

Stadshypotek's Interim Report

JANUARY–JUNE 2008



- Lending increased by SEK 22bn (21) to SEK 546bn.
- Operating profits were SEK 1,865m (2,229).
- Recoveries exceeded loan losses during the period.



Stadshypotek's interim report January – June 2008

Performance

Stadshypotek's operating profit for the first half of 2008 was SEK 1,865m (2,229). The decrease was mainly due to net interest income being SEK 232m lower than the same period the previous year. Net gains/losses on financial operations decreased by SEK 107m, compared to the same period the previous year. This was mainly due to unrealised changes in the market value of financial assets and liabilities subject to hedge accounting and derivatives. Unrealised changes in market value were negatively impacted in the first quarter as a result of falling market interest rates. However, during the second quarter, unrealised changes in market values were positively affected due to rising market rates.

For a number of years the competition for private customers' mortgage loans has led to reduced margins, which has had a negative impact on net interest income. However, the margins for mortgage loans where the rate is newly set were stable during the second half of 2007, and increased in the first half of 2008. Stadshypotek's lending volume in the private market continued to perform well during the period. But when comparing the net interest income to the corresponding period in the previous year, the increase could not offset the falling lending margins. Net interest income was also negatively affected due to the remaining effects from previously repurchased bonds.

Loan losses

Recoveries exceeded new loan losses, and the net amount recovered was SEK 28m (49), which corresponds to a loan loss ratio of -0.01% (-0.02) of lending.

Before deduction of the provision for probable loan losses, the volume of bad debts was SEK 247m (284). SEK 62m (32) of the bad debts were non-performing loans, while SEK 185m (252) were loans on which the borrowers pay interest and amortisation, but which are considered doubtful in view of the uncertainty as to the borrowers' repayment capacity and the value of the collateral. In addition, there were non-performing loans of SEK 490m (283) that are not assessed as being bad debts. After deduction of the provision for probable loan losses, the volume of bad debts was SEK 171m (204).

Growth in lending

Lending to the public was SEK 546bn, an increase of SEK 22bn in the first half of the year. The trend for Stadshypotek's share of net growth in the private market was favourable, and the market share was some 25%. Stadshypotek retained its position as a leading player on the Swedish corporate market, with a market share of approx. 32%.

Capital adequacy

On 1 February 2007, new capital adequacy regulations were implemented – the Basel II regulations. The new regulations entail major changes in how the capital requirement is to be calculated and how a satisfactory capital base is to be ensured. They will be implemented gradually, since the transitional regulations allow for an adaptation over three years. As at 30 June 2008, the capital ratio was 10.9% (10.0). As at 30 June 2008, the Tier 1 capital ratio was 7.7% (7.1). Further information concerning capital adequacy is provided in the section entitled capital base and capital requirement.

Rating

Stadshypotek's rating was unchanged.

Stadshypotek

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

Covered bonds

Moody's	Aaa
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Material events after the balance sheet date

Stadshypotek has decided to start up branch operations in Norway during the third quarter. A mortgage loan portfolio of approx. NOK 35 billion will initially be transferred from the parent company's branch in Norway to Stadshypotek's branch. The objective of the establishment is to expand the Handelsbanken Group's collateral for issuing covered bonds, thereby enabling increased funding via such bonds.

