

# Handelsbanken's interim report

January – September 2004

## Summary

- Operating profit increased by 12% to SEK 9.8bn (8.7)
- Return on equity was 15.8% (15.2)
- Income increased by 6% to SEK 17.8bn (16.8)
- Recoveries were greater than loan losses for the period
- Profit after tax totalled SEK 7.0bn (6.1)
- Earnings per share rose to SEK 10.26 (8.86)
- Swedish Quality Index measures satisfaction among Swedish bank customers – Handelsbanken best among the nationwide banks
- In Finland, an equivalent survey ranked Handelsbanken as number one among all banks

# The Group

## Operating profit up 12% - strong increase in profits in third quarter

Operating profit rose by 12% to SEK 9,794m (8,726). Income increased by 6% and expenses by 2%. Recoveries were larger than loan losses. Return on shareholders' equity for the period was 15.8% (15.2). The return on equity for the third quarter was 15.5% (14.3). Operating profit in the third quarter increased by 14% compared to the equivalent period in the previous year. Compared to the second quarter this year, profits rose by 1%. The C/I ratio, both before and after loan losses, was 44.9% (46.4 and 48.1 respectively). Earnings per share were SEK 10.26 (8.86) and as a 12-month moving total SEK 13.10 (11.70).

## Income continued to rise – low cost increases

Income was SEK 17,773m (16,820), an increase of 6%. Net interest income fell by 2%, while other types of income increased. The commission categories which increased most were insurance and securities. Net commission income totalled SEK 4,503m (3,794), an increase of 19%. Net trading income rose by 12% to SEK 1,797m (1,601). The increase is due to higher net trading income at Handelsbanken Markets, particularly in equity-related trading and at the regional banks outside Sweden. Net trading income fell slightly in the third quarter compared to the second quarter.

Expenses rose by 2% to SEK 7,987m (7,797). Staff costs, excluding performance-related staff costs, fell by 1% while other expenses rose by 5%. The number of employees was 9,282 (9,252). The increase was mainly due to a higher number of temporary staff and expansion at the regional banks outside Sweden.

## Business volumes increased

The average volume of lending increased by 3% to SEK 852bn (830). In Sweden, lending was SEK 682bn (673), of which SEK 301bn (286) was to households and SEK 381bn (387) to companies. Corporate lending in Sweden, however, has been stable during the year, and the average volume during the third quarter was some SEK 10bn higher than in the first quarter. In the other Nordic countries and Great Britain, lending grew by 13% to SEK 148bn (131). The rate of increase for household lending was significantly higher than to companies.

Private deposits rose by 10% to SEK 111bn (101). Deposits from households outside Sweden rose by 31%. Total deposits from companies and households were SEK 305bn (292).

## No loan losses

Loan losses continued to fall and recoveries exceeded loan losses. Net recoveries were SEK 8m (-297). In the corresponding period in the previous year, the loan loss ratio was 0.04%. The share of bad debts in relation to lending fell to 0.23% (0.25).

## Capital ratio, buy-back of shares and rating

The capital ratio was 9.8% (9.8) and the Tier 1 ratio was 7.3% (6.9). These ratios include profits generated during the period.

The Annual General Meeting in April gave the board a mandate to buy back shares, and during the second quarter, 16.5 million shares were repurchased. The number of outstanding shares as at 30 September was 669.6 million. Handelsbanken's rating from all rating agencies was unchanged.

## IAS 39

Later this year, it is expected that the EU will adopt the accounting recommendation for IAS 39 which will then come into force on 1 January 2005. IAS 39 concerns valuations of financial assets and liabilities and implies that more items than previously will be valued marked to market. This may result in larger fluctuations in the result than previously. However, the assessment for Handelsbanken is that the changes will not have any major impact on the reported profit or reported financial position.

## Highest customer satisfaction for Handelsbanken's customers in Sweden and Finland

At the beginning of October, Svenskt Kvalitetsindex AB (Swedish Quality Index) presented its annual survey of customer satisfaction among banking customers in Sweden, both private and corporate. Handelsbanken attaches great importance to the results of this and equivalent surveys in the other Nordic countries.

Again this year, Handelsbanken has the most satisfied customers in Sweden – both private and corporate – when comparing the four Swedish banks with nationwide branch networks. Handelsbanken boosted its position as the bank with the most satisfied corporate customers while for private customers, the lead on its competitors was basically unchanged.

In an equivalent private customer survey in Finland, Handelsbanken was successful in defending its position among all the Finnish banks as the bank with the most satisfied private customers.



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# Profit and loss account – Svenska Handelsbanken Group

The profit and loss account that is presented after the business area accounts has been prepared in accordance with Finansinspektionen's directives. In order to illustrate the development of operations more clearly, the profit and loss account is shown below with the various income categories, excluding that which is generated in the trading operation. The "Net result on financial operations" (equity-, interest rate- and currency-related) and trading-related income from other income categories are reported under "Trading, net". Performance-related staff costs are reported separately. The result of insurance operations has been allocated to the respective income/expense categories as shown in note 5. Participations in associated companies' results are reported under "Other income".

## Profit and loss account

SEK m	Jan-Sep	Jan-Sep	Change	Q 3	Q 2	Change	Full year
	2004	2003	%	2004	2004	%	2003
Net interest income	10,884	11,057	-2	3,598	3,598	0	14,642
Commission, net	4,503	3,794	19	1,456	1,471	-1	5,224
Trading, net	1,797	1,601	12	495	561	-12	2,222
Other income	589	368	60	248	184	35	204
<b>Total income</b>	<b>17,773</b>	<b>16,820</b>	<b>6</b>	<b>5,797</b>	<b>5,814</b>	<b>0</b>	<b>22,292</b>
Staff costs excl. performance-related	-4,578	-4,635	-1	-1,524	-1,536	-1	-6,171
Performance-related staff costs	-215	-133	62	-45	-59	-24	-185
Other expenses	-3,194	-3,029	5	-1,069	-1,084	-1	-4,093
<b>Total expenses</b>	<b>-7,987</b>	<b>-7,797</b>	<b>2</b>	<b>-2,638</b>	<b>-2,679</b>	<b>-2</b>	<b>-10,449</b>
Profit before loan losses	9,786	9,023	8	3,159	3,135	1	11,843
Loan losses incl. change in value of repossessed property	8	-297		26	27	4	-492
Write-downs/reversed write-downs of financial fixed assets	-	-		-	-		199
Operating profit	9,794	8,726	12	3,185	3,162	1	11,550
Pension settlement		-82	-100				-89
Taxes	-2,809	-2,502	12	-931	-897	4	-3,345
<b>Profit for the period</b>	<b>6,985</b>	<b>6,142</b>	<b>14</b>	<b>2,254</b>	<b>2,265</b>	<b>0</b>	<b>8,116</b>

