
Offices and commercial buildings	69,739	0	69,739	65,786	-	65,786	68,441	-	68,441
<b>Corporate market</b>	<b>371,401</b>	<b>-13</b>	<b>371,388</b>	<b>359,690</b>	<b>-14</b>	<b>359,676</b>	<b>354,744</b>	<b>-11</b>	<b>354,733</b>
<b>Total loans to the public, before collective provision</b>	<b>1,182,849</b>	<b>-35</b>	<b>1,182,814</b>	<b>1,150,647</b>	<b>-32</b>	<b>1,150,615</b>	<b>1,117,557</b>	<b>-24</b>	<b>1,117,533</b>
Collective provision		-4	-4		-4	-4		-3	-3
<b>Total loans to the public</b>	<b>1,182,849</b>	<b>-39</b>	<b>1,182,810</b>	<b>1,150,647</b>	<b>-36</b>	<b>1,150,611</b>	<b>1,117,557</b>	<b>-27</b>	<b>1,117,530</b>
<b>of which in operations outside Sweden</b>									
Single-family housing	98,129	-1	98,128	98,165	-1	98,164	90,920	-	90,920
Housing co-operative apartments	4,460	-	4,460	5,251	-	5,251	4,890	-	4,890
Owner-occupied apartments	17,258	-	17,258	16,848	-	16,848	16,133	-	16,133
<b>Private market</b>	<b>119,847</b>	<b>-1</b>	<b>119,846</b>	<b>120,264</b>	<b>-1</b>	<b>120,263</b>	<b>111,943</b>	<b>-</b>	<b>111,943</b>
Multi-family dwellings	45,831	-	45,831	46,820	-	46,820	45,130	-	45,130
Offices and commercial buildings	240	-	240	255	-	255	301	-	301
<b>Corporate market</b>	<b>46,071</b>	<b>-</b>	<b>46,071</b>	<b>47,075</b>	<b>-</b>	<b>47,075</b>	<b>45,431</b>	<b>-</b>	<b>45,431</b>
<b>Total loans to the public in operations outside Sweden before collective provision</b>	<b>165,918</b>	<b>-1</b>	<b>165,917</b>	<b>167,339</b>	<b>-1</b>	<b>167,338</b>	<b>157,374</b>	<b>-</b>	<b>157,374</b>
Collective provision		-1	-1		-1	-1		-1	-1
<b>Total loans to the public in operations outside Sweden</b>	<b>165,918</b>	<b>-2</b>	<b>165,916</b>	<b>167,339</b>	<b>-2</b>	<b>167,337</b>	<b>157,374</b>	<b>-1</b>	<b>157,373</b>

**NOTE 7** Loans to the public, cont.

Non-performing loans by borrower category	30 Jun 2017		31 Dec 2016		30 Jun 2016	
	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	249	50	308	35	295	40
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-
Other legal entities	32	7	20	6	10	10
<b>Total</b>	<b>281</b>	<b>57</b>	<b>328</b>	<b>41</b>	<b>305</b>	<b>50</b>
<b>of which in operations outside Sweden</b>						
Households	40	7	68	4	56	0
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-
Other legal entities	5	0	3	0	4	0
<b>Total non-performing loans in operations outside Sweden</b>	<b>45</b>	<b>7</b>	<b>71</b>	<b>4</b>	<b>60</b>	<b>0</b>

Non-performing loans by type of collateral	30 Jun 2017		31 Dec 2016		30 Jun 2016	
	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	213	48	237	33	215	37
Housing co-operative apartments	34	6	39	7	49	8
Owner-occupied apartments	11	1	22	0	17	0
<b>Private market</b>	<b>258</b>	<b>55</b>	<b>298</b>	<b>40</b>	<b>281</b>	<b>45</b>
Multi-family dwellings	3	2	1	1	9	5
Offices and commercial buildings	20	-	29	-	15	0
<b>Corporate market</b>	<b>23</b>	<b>2</b>	<b>30</b>	<b>1</b>	<b>24</b>	<b>5</b>
<b>Total</b>	<b>281</b>	<b>57</b>	<b>328</b>	<b>41</b>	<b>305</b>	<b>50</b>
<b>of which in operations outside Sweden</b>						
Single-family housing	34	6	49	4	40	0
Housing co-operative apartments	-	-	-	-	2	-
Owner-occupied apartments	11	1	22	0	17	0
<b>Private market</b>	<b>45</b>	<b>7</b>	<b>71</b>	<b>4</b>	<b>59</b>	<b>0</b>
Multi-family dwellings	-	-	-	-	1	-
Offices and commercial buildings	-	-	-	-	-	-
<b>Corporate market</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>
<b>Total non-performing loans in operations outside Sweden</b>	<b>45</b>	<b>7</b>	<b>71</b>	<b>4</b>	<b>60</b>	<b>0</b>

NOTE 7 Loans to the public, cont.