Accounting policies

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

Stockholm, 22 July 2008



Lars Kahnlund
Chief executive

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

Income statement – Group

SEK m	Jan–Jun 2008	Jan–Jun 2007	Change %	Q2 2008	Q2 2007	Change %	Full year 2007	
Interest income	12 936	10 259	26%	6 618	5 240	26%	21 787	
Interest expense	-11 200	-8 291	35%	-5 753	-4 280	34%	-18 084	
Net interest income	1 736	1 968	-12%	865	960	-10%	3 703	
Net result on financial operations	206	313	-34%	268	205	31%	360	
Fee and commission income	6	6	0%	3	3	0%	11	
Fee and commission expense	-21	-26	-19%	-10	-12	-17%	-50	
Net fee and commission income	-15	-20	-25%	-7	-9	-22%	-39	
Total income	1 927	2 261	-15%	1 126	1 156	-3%	4 024	
General administrative expenses								
Staff costs	-22	-15	47%	-11	-9	22%	-35	
Other	-67	-66	2%	-33	-35	-6%	-133	
Depreciation according to plan	-1	0	-	-1	0	-	0	
Total expenses	-90	-81	11%	-45	-44	2%	-168	
Profit before loan losses	1 837	2 180	-16%	1 081	1 112	-3%	3 856	
Net loan losses	Note 1	28	49	-43%	17	20	-15%	70
Operating profit	1 865	2 229	-16%	1 098	1 132	-3%	3 926	
Taxes	-522	-624	-16%	-307	-317	-3%	-1 100	
Profit for the period	1 343	1 605	-16%	791	815	-3%	2 826	
Net earnings per share, SEK	8 290	9 906					17 447	

Balance sheet – Group

SEK m		30 Jun 2008	30 Jun 2007	31 Dec 2007
Assets				
Loans to credit institutions		11 898	4 953	5 600
Loans to the public	Note 2	545 947	500 629	523 758
Derivatives	Note 3	3 185	1 847	3 270
Plant and equipment		0	0	0
Other assets		6 030	4 474	8 272
Total assets		567 060	511 903	540 900
Liabilities and shareholders' equity				
Due to credit institutions		127 179	110 616	103 638
Issued securities		396 751	359 465	392 807
Derivatives	Note 3	3 814	4 075	3 606
Other liabilities and provisions		9 800	7 970	12 676
Subordinated loans		8 300	8 300	8 300
Total liabilities		545 844	490 426	521 027
Shareholders' equity	Note 4	21 216	21 477	19 873
Total liabilities and shareholders' equity		567 060	511 903	540 900

Income statement – Parent company

SEK m	Jan–Jun 2008	Jan–Jun 2007	Change %	Q2 2008	Q2 2007	Change %	Full year 2007	
Interest income	12 936	10 259	26%	6 618	5 240	26%	21 787	
Interest expense	-11 200	-8 291	35%	-5 753	-4 280	34%	-18 084	
Net interest income	1 736	1 968	-12%	865	960	-10%	3 703	
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Depreciation according to plan	-1	0	-	-1	0	-	0	
Total expenses	-90	-81	11%	-45	-44	2%	-168	
Profit before loan losses	1 837	2 180	-16%	1 081	1 112	-3%	3 856	
Net loan losses	Note 1	28	49	-43%	17	20	-15%	70
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Balance sheet – Parent company

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Plant and equipment		0	0	0
Other assets		6 030	4 474	8 272
Total assets		567 060	511 903	540 900
Liabilities and shareholders' equity				
Due to credit institutions		138 603	128 302	113 875
Issued securities		385 327	341 779	382 570
Derivatives	Note 3	3 814	4 075	3 606
Other liabilities and provisions		9 800	7 970	12 676
Subordinated loans		8 300	8 300	8 300
Total liabilities		545 844	490 426	521 027
Shareholders' equity	Note 4	21 216	21 477	19 873
Total liabilities and shareholders' equity		567 060	511 903	540 900

Notes

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

Note 1 Loan losses

SEK m	Jan - Jun 2008	Jan - Jun 2007	Full year 2007
Specific provision for individually assessed loan receivables:			
The period's write-down for actual loan losses	-2	-5	-10
Write-back of previous provisions for probable loan losses reported as actual loan losses in the period's accounts	1	3	5
The period's provision relating to probable loan losses	-8	-3	-11
Recovered from actual loan losses in previous years	30	26	48
Write-back of provisions for probable loan losses which are no longer necessary	7	28	38
Net recoveries for the period for individually assessed loan receivables	28	49	70

Note 2 Loans to the public

LOANS TO THE PUBLIC, BY SECTOR

30 June	2008			2007		
	Loans before deduction of provisions	Provisions for probable loan losses	Loans after deduction of provisions	Loans before deduction of provisions	Provisions for probable loan losses	Loans after deduction of provisions
SEK m						
Households	401 130	-15	401 115	358 711	-11	358 700
Public sector, municipal companies	5 328	-	5 328	6 329	-	6 329
Housing co-operative associations	83 768	-32	83 736	82 204	-43	82 161
Other legal entities	55 797	-29	55 768	53 465	-26	53 439
Total loans to the public	546 023	-76	545 947	500 709	-80	500 629