## Note 1a Commission, net

SEK m	Jan-Sep	Jan-Sep	Change	Q 3	Q 2	Change	Full year
	2004	2003	%	2004	2004	%	2003
Brokerage	809	596	36	198	256	-23	844
Mutual funds and custody	897	743	21	300	297	1	1,004
Insurance	347	253	37	146	103	42	350
Payments	1,188	1,128	5	407	405	0	1,532
Lending and deposits	1,106	998	11	371	355	5	1,346
Other	1,016	836	22	344	342	1	1,198
Commission income	5,363	4,554	18	1,766	1,758	0	6,274
Commission expense	-860	-760	13	-310	-287	8	-1,050
<b>Commission, net</b>	<b>4,503</b>	<b>3,794</b>	<b>19</b>	<b>1,456</b>	<b>1,471</b>	<b>-1</b>	<b>5,224</b>

## Other information

### Goodwill and intangible assets

SEK m	Jan-Sep	Jan-Sep	Q 3	Q 2	Full year
	2004	2003	2004	2004	2003
Opening residual value	8,489	9,183	8,237	8,395	9,183
Additional during the period	972	2	950	19	34
Amortisation for the period	-448	-436	-158	-145	-581
Foreign exchange effect	-2	-170	-18	-32	-147
<b>Closing residual value</b>	<b>9,011</b>	<b>8,579</b>	<b>9,011</b>	<b>8,237</b>	<b>8,489</b>

# Quarterly performance of Svenska Handelsbanken Group

SEK m	Q 3	Q 2	Q 1	Q 4	Q 3
	2004	2004	2004	2003	2003
Net interest income	3,598	3,598	3,688	3,585	3,613
Commission, net	1,456	1,471	1,576	1,430	1,313
Trading, net	495	561	741	621	496
Other income	248	184	157	-164	114
<b>Total income</b>	<b>5,797</b>	<b>5,814</b>	<b>6,162</b>	<b>5,472</b>	<b>5,536</b>
Staff costs, excl. performance-related	-1,524	-1,536	-1,518	-1,536	-1,523
Performance-related staff costs	-45	-59	-111	-52	-45
Other expenses	-1,069	-1,084	-1,041	-1,064	-984
<b>Total expenses</b>	<b>-2,638</b>	<b>-2,679</b>	<b>-2,670</b>	<b>-2,652</b>	<b>-2,552</b>
Profit before loan losses	3,159	3,135	3,492	2,820	2,984
Loan losses incl. change in value of repossessed property	26	27	-45	-195	-195
Write-downs/reversed write-downs of financial fixed assets	-	-	-	199	-
Operating profit	3,185	3,162	3,447	2,824	2,789
Pension settlement				-7	-35
Taxes	-931	-897	-981	-843	-803
<b>Profit for the period</b>	<b>2,254</b>	<b>2,265</b>	<b>2,466</b>	<b>1,974</b>	<b>1,951</b>
Net earnings per share, SEK	3.36	3.33	3.57	2.84	2.82

## Key figures for the Group

	Jan-Sep 2004	Jan-Sep 2003	Q 3 2004	Q 2 2004	Full year 2003
Return on shareholders' equity	15.8%	15.2%	15.5%	15.2%	14.9%
Return on shareholders' equity, operating profit after standard tax	15.9%	15.6%	15.7%	15.3%	15.3%
Cost/Income (C/I ratio)					
- before loan losses	44.9%	46.4%	45.5%	46.1%	46.9%
- after loan losses	44.9%	48.1%	45.1%	45.6%	49.1%
Earnings per share, SEK	10.26	8.86	3.36	3.33	11.70
- 12-month moving total	13.10	11.70	13.10	12.55	11.70
Dividend per share, SEK					5.25
Adjusted equity per share, SEK	88.17	79.56	88.17	84.87	82.61
Number of shares, end of period	669,641,462	693,387,415	669,641,462	669,641,462	693,387,415
Number of repurchased shares, end of period	23,745,953	21,359,525	23,745,953	45,105,478	21,359,525
Average number of outstanding shares	680,531,252	693,387,415	669,641,462	680,394,457	693,387,415
Tier 1 capital, SEK m *	47,854	44,830	47,854	46,833	45,846
Risk-weighted volume, SEK m	655,412	646,863	655,412	657,016	629,767
Capital ratio*	9.8%	9.8%	9.8%	9.9%	10.2%
Tier 1 ratio*	7.3%	6.9%	7.3%	7.1%	7.3%
Average number of employees	9,131	9,322	9,399	9,038	9,258
Number of branches in Nordic countries and Great Britain, end of period	571	553	571	562	554

\* Including profit for the period

## Business areas

Profit and loss account by business area - Group

SEK m	Branch offices	Markets	Asset Mgmt	Pension & Insurance	Other operations	Eliminations	Jan-Sep 2004	Jan-Sep 2003
Net interest income	11,116	1,316	106	13	53	-5	12,599	11,057
Commission, net	2,702	730	613	331	-20		4,356	3,794
Net result on financial operations	193	-310	17	27	-132		-205	1,601
Other income	198	789	57	62	2,815	-2,898	1,023	368
<b>Total income</b>	<b>14,209</b>	<b>2,525</b>	<b>793</b>	<b>433</b>	<b>2,716</b>	<b>-2,903</b>	<b>17,773</b>	<b>16,820</b>
<b>Total expenses</b>	<b>-5,971</b>	<b>-1,713</b>	<b>-388</b>	<b>-385</b>	<b>-2,433</b>	<b>2,903</b>	<b>-7,987</b>	<b>-7,797</b>
Profit before loan losses	8,238	812	405	48	283		9,786	9,023
Loan losses incl. change in value of repossessed property	-21	29	-				8	-297
<b>Operating profit</b>	<b>8,217</b>	<b>841</b>	<b>405</b>	<b>48</b>	<b>283</b>		<b>9,794</b>	<b>8,726</b>
<b>Return on equity, %</b>	<b>16.0</b>	<b>17.7</b>	<b>21.2</b>	<b>6.1</b>			<b>15.8</b>	<b>15.2</b>
Average number of employees	5,888	1,060	307	187	1,689		9,131	9,322

Internal income and expenses are included in the respective item on the profit and loss account. Internal income consists of payment for services rendered according to the cost price principle. Expenses also include the distribution of costs made internally within the Group for services from business support operations.

Handelsbanken Liv is included in the Pension and Insurance business area.

The Other operations business area includes Treasury and the Central Head Office departments. It also includes capital gains/losses, dividends, and income and expenses that are not attributable to a specific business area.

Return on shareholders' equity for the business areas is computed after standard tax while for the whole Group, it is computed after full tax, and for 2003, also after settlement of pensions. The shareholders' equity on which calculation of return on equity is based, meets the requirements of the Capital Adequacy Act.

The results of insurance operations and associated companies are reported as explained on page 4.

The business area comparative figures for 2003 have not been restated as a consequence of the new accounting principles for employee benefits.