Impaired loans by borrower category	30 Jun 2017			31 Dec 2016			30 Jun 2016		
	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	88	-21	67	69	-18	51	64	-13	51
Public sector, municipal companies	-	-	-	-	-	-	-	-	-
Housing co-operative associations	27	-12	15	27	-12	15	21	-7	14
Other legal entities	7	-2	5	7	-2	5	11	-4	7
<b>Total</b>	<b>122</b>	<b>-35</b>	<b>87</b>	<b>103</b>	<b>-32</b>	<b>71</b>	<b>96</b>	<b>-24</b>	<b>72</b>
<b>of which in operations outside Sweden</b>									
Households	13	-2	11	8	-1	7	1	0	1
Public sector, municipal companies	-	-	-	-	-	-	-	-	-
Housing co-operative associations	-	-	-	-	-	-	-	-	-
Other legal entities	0	0	0	0	0	0	0	0	0
<b>Total impaired loans in operations outside Sweden</b>	<b>13</b>	<b>-2</b>	<b>11</b>	<b>8</b>	<b>-1</b>	<b>7</b>	<b>1</b>	<b>0</b>	<b>1</b>

Impaired loans by type of collateral	30 Jun 2017			31 Dec 2016			30 Jun 2016		
	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	84	-20	64	65	-16	49	61	-12	49
Housing co-operative apartments	7	-1	6	8	-2	6	9	-1	8
Owner-occupied apartments	1	0	1	0	0	0	0	0	0
<b>Private market</b>	<b>92</b>	<b>-21</b>	<b>71</b>	<b>73</b>	<b>-18</b>	<b>55</b>	<b>70</b>	<b>-13</b>	<b>57</b>
Multi-family dwellings	29	-14	15	30	-14	16	26	-11	15
Offices and commercial buildings	1	-	1	0	0	0	-	-	-
<b>Corporate market</b>	<b>30</b>	<b>-14</b>	<b>16</b>	<b>30</b>	<b>-14</b>	<b>16</b>	<b>26</b>	<b>-11</b>	<b>15</b>
<b>Total</b>	<b>122</b>	<b>-35</b>	<b>87</b>	<b>103</b>	<b>-32</b>	<b>71</b>	<b>96</b>	<b>-24</b>	<b>72</b>
<b>of which in operations outside Sweden</b>									
Single-family housing	12	-2	10	8	-1	7	1	0	1
Housing co-operative apartments	-	-	-	-	-	-	-	-	-
Owner-occupied apartments	1	-	1	0	0	0	0	0	0
<b>Private market</b>	<b>13</b>	<b>-2</b>	<b>11</b>	<b>8</b>	<b>-1</b>	<b>7</b>	<b>1</b>	<b>0</b>	<b>1</b>
Multi-family dwellings	-	-	-	-	-	-	-	-	-
Offices and commercial buildings	-	-	-	-	-	-	-	-	-
<b>Corporate market</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total impaired loans in operations outside Sweden</b>	<b>13</b>	<b>-2</b>	<b>11</b>	<b>8</b>	<b>-1</b>	<b>7</b>	<b>1</b>	<b>0</b>	<b>1</b>

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

## NOTE 8 Derivative instruments

SEK m	Market value 30 Jun 2017	Market value 31 Dec 2016	Market value 30 Jun 2016
<b>Positive values</b>			
Interest rate instruments	6,202	8,708	11,155
Currency instruments	10,786	14,038	11,100
<b>Total</b>	<b>16,988</b>	<b>22,746</b>	<b>22,255</b>
<b>Negative values</b>			
Interest rate instruments	1,443	1,388	893
Currency instruments	3,421	3,041	2,980
<b>Total</b>	<b>4,864</b>	<b>4,429</b>	<b>3,873</b>
<b>Net</b>	<b>12,124</b>	<b>18,317</b>	<b>18,382</b>