LOANS TO THE PUBLIC, BY TYPE OF PROPERTY

30 June	2008			2007		
	Loans before deduction of provisions	Provisions for probable loan losses	Loans after deduction of provisions	Loans before deduction of provisions	Provisions for probable loan losses	Loans after deduction of provisions
SEK m						
Single family housing	296 969	-7	296 962	269 743	-6	269 737
Housing co-operative apartments	85 629	-1	85 628	69 839	-1	69 838
Private market	382 598	-8	382 590	339 582	-7	339 575
Multi-family housing	144 746	-65	144 681	144 384	-70	144 314
Offices and commercial buildings	18 679	-3	18 676	16 743	-3	16 740
Corporate market	163 425	-68	163 357	161 127	-73	161 054
Total loans to the public	546 023	-76	545 947	500 709	-80	500 629

NON-PERFORMING LOANS, BY BORROWER CATEGORY

30 June	2008		2007	
	Non-performing loans which are not bad debts	Non-performing loans which are included in bad debts	Non-performing loans which are not bad debts	Non-performing loans which are included in bad debts
SEK m				
Households	414	22	244	7
Public sector, municipal companies	-	-	-	-
Housing co-operative associations	3	15	-	-
Other legal entities	73	25	39	25
Total	490	62	283	32

NON-PERFORMING LOANS, BY TYPE OF PROPERTY

30 June	2008		2007	
	Non-performing loans which are not bad debts	Non-performing loans which are included in bad debts	Non-performing loans which are not bad debts	Non-performing loans which are included in bad debts
SEK m				
Single-family housing	336	7	206	7
Housing co-operative apartments	60	1	37	0
Private market	396	8	243	7
Multi-family housing	64	52	31	24
Offices and commercial buildings	30	2	9	1
Corporate market	94	54	40	25
Total	490	62	283	32

BAD DEBTS, BY BORROWER CATEGORY

30 June SEK m	2008			2007		
	Bad debts	Provision for probable losses	Net bad debts	Bad debts	Provision for probable losses	Net bad debts
Households	36	-15	21	28	-11	17
Public sector, municipal companies	-	-	-	-	-	-
Housing co-operative associations	106	-32	74	141	-43	98
Other legal entities	105	-29	76	115	-26	89
Total	247	-76	171	284	-80	204

BAD DEBTS, BY TYPE OF PROPERTY

30 June SEK m	2008			2007		
	Bad debts	Provision for probable losses	Net bad debts	Bad debts	Provision for probable losses	Net bad debts
Single-family housing	17	-7	10	17	-6	11
Housing co-operative apartments	1	-1	0	1	-1	0
Private market	18	-8	10	18	-7	11
Multi-family housing	176	-65	111	202	-70	132
Offices and commercial buildings	53	-3	50	64	-3	61
Corporate market	229	-68	161	266	-73	193
Total	247	-76	171	284	-80	204

The provision for probable losses refers to a specific provision for individually valued claims.

Note 3 Derivatives

30 June 2008 SEK m	Interest-rate related instruments		Currency-related instruments		Total	
	Fair value	Book value	Fair value	Book value	Fair value	Book value
Positive values	2 055	2 055	1 130	1 130	3 185	3 185
Negative values	3 644	3 644	170	170	3 814	3 814

30 June 2007 SEK m	Interest-rate related instruments		Currency-related instruments		Total	
	Fair value	Book value	Fair value	Book value	Fair value	Book value
Positive values	1 244	1 244	603	603	1 847	1 847
Negative values	3 958	3 958	117	117	4 075	4 075

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

Note 4 Change in shareholders' equity

SEK m	30 Jun 2008	30 Jun 2007	31 Dec 2007
Opening shareholders' equity	19 873	19 872	19 872
Group contribution provided			-3 925
Tax on group contribution			1 100
Profit for the period	1 343	1 605	2 826
Closing shareholders' equity	21 216	21 477	19 873