# Branch office operations

Branch office operations comprise eleven regional banks, Handelsbanken Finans and Stadshypotek Bank. Seven of the regional banks are in Sweden and the remaining four are located in Great Britain, Denmark, Finland and Norway.

At Handelsbanken, the branches are the base of all operations. This is where services for all customers, even the very largest corporations, are co-ordinated. The regional banks are responsible for profitability and pursue the same goals – to deliver universal banking services with a higher service level and at lower cost than other banks in the Nordic area. Handelsbanken Finans offers a full range of finance company services in the four Nordic countries and is currently expanding its operations in Great Britain. Handelsbanken Finans works through the Bank's branches and in financing collaborations with retailers and vendors. Stadshypotek Bank is one of Sweden's leading Internet and telephone banks. It operates under its own brand name and has a separate range of products.

## Profit and loss account

SEK m	Jan-Sep 2004	Jan-Sep 2003	Change %	Q 3 2004	Q 2 2004	Change %	Full year 2003
Net interest income	11,116	11,746	-5	3,593	3,692	-3	15,467
Commission, net	2,702	2,245	20	870	901	-3	3,166
Net result on financial operations	193	-567		104	76	37	-587
Other income	198	180	10	64	75	-15	196
<b>Total income</b>	<b>14,209</b>	<b>13,604</b>	<b>4</b>	<b>4,631</b>	<b>4,744</b>	<b>-2</b>	<b>18,242</b>
<b>Total expenses</b>	<b>-5,971</b>	<b>-5,826</b>	<b>2</b>	<b>-1,982</b>	<b>-2,029</b>	<b>-2</b>	<b>-7,809</b>
Profit before loan losses	8,238	7,778	6	2,649	2,715	-2	10,433
Loan losses incl. change in value of repossessed property	-21	-301	-93	22	26	15	-495
<b>Operating profit</b>	<b>8,217</b>	<b>7,477</b>	<b>10</b>	<b>2,671</b>	<b>2,741</b>	<b>-3</b>	<b>9,938</b>
Return on equity, %	16.0	17.6		15.8	16.2		17.5
Average number of employees	5,888	6,073	-3	6,120	5,793	6	6,019

## Performance

Operating profit increased by 10% to SEK 8,217m (7,477). Among the income categories, net commission income increased most and total income increased by 4% to SEK 14,209m (13,604). Cost increases were low. Profit before loan losses increased by 6% and considerably lower loan losses allowed operating profit to rise by 10%.

## Branch office operations in Sweden

Branch office operations in Sweden comprise seven regional banks with a total of 453 (453) branch offices. Profit in Sweden increased by 6% to SEK 7,227m (6,840).

Mortgage lending to households continued to grow. Since the spring, the Bank's share of new lending has gradually increased, from just over 14% in April to over 24% in August; and preliminary figures for September indicate that the Bank's share of new lending was almost 26%. The mortgage margin, including lending to companies, fell somewhat. Average lending in Sweden increased by just over 1%, to SEK 682bn (673). Lending to households increased by SEK 15bn to 301bn, of which mortgage lending to households increased by 17bn. Average lending to companies decreased somewhat. In a comparison between the third and second quarters, the same picture emerges, i.e. growing mortgage lending and a stable level for other lending.

Swedish Quality Index presented its annual survey of customer satisfaction among Swedish bank customers. The survey has been carried out since 1989 using basically the same method. Among the banks with nationwide branch networks, Handelsbanken has taken first place every year for private customers and every year apart from one for corporate customers.

The results of this year's survey showed a similar trend with an increased dominance on the corporate side. Handelsbanken was the only bank in the survey to show a statistically significant increase in customer satisfaction. In its press release, Swedish Quality Index wrote, "corporate customers in general are awarding their banks better marks than last year. The increase in satisfaction is particularly apparent among Handelsbanken's corporate customers."

Customer satisfaction fell somewhat among private customers, though within the statistical margin of error. However, the Bank regards any decrease in satisfaction among its customers seriously, even though the relative gap towards other banks with a nationwide branch network was almost unchanged.

## Branch office operations in Sweden

	Jan-Sep 2004	Jan-Sep 2003	Change %	Full year 2003
SEK m				
Income	11,087	10,698	4	14,332
Expenses	-3,986	-3,827	4	-5,117
Loan losses	126	-31		-151
Operating profit	7,227	6,840	6	9,064

## Branch office operations outside Sweden

At the end of the quarter, the Bank had 118 branches in its branch office operations outside Sweden, 15 of them in Great Britain, 36 in Denmark, 34 in Finland and 33 in Norway. To date in 2004, a total of 17 new branches have been opened; nine of which were opened in the third quarter. The profits from branch office operations outside Sweden increased by 23% to SEK 999m (813). This increase is due to a good income trend, a controlled cost trend and low loan losses.

## Branch office operations outside Sweden

	Jan-Sep 2004	Jan-Sep 2003	Change %	Full year 2003
SEK m				
Income	2,393	2,227	7	2,984
Expenses	-1,305	-1,249	4	-1,669
Loan losses	-89	-165	-46	-443
Operating profit	999	813	23	872

## Great Britain

Development continued and it was particularly gratifying to see the continued increase in lending and deposits in the household sector with increases of over 60% and 30% respectively. Two new branches were opened, in Chelmsford and Stoke-on-Trent, bringing the number of branches to 15. This meant that the Bank has opened five new branches during the year, and according to previously announced plans, a further five will be opened in 2005.

About a year has passed since Handelsbanken Finans was established in Great Britain, offering leasing and hire-purchase services. These services have been introduced successively and one of the successes that materialised during the quarter was a major transaction for a bus company.

## Denmark

The operating profit increased, mainly driven by increasing business volumes. The Danish bank market continued to be characterised by historically low interest rates, which put pressure on margins. Credit demand from households, particularly for mortgage loans, remained buoyant. Corporate credit demand fell somewhat during the quarter. The Bank's lending increased by 18% to DKK 21bn, compared with the corresponding period in the previous year. Lending to households rose by almost 50% to just under DKK 7bn, while corporate lending rose by 8% to DKK 14bn. Deposits from households increased by 22% to just under DKK 5bn (4).

Overall, deposits amounted to DKK 14bn (13). A new branch was opened in Fredericia, raising the number of branches to 36.

## Finland

A branch was opened in Rauma, representing the thirty-fourth branch in Finland. In addition, the decision was taken to open another two new branches, one in Helsinki and one in Tammisaari.

The market was characterised by continuing strong competition, which did not prevent a continued inflow of new customers. The volume of deposits increased by 14% compared with the same period in the previous year – an increase that came exclusively from households. At the same time, sales in the third quarter of bond and equity-linked bond savings products amounted to nearly SEK 250m. Lending volumes increased with unchanged margins, which led to an improved net interest income. The total lending volume grew by 15%, and lending to households increased by 22%.