## NOTE 9 Issued securities

SEK m	30 Jun 2017	30 Jun 2016
<b>Issued securities at beginning of period</b>	<b>612,787</b>	<b>568,416</b>
Issued	70,063	96,244
Repurchased	-31,042	-14,626
Matured	-64,047	-35,908
Price differences, exchange rate effects, etc.	-8,017	-1,114
<b>Issued securities at end of period</b>	<b>579,744</b>	<b>613,012</b>



## NOTE 10 Classification of financial assets and liabilities

30 Jun 2017 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives designated as hedging instruments	Financial liabilities recognised at amortised cost	Non-financial assets/liabilities	Total	Fair value
<b>Assets</b>							
Loans to credit institutions	11,213					11,213	11,213
Loans to the public	1,182,810					1,182,810	1,192,205
Value change of interest-hedged item in portfolio hedge	33					33	
Derivative instruments		0	16,988			16,988	16,988
Other assets	4,672				10	4,682	4,682
<b>Total assets</b>	<b>1,198,728</b>	<b>0</b>	<b>16,988</b>		<b>10</b>	<b>1,215,726</b>	<b>1,225,088</b>
<b>Liabilities</b>							
Due to credit institutions				565,093		565,093	569,243
Issued securities				579,744		579,744	589,259
Derivative instruments		0	4,864			4,864	4,864
Other liabilities				6,325	1,741	8,066	8,066
Subordinated liabilities				21,700		21,700	23,261
<b>Total liabilities</b>		<b>0</b>	<b>4,864</b>	<b>1,172,862</b>	<b>1,741</b>	<b>1,179,467</b>	<b>1,194,693</b>

31 Dec 2016 SEK m	Loans and receivables	Derivatives that do not constitute formal hedges	Derivatives designated as hedging instruments	Financial liabilities recognised at amortised cost	Non-financial assets/liabilities	Total	Fair value
<b>Assets</b>							
Loans to credit institutions	12,027					12,027	12,027
Loans to the public	1,150,611					1,150,611	1,161,681
Value change of interest-hedged item in portfolio hedge	35					35	
Derivative instruments		0	22,746			22,746	22,746
Other assets	2,094				12	2,106	2,106
<b>Total assets</b>	<b>1,164,767</b>	<b>0</b>	<b>22,746</b>		<b>12</b>	<b>1,187,525</b>	<b>1,198,560</b>
<b>Liabilities</b>							
Due to credit institutions				497,110		497,110	501,783
Issued securities				612,787		612,787	623,522
Derivative instruments		1	4,428			4,429	4,429
Other liabilities				17,558	923	18,481	18,481
Subordinated liabilities				21,700		21,700	23,350
<b>Total liabilities</b>		<b>1</b>	<b>4,428</b>	<b>1,149,155</b>	<b>923</b>	<b>1,154,507</b>	<b>1,171,565</b>

## NOTE 11 Fair value measurement of financial instruments

30 Jun 2017 SEK m	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Derivative instruments	-	16,988	-	16,988
<b>Total financial assets measured at fair value</b>	<b>-</b>	<b>16,988</b>	<b>-</b>	<b>16,988</b>
<b>Liabilities</b>				
Derivative instruments	-	4,864	-	4,864
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>4,864</b>	<b>-</b>	<b>4,864</b>

  

31 December 2016 SEK m	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Derivative instruments	-	22,746	-	22,746
<b>Total financial assets measured at fair value</b>	<b>-</b>	<b>22,746</b>	<b>-</b>	<b>22,746</b>
<b>Liabilities</b>				
Derivative instruments	-	4,429	-	4,429
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>4,429</b>	<b>-</b>	<b>4,429</b>

### 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 practices and established financial theory. New or revised valuation models are always validated before they come into use. Stadshypotek is also covered by 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 risk control and financial functions from both Group and local levels. 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 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 source, and where the price information received can be easily 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 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 substantial 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 2017	31 Dec 2016	30 Jun 2016
Assets pledged for own debt <sup>1</sup>	627,731	667,920	672,663
Other pledged assets	-	-	-
<b>Pledged assets</b>	<b>627,731</b>	<b>667,920</b>	<b>672,663</b>
Commitments	1,685	1,592	1,593
<b>Contingent liabilities</b>	<b>1,685</b>	<b>1,592</b>	<b>1,593</b>