CASH FLOW STATEMENT

SEK m	Jan - Jun 2008	Jan - Jun 2007	Full year 2007
Cash flow from operating activities	4 240	-1 871	-1 223
Cash flow from investing activities	-17	0	-2
Cash flow from financing activities	-3 760	362	197
Cash flow for the period	463	-1 509	-1 028
Liquid funds at beginning of period	434	1 462	1 462
Cash flow for the period	463	-1 509	-1 028
Liquid funds at end of period	897	-47	434

TURNOVER – OWN DEBT INSTRUMENTS

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

Turnover during the period was as follows:

Issued (sold):	SEK 166bn
Repurchased:	SEK 33bn
Maturity:	SEK 124bn

Quarterly performance

SEK m	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Interest income	6 618	6 318	5 969	5 559	5 240	5 019
Interest expense	-5 753	-5 447	-5 152	-4 641	-4 280	-4 011
Net interest income	865	871	817	918	960	1 008
Net result on financial operations	268	-62	41	6	205	108
Net fee and commission income	-7	-8	-9	-10	-9	-11
Total income	1 126	801	849	914	1 156	1 105
General administrative expenses						
Staff costs	-11	-11	-11	-9	-9	-6
Other	-33	-34	-34	-33	-35	-31
Depreciation according to plan	-1	0	0	0	0	0
Total expenses	-45	-45	-45	-42	-44	-37
Profit before loan losses	1 081	756	804	872	1 112	1 068
Net loan losses	17	11	12	9	20	29
Operating profit	1 098	767	816	881	1 132	1 097

Segment information

Jan-Jun SEK m	2008			2007		
	Private	Corporate	Total	Private	Corporate	Total
Net interest income	1 296	440	1 736	1 452	516	1 968
Net result on financial operations	154	52	206	231	82	313
Net fee and commission income	-11	-4	-15	-15	-5	-20
Total income	1 439	488	1 927	1 668	593	2 261
Total expenses	-67	-23	-90	-60	-21	-81
Profit before loan losses	1 372	465	1 837	1 608	572	2 180
Net loan losses	26	2	28	18	31	49
Operating profit	1 398	467	1 865	1 626	603	2 229

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

Related party transactions

30 June Group claims/Group liabilities, SEK m	Group		Parent company	
	2008	2007	2008	2007
BALANCE SHEET				
Group claims				
Loans to credit institutions	11 861	4 934	11 861	4 934
Derivatives	3 064	1 705	3 064	1 705
Other assets	153	108	153	108
Total	15 078	6 747	15 078	6 747
Group liabilities				
Due to credit institutions	110 834	99 893	122 263	117 579
Derivatives	3 745	4 008	3 745	4 008
Other liabilities	231	169	231	169
Subordinated loans	8 300	8 300	8 300	8 300
Total	123 110	112 370	134 539	130 056
INCOME STATEMENT				
Interest income	259	131	259	131
Interest expense	-2 205	-2 083	-2 467	-2 559
Fee and commission expense	-11	-17	-11	-17
Other administrative expenses	-66	-54	-66	-54
Total	-2 023	-2 023	-2 285	-2 499

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

Key figures

	Jan–Jun 2008	Jan–Jun 2007	Full year 2007
Overall interest margin, %	0.63	0.79	0.72
C/I ratio before loan losses, %	4.70	3.60	4.2
C/I ratio after loan losses, %	3.20	1.40	2.4
Loan loss ratio, %	-0.01	-0.02	-0.01
Proportion of bad debts, %	0.03	0.04	0.04
Bad debt provision ratio, %	31.0	28.2	28.7
Return on shareholders' equity, %	12.0	14.4	12.6
Capital ratio, %	10.9	10.0	9.3
Tier 1 capital ratio, %	7.7	7.1	6.6

Disclosures

Risk

Stadshypotek's operations are conducted with a controlled low level of risk. Stadshypotek's risks are credit risk, market risk, liquidity risk, operational risk and business risk. A description of material risks and uncertainty factors and how they are handled by the Group is presented in the company's 2007 annual report. No material changes have occurred since the annual report was published that are not described in this report. Information about credit risks regarding loan losses and non-performing loans and bad debts can be found in note 2 of this report. As at 30 June 2008, Stadshypotek's interest rate risk in the case of a parallel increase in the yield curve of one percentage point was SEK -149 (-159).