A customer satisfaction survey was also carried out for private customers at Finnish banks. The survey is similar to that in Sweden and Handelsbanken has participated since 2001. The result of the survey again showed that Handelsbanken, by a good margin, has Finland's most satisfied private customers. The average customer satisfaction in Finland was 75.7 (on a scale of 0-100), while the figure for Handelsbanken was 83.3. The second best bank scored 78.6.

## Norway

Profits rose somewhat, despite tight margins, low interest rates and higher staff costs. The higher staff costs were a direct consequence of the Bank following its plan to open seven new branch offices during the year. Four new branches started marketing to customers in the third quarter. In Norway the Bank had 33 branches and a decision has been taken to open another two, of which one will open this year.

The average lending volume was just over NOK 54bn, which was an increase of 18%. Lending to households increased by 21%. The Norwegian market was affected by investments in housing, while the investment level for companies outside this sector was low. Mortgage lending accounted for the main increase for households. Handelsbanken's market share increased in all segments of the lending market. The average volume of deposits was NOK 21bn. Household deposits increased by 10% and corporate deposits by 18%.

A customer satisfaction survey was also performed in Norway. Here, Handelsbanken did not distinguish itself in the same positive way as in Sweden and Finland. The survey results are being evaluated and action will be taken to boost customer satisfaction.

## Handelsbanken Finans

Profits were SEK 384m (334), an increase of 15%. Income increased by 5% to SEK 737m (699) while expenses decreased by 2%. Loan losses were SEK 1m (6). The improvement was

mainly due to successes in retail financial services. Average credit volumes rose by 7% to SEK 36bn.

New sales increased and were higher than last year. In Finland, a new card product was successfully launched. Several major leasing contracts were signed in the energy sector, including the financing of a combined heating and power plant.

#### Handelsbanken Finans

SEK m	Jan-Sep 2004	Jan-Sep 2003	Change %	Full year 2003
Income	737	699	5	926
Expenses	-352	-359	-2	-480
Loan losses	-1	-6	-83	-10
<b>Operating profit</b>	<b>384</b>	<b>334</b>	<b>15</b>	<b>436</b>

#### Integration of the Handelsbanken Finans and Stadshypotek Bank operations.

The consumer-oriented operations in Handelsbanken Finans and Stadshypotek Bank were integrated from 1 September. The ultimate aim is to increase the opportunities for selling other services to private individuals in Sweden. Retail Financial Serv-

ices in Handelsbanken Finans generates many new customers, but has no services that can create new sales. By supplementing Retail Financial Services with Stadshypotek Bank's broad range of services, new opportunities are created for broadening customer relationships. A new business area, Handelsbanken Finans Direct Sales, was created, with responsibility for the shared customer base.

#### Stadshypotek Bank

Profits were SEK 15m (16). Income and expenses decreased by 3% and 2% respectively. A reduced volume of deposits and consequently lower net interest income were partly compensated for by higher commission income and lower costs.

#### Stadshypotek Bank

SEK m	Jan-Sep 2004	Jan-Sep 2003	Change %	Full year 2003
Income	95	98	-3	131
Expenses	-80	-82	-2	-109
Loan losses	0	0	0	0
<b>Operating profit</b>	<b>15</b>	<b>16</b>	<b>-6</b>	<b>22</b>

# Handelsbanken Markets

*Handelsbanken Markets' operations are organised into two business areas: Handelsbanken Capital Markets and Handelsbanken Markets International. Capital Markets comprises Corporate Finance including Debt Capital Markets, equities trading, foreign exchange and fixed income trading and structured products. It also includes support to the branch office operations for products in these areas. Markets International comprises banking operations outside the Nordic countries and Great Britain, Trade Finance and Financial Institutions. There are over 1,000 employees in 16 countries. Apart from these two business areas, there are also back office, middle office and administrative departments.*

## Profit and loss account

	Jan-Sep 2004	Jan-Sep 2003	Change %	Q 3 2004	Q 2 2004	Change %	Full year 2003
SEK m							
Net interest income	1,316	2,144	-39	399	454	-12	2,667
Commission, net	730	530	38	200	251	-20	779
Net result on financial operations	-310	-1,014	69	29	-253		-1,124
Other income	789	721	9	132	341	-61	874
<b>Total income</b>	<b>2,525</b>	<b>2,381</b>	<b>6</b>	<b>760</b>	<b>793</b>	<b>-4</b>	<b>3,196</b>
<b>Total expenses</b>	<b>-1,713</b>	<b>-1,623</b>	<b>6</b>	<b>-534</b>	<b>-571</b>	<b>-6</b>	<b>-2,189</b>
Profit before loan losses	812	758	7	226	222	2	1,007
Loan losses incl. change in value of repossessed property	29	3		4	1	300	2
<b>Operating profit</b>	<b>841</b>	<b>761</b>	<b>11</b>	<b>230</b>	<b>223</b>	<b>3</b>	<b>1,009</b>
Return on equity, %	17.7	15.9		14.9	14.1		16.1
Average number of employees	1,060	1,069	-1	1,069	1,059	1	1,063

## Performance

Operating profit was SEK 841m (761), a rise of 11%. Income increased by 6% and expenses by the same percentage.

### Handelsbanken Capital Markets

Operations at Capital Markets continued to perform well. Profits increased by 35% to SEK 565m (420), despite somewhat deteriorated market conditions during the third quarter. Income rose by 14% and expenses, excluding performance-related staff costs, fell by 1%. Third quarter profits were SEK 152m, up by 17% compared to the corresponding quarter of the previous year.

The results for the business areas within Capital Markets were higher than the previous year, except for fixed income and foreign exchange trading, where customer activity was low. Profit from equities trading was considerably better. Commission income was 38% up on the corresponding period in 2003. At Corporate Finance activity increased after several years of low activity. According to external statistics, Handelsbanken was market leader in terms of Mergers & Acquisitions in Sweden.

### Handelsbanken Capital Markets

	Jan-Sep 2004	Jan-Sep 2003	Change %	Full year 2003
SEK m				
Income	1,815	1,589	14	2,167
Expenses	-1,250	-1,169	7	-1,602
Loan losses				
<b>Operating profit</b>	<b>565</b>	<b>420</b>	<b>35</b>	<b>565</b>

### Handelsbanken Markets International

This business area is responsible for the branch offices outside the Nordic countries and Great Britain, and also clearing services for foreign banks, export documentary credits, export finance and project finance. Profits increased by 8% to SEK 116m.

Banking operations outside the Nordic countries and Great Britain boosted their profits. In Asia and Poland, operating profit was higher, while in Mid Europe and the US, it was lower. In the US, the decrease was entirely due to exchange rate changes.

The start-up of a subsidiary bank in Russia and a branch in Shanghai proceeded according to schedule.

Operations in Sweden reported an unchanged result since higher export documentary credit commission made up for lower clearing income.