<sup>1</sup> The collateral 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. It also comprises 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 total collateral 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 2017			Jan-Jun 2016			Full year 2016		
	Private	Corporate	Total	Private	Corporate	Total	Private	Corporate	Total
Net interest income	4,810	1,567	6,377	4,475	1,559	6,034	9,229	3,133	12,362
Net fee and commission income	-10	-3	-13	-10	-4	-14	-22	-7	-29
Net gains/losses on financial transactions	5	1	6	31	12	43	62	20	82
<b>Total income</b>	<b>4,805</b>	<b>1,565</b>	<b>6,370</b>	<b>4,496</b>	<b>1,567</b>	<b>6,063</b>	<b>9,269</b>	<b>3,146</b>	<b>12,415</b>
<b>Costs</b>	<b>-419</b>	<b>-136</b>	<b>-555</b>	<b>-378</b>	<b>-140</b>	<b>-518</b>	<b>-784</b>	<b>-263</b>	<b>-1,047</b>
<b>Profit before loan losses</b>	<b>4,386</b>	<b>1,429</b>	<b>5,815</b>	<b>4,118</b>	<b>1,427</b>	<b>5,545</b>	<b>8,485</b>	<b>2,883</b>	<b>11,368</b>
Net loan losses	1	1	2	2	3	5	-1	-1	-2
<b>Operating profit</b>	<b>4,387</b>	<b>1,430</b>	<b>5,817</b>	<b>4,120</b>	<b>1,430</b>	<b>5,550</b>	<b>8,484</b>	<b>2,882</b>	<b>11,366</b>
Loans to the public	811,426	371,384	1,182,810	762,799	354,731	1,117,530	790,939	359,672	1,150,611

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 2017		Jan-Jun 2016		Full year 2016	
	Income	Total assets	Income	Total assets	Income	Total assets
Sweden	5,552	1,044,352	5,394	996,090	11,087	1,015,817
Norway	414	78,586	313	74,703	598	80,881
Denmark	209	41,695	160	35,964	345	39,676
Finland	195	51,093	196	50,753	385	51,151
<b>Total</b>	<b>6,370</b>	<b>1,215,726</b>	<b>6,063</b>	<b>1,157,510</b>	<b>12,415</b>	<b>1,187,525</b>

## NOTE 14 Related-party transactions

Group claims/Group liabilities SEK m	30 Jun 2017	31 Dec 2016	30 Jun 2016
<b>BALANCE SHEET</b>			
<b>Group claims</b>			
Loans to credit institutions	11,213	12,027	10,598
Derivative instruments	16,988	22,746	22,255
Other assets	99	76	77
<b>Total</b>	<b>28,300</b>	<b>34,849</b>	<b>32,930</b>
<b>Group liabilities</b>			
Due to credit institutions	554,054	497,110	461,263
Derivative instruments	4,864	4,429	3,873
Other liabilities	580	10,657	432
Subordinated liabilities	21,700	21,700	24,700
<b>Total</b>	<b>581,198</b>	<b>533,896</b>	<b>490,268</b>
<b>INCOME STATEMENT</b>			
Interest income	85	180	91
Interest expense <sup>1</sup>	190	809	523
Fee and commission expense	-3	-7	-3
Other administrative expenses	-464	-908	-450
<b>Total</b>	<b>-192</b>	<b>74</b>	<b>161</b>

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

The business operations of Stadshypotek are highly decentralised. The basic principle is that the organisation and working practices are centred around the branch offices of the Handelsbanken Group, which are responsible for all the business of individual customers. One consequence of this approach is that Stadshypotek's lending operations are run via Handelsbanken's Swedish branch operations and the lending operations at 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 Stadshypotek's Credit Policy and Credit

Instructions, which are established annually by the Board of Stadshypotek. These credit instructions include the maximum permitted loan-to-value ratio for various property types, as well as the decision limits which apply to Stadshypotek's lending via the Bank's branches. In addition, the credit instructions also stipulate that for loan amounts in excess of a certain limit, an advance examination of the case and an approval of the property by Stadshypotek's credit committee is required before the loan can be 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 compensation to Handelsbanken's branch operations for the administration, management and sale of mortgage loans, 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 requirements relating to the calculation of own funds and capital requirement are regulated in Regulation (EU) No 575/2013 (CRR) and Directive 2013/36/EU, which embody the EU's implementation of the international Basel III regulations. All references to CRD IV in this interim report refer to these EU regulations in their entirety regardless of legislative form (regulation, directive, executive decree or national implementation). The disclosures reported in this section refer to the minimum capital requirements under Pillar 1.