Capital-related matters

At the start of the transition to Basel II, Stadshypotek entered into a guarantee facility relating to mortgages for housing co-operative properties, to speed up the transition. In June, Stadshypotek utilised the guarantee, which increased the Tier 1 ratio by 0.97 percentage points. This transaction affects only capital adequacy, in accordance with the transitional rules.

Capital base and capital requirement

CAPITAL BASE

SEK m	30 Jun 2008	30 Jun 2007	31 Dec 2007
Tier 1 capital ¹⁾	19 655	19 872	
Tier 1 capital ²⁾	20 998	21 477	19 683
Tier 2 capital	8 082	8 300	8 110
Capital base ¹⁾	27 737	28 172	
Capital base ²⁾	29 080	29 777	27 793

CAPITAL REQUIREMENT

SEK m	30 Jun 2008	30 Jun 2007	31 Dec 2007
Credit risk according to standardised approach	74	6	118
Credit risk according to IRB approach	4 888	4 722	4 776
Operational risk	615	630 ³⁾	630 ³⁾
Total capital requirement according to Basel II	5 577	5 358	5 524
Adjustment according to transitional rules	14 806	17 188	18 327
Capital requirement according to Basel II, transitional rules	20 383	22 546	23 851
Risk-weighted assets according to Basel I	289 151	296 665	313 824
Capital requirement according to Basel I (8% of risk-weighted assets)	23 132	23 733	25 106
Transitional rules result in lowest permitted capital requirement	20 383	22 546	23 851
Operational risk, according to Basel II	615	666	666

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

²⁾ Including profit generated during the period.

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

CAPITAL ADEQUACY ANALYSIS

	30 Jun 2008	30 Jun 2007	31 Dec 2007
Capital requirement in Basel II compared to Basel I	24%	23%	22%
Capital requirement in Basel II compared to transitional rules	27%	24%	23%
Capital ratio according to Basel II ¹⁾	39.8%	42.1%	
Capital ratio according to Basel I ¹⁾	9.6%	9.5%	
Capital ratio according to transitional rules ¹⁾	10.9%	10.0%	
Capital ratio according to Basel II ²⁾	41.7%	44.5%	40.3%
Capital ratio according to Basel I ²⁾	10.1%	10.0%	8.9%
Capital ratio according to transitional rules ²⁾	11.4%	10.6%	9.3%
Tier 1 ratio according to Basel II ¹⁾	28.2%	29.7%	
Tier 1 ratio according to Basel I ¹⁾	6.8%	6.7%	
Tier 1 ratio according to transitional rules ¹⁾	7.7%	7.1%	
Tier 1 ratio according to Basel II ²⁾	30.1%	32.1%	28.5%
Tier 1 ratio according to Basel I ²⁾	7.3%	7.2%	6.3%
Tier 1 ratio according to transitional rules ²⁾	8.2%	7.6%	6.6%
Capital base in relation to capital requirement Basel II ²⁾	521%	556%	503%
Capital base in relation to capital requirement Basel I ²⁾	126%	125%	111%
Capital base in relation to capital requirement according to transitional rules ²⁾	143%	132%	117%

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

CREDIT RISKS

30 June 2008	Standardised model		IRB model	
	Capital requirement	Exposure after credit risk protection (EAD)	Average risk weight	Capital requirement
SEK m				
Institutions	61	-	-	-
Companies	-	149 772	28.7%	3 434
Households	12	384 507	4.7%	1 454
Other	1	-	-	-
Total IRB	74	534 279	11.4%	4 888

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

We hereby confirm that this interim report gives a true and fair overview of the parent company's and the Group's operations, financial position and results and describes material risks and uncertainties faced by the parent company and the Group companies.

Stockholm, 22 July 2008

Håkan Sandberg
Chairman

Yonnie Bergqvist
Board Member

Catharina Hildebrand
Employee representative

Olle Lindstrand
Board Member

Lars Kahn Lund
Chief executive

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.

Next interim report: Published 22 October 2008

ADDRESSES

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