### Handelsbanken Markets International

	Jan-Sep 2004	Jan-Sep 2003	Change %	Full year 2003
SEK m				
Income	358	378	-5	503
Expenses	-271	-274	-1	-367
Loan losses	29	3		2
<b>Operating profit</b>	<b>116</b>	<b>107</b>	<b>8</b>	<b>138</b>

# Handelsbanken Asset Management

*Handelsbanken Asset Management comprises Fund Management, Discretionary Management and Nordic institutional custody services. Apart from services aimed at companies, institutions and private individuals, Asset Management provides support to the branch offices regarding investments, portfolio systems and accounting for foundations. Operations are conducted in four Nordic countries and also in Luxembourg, Switzerland, France and Spain.*

## Profit and loss account

SEK m	Jan-Sep	Jan-Sep	Change	Q 3	Q 2	Change	Full year
	2004	2003	%	2004	2004	%	2003
Net interest income	106	117	-9	32	38	-16	157
Commission, net	613	543	13	202	198	2	734
Net result on financial operations	17	11	55	5	6	-17	13
Other income	57	42	36	19	19	0	64
<b>Total income</b>	<b>793</b>	<b>713</b>	<b>11</b>	<b>258</b>	<b>261</b>	<b>-1</b>	<b>968</b>
<b>Total expenses</b>	<b>-388</b>	<b>-378</b>	<b>3</b>	<b>-128</b>	<b>-131</b>	<b>-2</b>	<b>-507</b>
Profit before loan losses	405	335	21	130	130	0	461
Loan losses incl. change in value of repossessed property	-	1	100	-	-	-	1
<b>Operating profit</b>	<b>405</b>	<b>336</b>	<b>21</b>	<b>130</b>	<b>130</b>	<b>0</b>	<b>462</b>
<b>Return on equity %</b>	<b>21.2</b>	<b>19.4</b>		<b>21.5</b>	<b>20.5</b>		<b>20.0</b>
Average number of employees	307	306	0	320	305	5	303

## Performance

Operating profits were SEK 405m, an increase of 21%. Income grew by 11%, mainly due to higher equity values. Expenses rose by 3%. Profits for the third quarter were SEK 130m, unchanged compared to the previous quarter. The total volume of assets under management by the Group was SEK 318bn (279), of which Asset Management managed SEK 272bn (240).

## Mutual fund management

At the end of the period, the Bank managed 83 (79) mutual funds with a total value of SEK 131bn (104). This higher value was due to higher equity prices, increased new savings and the acquisition of XACT Fonder AB. The acquired volume of mutual funds was SEK 5.6bn. The higher volume had a positive impact on income, while expenses continued to fall. Of the assets under management, 44% (43) were invested in equity funds, 29% (31) in fixed income funds, 2% (3) in hedge funds and 25% (23) in mixed funds.

Net new savings in the Group's funds on the Swedish mutual fund market were SEK 8.7bn (9.6). This means that Handelsbanken had a market share of 16.6% (15.6) of the total net inflow to the Swedish mutual fund market including new savings in the premium pension system.

## Discretionary management

Assets under discretionary management increased to SEK 154bn (142). SEK 22bn of the managed assets were invested in Handelsbanken's mutual funds. A total of 33 new customers were acquired during the year.

In June, Handelsbanken acquired XACT Fonder AB from OM Hex AB. XACT performed well in the third quarter. Average daily turnover varied between SEK 50m and SEK 100m. Assets under management rose to SEK 6bn.

## Asset management outside the Nordic countries and Great Britain

Outside the Nordic countries and Great Britain, Asset Management is conducted in the Bank's subsidiary in Luxembourg, which has a branch in Zurich. The units in Marbella and Côte d'Azur are representative offices whose main task is to support asset management in Luxembourg. Assets managed were SEK 9bn (7).

## Nordic institutional custody services

In its annual survey of custodian banks, the American periodical Global Custodian again acclaimed Handelsbanken the custodian bank in Sweden which provides the best custody services to international institutional customers. Handelsbanken was the only bank in Sweden to be top-rated. The survey was based on the replies from the banks' customers concerning client relations, service quality, pricing, problem management, technical solutions, and knowledge of market practices and local regulations.

# Handelsbanken Pension and Insurance

The Handelsbanken Pension and Insurance business area comprises Handelsbanken Liv and SPP. Together these companies are one of the market leaders, with a complete range of life insurance products for occupational and private pensions, and asset protection schemes for companies, organisations and private individuals. The companies sell their services via Handelsbanken's branch offices, direct sales and independent brokers. The traditional life insurance operations of Handelsbanken Liv are demutualised and the company conducts its unit-linked operations and insurance with guaranteed return within the same company. The insurance operations in SPP are run on mutual principles and are thus not included in the Handelsbanken Group's consolidated accounts.

## Profit and loss account

The profit and loss account refers to Handelsbanken Liv only

SEK m	Jan-Sep 2004	Jan-Sep 2003	Change %	Q 3 2004	Q 2 2004	Change %	Full year 2003
Net interest income	13	26	-50	-3	9		31
Commission, net	331	245	35	139	98	42	334
Net result on financial operations	27	44	-39	-36	8		140
Other income	62	54	15	43	11	291	-171
<b>Total income</b>	<b>433</b>	<b>369</b>	<b>17</b>	<b>143</b>	<b>126</b>	<b>13</b>	<b>334</b>
<b>Total expenses</b>	<b>-385</b>	<b>-308</b>	<b>25</b>	<b>-163</b>	<b>-112</b>	<b>46</b>	<b>-414</b>
Profit before loan losses	48	61	-21	-20	14		-80
Loan losses incl. change in value of repossessed property							
<b>Operating profit</b>	<b>48</b>	<b>61</b>	<b>-21</b>	<b>-20</b>	<b>14</b>		<b>-80</b>
Return on equity, %	6.1	7.8			5.3		
Average number of employees	187	196	-5	190	191	-1	192

## Handelsbanken Liv

Profits were SEK 48m (61). As of 1 July 2004, the unit-linked company, SPP Liv Fondförsäkrings AB, is included in Handelsbanken Liv. It had a negative impact on profits amounting to SEK 27m.

The administration result continued to develop well and was SEK 37m (11). It was mainly higher income which contributed to the increase.

The financial result was SEK 26m (39). The total return on funds managed for policies with a guaranteed interest rate was 3.56% (3.82). Thus Handelsbanken Liv received 10% of the return on policies with a guaranteed interest rate of 3%. On other policies with a 5% guaranteed annual interest rate (corresponding to 3.75% for nine months), the company received no share of the return. Handelsbanken Liv's total share of the return was SEK 18m (32).

Premiums written, excluding SPP Fondförsäkrings AB, increased by 25% and were SEK 4.4bn (3.5). Policies with a guaranteed interest rate represented SEK 2.4bn (1.9) and unit-linked insurance SEK 2.0bn (1.6). Premiums written for SPP Fondförsäkrings AB were SEK 0.7bn during the third quarter.