Own funds SEK m	30 Jun 2017	31 Dec 2016	30 Jun 2016
Equity	36,259	33,018	38,783
Deduction for Group contribution accrued during the current year	-2,507	-	-4,329
Deduction for intangible assets	-9	-12	-12
Price adjustments (fair value)	-1	0	0
Adjustment for cash flow hedges	-1,470	-2,607	-5,193
Special deduction for IRB institutions	-317	-236	-233
<b>Common equity tier 1 capital</b>	<b>31,955</b>	<b>30,163</b>	<b>29,016</b>
Additional tier 1 capital	-	-	1,800
<b>Tier 1 capital</b>	<b>31,955</b>	<b>30,163</b>	<b>30,816</b>
Perpetual subordinated loans	5,300	5,300	5,300
Dated subordinated loans	16,400	16,400	16,400
<b>Tier 2 capital</b>	<b>21,700</b>	<b>21,700</b>	<b>21,700</b>
<b>Own funds</b>	<b>53,655</b>	<b>51,863</b>	<b>52,516</b>
<b>Capital requirement</b> SEK m	<b>30 Jun 2017</b>	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>
Credit risk according to standardised approach	37	18	40
Credit risk according to IRB Approach	6,177	4,782	4,653
Operational risk	1,484	1,360	1,360
<b>Total capital requirement</b>	<b>7,698</b>	<b>6,160</b>	<b>6,053</b>
Adjustment according to Basel I floor	39,101	39,017	37,845
<b>Capital requirement, Basel I floor</b>	<b>46,799</b>	<b>45,177</b>	<b>43,898</b>
<b>Total own funds, Basel I floor</b>	<b>53,973</b>	<b>52,099</b>	<b>52,749</b>
<b>Capital adequacy analysis</b>	<b>30 Jun 2017</b>	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>
Common equity tier 1 ratio, CRD IV	33.2%	39.2%	38.3%
Tier 1 ratio, CRD IV	33.2%	39.2%	40.7%
Total capital ratio, CRD IV	55.8%	67.4%	69.4%
Risk exposure amount CRD IV, SEK m	96,227	76,997	75,667
Own funds in relation to capital requirement according to Basel I floor	115%	115%	120%
Institution-specific buffer requirements	4.2%	3.8%	3.75%
<i>of which capital conservation buffer requirement</i>	2.5%	2.5%	2.5%
<i>of which countercyclical buffer requirement</i>	1.7%	1.3%	1.3%
Common equity tier 1 capital available for use as a buffer	28.7%	34.7%	33.8%

## NOTE 15 Capital adequacy, cont.

Credit risks IRB SEK m	Exposure amount		Average risk weight, %		Capital requirement	
	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
Sovereign and central banks	27,840	-	8.1	-	180	-
Corporate exposures	325,795	311,382	10.4	6.6	2,718	1,640
<i>of which other lending, foundation approach</i>	2	5	22.9	49.1	0	0
<i>of which other lending, advanced approach</i>	325,793	311,377	10.4	6.6	2,718	1,640
- Large corporates	499	164	42.5	31.8	17	4
- Medium-sized companies	11,767	10,723	23.6	19.8	222	170
- Property companies	151,224	145,265	16.9	10.0	2,042	1,159
- Housing co-operative associations	162,303	155,225	3.4	2.5	437	307
Retail exposures	826,578	805,338	5.0	4.9	3,279	3,142
<i>of which private individuals</i>	820,155	798,588	4.9	4.8	3,190	3,053
<i>of which small companies</i>	6,423	6,750	17.3	16.5	89	89
<b>Total IRB</b>	<b>1,180,213</b>	<b>1,116,720</b>	<b>6.5</b>	<b>5.4</b>	<b>6,177</b>	<b>4,782</b>

As of Q2 2017, Stadshypotek applies the IRB Approach without own estimates of loss given default (LGD) and credit conversion factors (CCF) for sovereign exposures.