Assets managed were SEK 54bn (34), of which SPP Liv Fondförsäkring represented SEK 15bn. SEK 22bn (19) of the total assets were guaranteed rate policies.

The available solvency margin for the Handelsbanken Liv Group was SEK 1,891m. This should be related to the required solvency margin which was SEK 1,389m. The solvency ratio was thus 1.36.

## Handelsbanken Liv, investment assets

Average exposure %	Jan-Sep 2004	Jan-Sep 2003	Full year 2003
Equities	28	16	17
Fixed income assets	64	75	74
Property	7	7	7
Other	1	2	2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

## Handelsbanken Liv, breakdown of results and key figures

	Jan-Sep 2004	Jan-Sep 2003	Full year 2003
Administration result, SEK m	37	11	21
Risk result, SEK m	-5	-4	-21
Financial result, SEK m	26	39	-95
Return on equity, SEK m	-10	15	15
Operating profit, SEK m	48	61	-80
Total return, %	3.56	3.82	6.27
Assets managed, SEK bn, end of period	54	34	37
Solvency ratio, end of period	1.36	1.27	1.33

## SPP

SPP is a life insurance company run on mutual principles, thus its results do not have an impact on the Handelsbanken Group's results. The policyholders alone share the deficits and surpluses and thus bear all the risks.

Profits were SEK 1,323m (1,046), an increase of 26% compared with the corresponding period in the previous year. This result includes capital gains of some SEK 900m due to the sale of the subsidiary SPP Liv Fondförsäkring AB. Changed assumptions when calculating the life insurance provisions had a negative impact of SEK 520m on the results.

The total return on investment assets in the traditional life insurance operations was 3.49% (3.26). The investment strategy of the portfolios is based on the investment horizon, solvency situation and risk tolerance. In the first three quarters, the proportion of equities was 17%, and at the end of the period 14%.

Operating expenses decreased by 23% to SEK 659m (851). The decrease is mainly due to lower IT costs, an effect of SPP's integration of its IT operations with Handelsbanken. Staff and consultant costs also went down. The number of employees decreased by 85 compared to the corresponding date in 2003.

Premiums written were SEK 5.5bn (7.1), a decrease of 22%. Traditional insurance represented SEK 3.7bn (4.6). Premiums written for the unit-linked company are included in the period until the company was transferred on 1 July 2004 and amounted to SEK 1.8bn (2.5). The fall in premiums written was partly due to lower premiums for one-off early retirement pensions and partly because the unit-linked company was

divested and that these premium volumes are thus reported in Handelsbanken Liv.

Assets under management were SEK 78bn (84). The decrease was due to the sale of the unit-linked insurance company.

SPP's available solvency margin, which mainly comprises share capital, subordinated loans and the solvency reserve, was SEK 3,743m. It therefore exceeded the required solvency margin of SEK 3,073m. The solvency ratio was thus 1.22 (1.20).

SPP's collective consolidation ratio, that is the market value of the company's assets in relation to guaranteed and non-guaranteed commitments, was 100% (99).

### SPP, investment assets

Average exposure %	Jan-Sep	Jan-Sep	Full year
	2004	2003	2003
Equities	17	7	8
Fixed income assets	80	89	88
Property	0	-	0
Other	3	4	4
Total	100	100	100

### SPP, key figures

	Jan-Sep	Jan-Sep	Full year
	2004	2003	2003
Total return, %	3.49	3.26	5.31
Assets managed, SEK bn, end of period	78	84	87
Solvency ratio, end of period	1.22	1.20	1.28
Collective consolidation ratio, % end of period	100	99	100

# Profit and loss account – Svenska Handelsbanken Group

In accordance with Finansinspektionen's directives

SEK m	Jan-Sep 2004	Jan-Sep 2003	Change %	Q 3 2004	Q 2 2004	Change %	Full year 2003
<i>Interest income</i>	32,703	35,597	-8	11,310	10,539	7	47,837
<i>Interest expense</i>	-20,115	-21,536	-7	-7,220	-6,342	14	-29,492
Net interest income	12,588	14,061	-10	4,090	4,197	-3	18,345
Dividends received	646	448	44	12	344	-97	491
<i>Commission income</i>	4,902	4,210	16	1,582	1,618	-2	5,800
<i>Commission expense</i>	-878	-799	10	-318	-294	8	-1,093
Commission, net	Note 1 4,024	3,411	18	1,264	1,324	-5	4,707
Net result on financial operations	Note 2 -233	-1,660	86	88	-232		-1,827
Other operating income	282	203	39	187	44	325	243
<b>Total income</b>	<b>17,307</b>	<b>16,463</b>	<b>5</b>	<b>5,641</b>	<b>5,677</b>	<b>-1</b>	<b>21,959</b>
General administrative expenses							
- Staff costs	-4,690	-4,662	1	-1,536	-1,560	-2	-6,216
- Other expenses	Note 3 -2,172	-2,099	3	-692	-761	-9	-2,855
Depreciation and write-downs in value of							
tangible and intangible fixed assets	-628	-639	-2	-210	-209	0	-807
<b>Total expenses</b>	<b>-7,490</b>	<b>-7,400</b>	<b>1</b>	<b>-2,438</b>	<b>-2,530</b>	<b>-4</b>	<b>-9,878</b>
<b>Profit before loan losses</b>	<b>9,817</b>	<b>9,063</b>	<b>8</b>	<b>3,203</b>	<b>3,147</b>	<b>2</b>	<b>12,081</b>
Net loan losses	Note 4 8	-312		26	27	4	-507
Change in value of repossessed property	-	15	-100	-	-		15
Reversed write-downs of financial							
fixed assets	-	-		-	-		199
Participations in result of associated companies	34	12	183	14	16	-13	29
<b>Result of banking operations</b>	<b>9,859</b>	<b>8,778</b>	<b>12</b>	<b>3,243</b>	<b>3,190</b>	<b>2</b>	<b>11,817</b>
Result of insurance operations	Note 5 -65	-52	-25	-58	-28	-107	-267
<b>Operating profit</b>	<b>9,794</b>	<b>8,726</b>	<b>12</b>	<b>3,185</b>	<b>3,162</b>	<b>1</b>	<b>11,550</b>
Pension settlement		-82	-100				-89
Taxes	-2,809	-2,502	12	-931	-897	4	-3,345
<b>Profit for the period</b>	<b>6,985</b>	<b>6,142</b>	<b>14</b>	<b>2,254</b>	<b>2,265</b>	<b>0</b>	<b>8,116</b>
Net earnings per share, SEK	10.26	8.86		3.36	3.33		11.70

Notes to profit and loss account in accordance with Finansinspektionen's directives

Note 1 Commission, net

SEK m	Jan-Sep 2004	Jan-Sep 2003	Change %	Q 3 2004	Q 2 2004	Change %	Full year 2003
Payments	1,188	1,128	5	407	405	0	1,532
Lending	789	665	19	267	252	6	905
Deposits	44	52	-15	10	16	-38	79
Guarantees	273	281	-3	94	87	8	361
Securities	1,587	1,246	27	458	514	-11	1,719
Other	1,021	838	22	346	344	1	1,204
Commission income	4,902	4,210	16	1,582	1,618	-2	5,800
Commission expense	-878	-799	10	-318	-294	8	-1,093
<b>Commission, net</b>	<b>4,024</b>	<b>3,411</b>	<b>18</b>	<b>1,264</b>	<b>1,324</b>	<b>-5</b>	<b>4,707</b>

Notes to profit and loss account in accordance with Finansinspektionen's directives (cont.)

Note 2 Net result on financial operations

SEK m	Jan-Sep	Jan-Sep	Change	Q 3	Q 2	Change	Full year
	2004	2003	%	2004	2004	%	2003
Shares and participations	-21	-277	92	-102	29		-176
Interest-bearing securities	868	292	197	401	560	-28	677
Realised profit	847	15		299	589	-49	501
Shares and participations	26	123	-79	177	-111		34
Interest-bearing securities	172	991	-83	-86	-456	81	831
Unrealised changes in value	198	1,114	-82	91	-567		865
Changes in exchange rates	-1,278	-2,789	54	-302	-254	-19	-3,193
Net result on financial operations	-233	-1,660	86	88	-232		-1,827

Note 3 Other administrative expenses

SEK m	Jan-Sep	Jan-Sep	Change	Q 3	Q 2	Change	Full year
	2004	2003	%	2004	2004	%	2003
Property and premises	-616	-661	-7	-192	-221	-13	-867
External IT costs	-463	-393	18	-173	-154	12	-553
Communication	-290	-293	-1	-90	-100	-10	-392
Travel and marketing	-182	-180	1	-54	-71	-24	-252
Purchased services	-328	-282	16	-116	-106	9	-383
Supplies	-131	-129	2	-39	-47	-17	-181
Other expenses	-162	-161	1	-28	-62	-55	-227
Other administrative expenses	-2,172	-2,099	3	-692	-761	-9	-2,855

Notes to profit and loss account in accordance with Finansinspektionen's directives (cont.)

Note 4 Loan losses

SEK m	Jan-Sep 2004	Jan-Sep 2003	Change %	Q 3 2004	Q 2 2004	Change %	Full year 2003
<b>A. Specific provision for individually assessed loan receivables:</b>							
The period's write-off for actual loan losses	-733	-540	36	-327	-167	96	-1,269
Writeback of previous provisions for probable loan losses reported as actual losses in the period's accounts	612	420	46	305	147	107	1,097
The period's provision for probable loan losses	-456	-698	-35	-96	-175	-45	-1,278
Paid in from actual losses in previous years	319	319	0	105	64	64	454
Writeback of provisions for probable loan losses which are no longer necessary	332	377	-12	41	160	-74	505
<u>General provision for probable but non-identified loan losses</u>	<u>-60</u>	<u>-180</u>	<u>-67</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net expense for the period for individually assessed loan receivables</b>	<b>14</b>	<b>-302</b>		<b>28</b>	<b>29</b>	<b>-3</b>	<b>-491</b>
<b>B. Provision by group for individually assessed loan receivables:</b>							
Allocation to/dissolution of provision by group	-	-	-	-	-	-	-
<b>C. Collectively assessed homogenous groups of loan receivables with limited value and similar credit risk:</b>							
The period's write-off for actual loan losses	-26	-34	-24	-10	-10	0	-49
Paid in from actual losses in previous years	14	19	-26	3	6	-50	26
<u>Allocation to/dissolution of provision for loan losses</u>	<u>6</u>	<u>5</u>	<u>20</u>	<u>5</u>	<u>2</u>	<u>150</u>	<u>7</u>
<b>Net expense for the period for collectively assessed homogenous loan receivables</b>	<b>-6</b>	<b>-10</b>	<b>-40</b>	<b>-2</b>	<b>-2</b>	<b>0</b>	<b>-16</b>
<b>D. Transfer risk:</b>							
Allocation to/dissolution of provision for transfer risks	-	-	-	-	-	-	-
<b>Net expense for the period for loan losses (A+B+C+D)</b>	<b>8</b>	<b>-312</b>		<b>26</b>	<b>27</b>	<b>4</b>	<b>-507</b>

According to Finansinspektionen's accounting directives, receivables which individually have been assessed as being posted at the correct value must also be assessed as to whether there may be a requirement for making a provision for probable loan losses for these receivables valued as a group. Over and above the risk assessment of individual loan receivables made quarterly by all units with customer and credit responsibility in the Handelsbanken Group, no such requirement for provision for the receivables as a group has been identified.

Notes to profit and loss account in accordance with Finansinspektionen's directives (cont.)

Note 5 Result of insurance operations

SEK m	Jan-Sep	Jan-Sep	Change	Q 3	Q 2	Change	Full year
	2004	2003	%	2004	2004	%	2003
Net interest income	11	13	-15	-2	9		17
Dividends received	7	3	133	4	0		3
Commission, net	332	247	34	139	98	42	336
Net result on financial operations	28	47	-40	-38	6		149
Other operating income	54	37	46	39	8	388	-198
<b>Total income</b>	<b>432</b>	<b>347</b>	<b>24</b>	<b>142</b>	<b>121</b>	<b>17</b>	<b>307</b>
Staff costs	-103	-106	-3	-33	-35	-6	-140
Other expenses	-265	-175	51	-116	-75	55	-276
Depreciation and write-down in value of tangible and intangible fixed assets	-129	-116	11	-51	-39	31	-155
<b>Total expenses</b>	<b>-497</b>	<b>-397</b>	<b>25</b>	<b>-200</b>	<b>-149</b>	<b>34</b>	<b>-571</b>
Participation in result of associated company	-	-2	100	-	-		-3
<b>Result of insurance operations</b>	<b>-65</b>	<b>-52</b>	<b>-25</b>	<b>-58</b>	<b>-28</b>	<b>-107</b>	<b>-267</b>

Result of insurance operations in accordance with the Swedish Annual Accounts Act for Insurance Companies