Capital requirement credit risks, standardised approach <sup>1</sup> SEK m	30 Jun 2017			31 Dec 2016		
	Exposure value	Average risk weight, %	Capital requirement	Exposure value	Average risk weight, %	Capital requirement
Sovereign and central banks	-	-	-	3,397	0.0	0
Municipalities	-	-	-	27,277	0.0	0
Institutions	43,927	0.0	0	46,895	0.0	0
Companies	1	100.0	-	8	100.0	1
Other items	464	100.0	37	211	100.0	17
<b>Total</b>	<b>44,392</b>	<b>1.0</b>	<b>37</b>	<b>77,788</b>	<b>0.3</b>	<b>18</b>

<sup>1</sup> Details of capital requirement for exposure classes where applicable.

## Leverage ratio

Effective as of 2015, the provisions of CRD IV include a reporting requirement regarding a non risk-based leverage ratio. No decision to make it mandatory has been taken but on 23 November 2016, the EU Commission published a proposal regarding an application figure of 3 per cent.

SEK m	30 Jun 2017	31 Dec 2016
Balance sheet according to the accounting regulations	1,215,726	1,187,525
Adjustment for differences between the carrying amount and the leverage exposure for derivatives	6,986	7,823
Assets reported off the balance sheet, gross (before adjustments of credit conversion factors)	215	422
Deductions from assets off the balance sheet after application of credit conversion factors	-107	-211
Assets reported off the balance sheet, net	108	211
Further adjustments pursuant to Article 429.4 of the Capital Requirements Regulation	-1,797	-2,855
Deduction for exposures to Group companies pursuant to Article 429.7 of the Capital Requirements Regulation	-35,306	-
<b>Assets used in the calculation of the leverage ratio</b>	<b>1,185,717</b>	<b>1,192,704</b>
<b>Capital that may be used in the calculation of the leverage ratio</b>		
Tier 1 capital	31,955	30,163
<b>Leverage ratio</b>		
Leverage ratio calculated on the basis of tier 1 capital	2.69%	2.53%

## NOTE 16 Significant events after the balance sheet date

No significant events have occurred after the balance sheet date.

# Calculation of key figures

For definitions, see page 24.

Return on equity SEK m	Jan-Jun 2017	Jan-Jun 2016	Full year 2016
Equity at 30 June and 31 December	36,259	38,783	33,018
Adjustment of hedge reserve	-1,470	-5,192	-2,607
Reversal of Group contribution provided	-	-	7,878
<b>Total adjusted equity</b>	<b>34,789</b>	<b>33,591</b>	<b>38,289</b>
<b>Adjusted equity, average<sup>1</sup></b>	<b>37,570</b>	<b>35,831</b>	<b>36,368</b>
<b>Profit for the period</b>	<b>4,507</b>	<b>4,329</b>	<b>8,857</b>
<b>Return on equity</b>	<b>24.0%</b>	<b>24.2%</b>	<b>24.4%</b>

<sup>1</sup>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 2017

Stefan Nilsson  
*Chairman*

Michael Bertorp

Michael Green

Johanna Lundberg

Helena Öström Nimander

Monica Morén  
*Employee representative*

Ulrica Stolt Kirkegaard  
*Chief Executive*



# Auditors' review report

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

## **INTRODUCTION**

We have reviewed the interim report for Stadshypotek AB (publ) as at 30 June 2017 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.

## **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 2017

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 neither defined in IFRS nor the Capital Requirements Regulation. Stadshypotek uses APMs to describe the operational performance and to improve 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 the 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 each receivable that gives rise to a specific provision is included in impaired loans even if this amount is partly covered by collateral.

### 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).

### Reserve ratio excluding collective provisions

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

### Return on equity

Profit for the year in relation to average equity adjusted for rights issues, dividends and changes in the value of derivatives in cash flow hedges.

## 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, inter alia, dividends generated, goodwill and other intangible assets, and also 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 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 amount. The statutory capital requirement is based on this.

### 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 one of the components of own funds, and consists of subordinated loans which meet the requirements stated in Regulation (EU) No 575/2013 to be included as 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 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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