SEK m	Jan-Sep	Jan-Sep	Full year
	2004	2003	2003
<b>Technical account - insurance operations</b>			
Premiums written	5,085	3,538	4,934
Investment income transferred from financial operations	0	1	1
Investment income	1,070	1,103	1,468
Unrealised gains on investments	127	389	554
Change in value of investment assets for which the policyholder bears the investment risk	99	813	1,801
Other technical income	-	-	-
Insurance claims	-2,543	-2,330	-3,214
Change in insurance provisions	-3,032	-2,389	-4,461
Operating expenses	-284	-221	-297
Investment charges	-109	-355	-239
Unrealised losses on investments	-24	-180	-340
Change in value of investments where the policyholder bears the investment risk	-	-	0
Participation in result of associated company	-	-2	-3
Other technical expenses	-154	-128	-203
Investment income transferred to financial operations	-2	0	-6
<b>Result on technical account - insurance operations</b>	<b>233</b>	<b>239</b>	<b>-5</b>
<b>Non-technical account</b>			
Investment income	56	78	93
Unrealised gains on investments	3	5	11
Investment income transferred from insurance operations	2	0	6
Investment charges	-39	-42	-54
Unrealised losses on investments	-1	-18	-18
Investment income transferred to the technical account	0	-1	-1
Yield tax	-319	-313	-299
<b>Profit before company taxes</b>	<b>-65</b>	<b>-52</b>	<b>-267</b>
Taxes	17	28	35
<b>Profit for the period</b>	<b>-48</b>	<b>-24</b>	<b>-232</b>

# Balance sheet – Svenska Handelsbanken Group

SEK m		30 Sep 2004	30 Jun 2004	31 Dec 2003	30 Sep 2003
Lending to the general public	Note 1	857,058	853,932	823,142	827,324
Lending to credit institutions		117,083	110,395	115,273	122,267
Interest-bearing securities					
- Financial fixed assets		508	509	7,675	7,609
- Financial current assets		157,454	159,714	119,634	128,697
Other assets		207,442	197,601	194,730	230,242
<b>Total assets</b>		<b>1,339,545</b>	<b>1,322,151</b>	<b>1,260,454</b>	<b>1,316,139</b>
Deposits and funding from the general public		313,991	312,629	303,326	276,585
Liabilities to credit institutions		222,799	206,919	202,689	267,702
Issued securities etc		490,145	507,816	458,701	452,912
Subordinated liabilities		26,015	27,072	26,732	26,934
Other liabilities		227,835	211,172	212,171	237,195
Shareholders' equity	Note 2	58,760	56,543	56,835	54,811
<b>Total liabilities and shareholders' equity</b>		<b>1,339,545</b>	<b>1,322,151</b>	<b>1,260,454</b>	<b>1,316,139</b>

## Notes to the balance sheet

### Note 1 Lending to the general public

SEK m	30 Sep 2004	30 Jun 2004	31 Dec 2003	30 Sep 2003
SEK lending				
- to households	309,351	302,867	293,865	289,446
- to companies etc *	344,737	347,874	336,463	346,253
	<b>654,088</b>	<b>650,741</b>	<b>630,328</b>	<b>635,699</b>
Foreign currency lending				
- to households	55,053	53,192	47,345	44,391
- to companies etc *	150,138	152,482	148,118	150,273
	<b>205,191</b>	<b>205,674</b>	<b>195,463</b>	<b>194,664</b>
Provision for probable loan losses	-2,221	-2,483	-2,649	-3,039
<b>Total lending to the general public</b>	<b>857,058</b>	<b>853,932</b>	<b>823,142</b>	<b>827,324</b>
* of which National Debt Office	249	3,309	70	755

### Lending to the general public by sector

SEK m	Lending before deduction of provisions	Provisions for probable loan losses	Lending after deduction of provisions
Private individuals	364,404	-399	364,005
- <i>Of which mortgage loans</i>	263,388	-52	263,336
Property management	303,233	-431	302,802
- <i>Of which mortgage loans</i>	141,568	-212	141,356
Construction	12,956	-144	12,812
Trade, hotels and restaurants	38,275	-358	37,917
Manufacturing	39,279	-393	38,886
Transport, communication	12,456	-108	12,348
Municipalities	9,138	0	9,138
Other	79,538	-388	79,150
<b>Total lending to the general public</b>	<b>859,279</b>	<b>-2,221</b>	<b>857,058</b>

## Balance sheet notes (cont.)

## Note 2 Change in shareholders' equity

SEK m	Jan-Sep 2004	Jan-Jun 2004	Full year 2003	Jan-Sep 2003
<b>Opening shareholders' equity</b>	<b>56,835</b>	<b>56,835</b>	<b>52,192</b>	<b>52,192</b>
Effect of changed accounting principles	1,966	1,966	-	-
Dividend	-3,602	-3,602	-3,294	-3,294
Buyback of own shares	-3,426	-3,426	-	-
Change of foreign currency component	3	39	-179	-229
Profit for the period	6,984	4,731	8,116	6,142
<b>Closing shareholders' equity</b>	<b>58,760</b>	<b>56,543</b>	<b>56,835</b>	<b>54,811</b>

## Other information

The accounting follows the regulations of the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRK), the Swedish Financial Accounting Standards Council's recommendations, and the directives issued by Finansinspektionen (the Swedish Financial Supervisory Authority, FFFS 2002:22). Some minor reclassifications have been made in the balance sheet and the profit and loss account. The comparative figures have been restated. The same accounting principles are applied in the interim report as in the latest annual report with the exception of reporting employee benefits. The implementation of the Swedish Financial Accounting Standards Council's recommendation RR29 Employee benefits (IAS19) means that pension costs are calculated in a different way than previously and that assets and liabilities relating to defined benefit plans are reported directly on the balance sheet. In accordance with the recommendation, the changed accounting for pensions applies to future accounts (from 1 January 2004) except that opening balance must be restated.

The changed pensions accounting has affected Other assets, Provision for deferred tax and Profit brought forward. In the profit and loss account, the operating profit is affected by the net amount of anticipated yield on investment assets, interest on the pension liability at the beginning of the year and pension rights earned during the year. Previously a calculated cost and premiums to life insurance companies were reported as operating expenses. Reversal of the calculated cost, pension disbursements and compensation from pension foundations were previously reported under appropriations. Low-interest loans to employees are now reported gross as interest income and staff costs. Previously these were reported as non-received interest income. The comparative figures have been restated. Further information is provided under New method of reporting employee benefits.

## Cash flow statement

SEK m	Jan-Sep 2004	Jan-Sep 2003	Full year 2003
Cash flow on operating activities	8,452	2,936	3,882
Cash flow on investing activities	-5	-335	-520
Cash flow on financing activities	-7,746	-3,160	-3,363
<b>Cash flow for the period</b>	<b>701</b>	<b>-559</b>	<b>-1</b>
Liquid funds at beginning of period	7,640	8,166	8,166
Cash flow for the period	701	-559	-1
Exchange rate difference on liquid funds	30	-434	-525
<b>Liquid funds at end of period</b>	<b>8,371</b>	<b>7,173</b>	<b>7,640</b>

## Other information (cont.)

## Capital base and requirement

SEK m	30 Sep 2004	30 Sep 2003	31 Dec 2003
Tier 1 capital	46,605	43,702	45,846
Tier 1 capital *	47,854	44,830	45,846
Total capital base	63,022	62,094	64,018
Risk-weighted volume	655,412	646,863	629,767
Capital ratio	9.6%	9.6%	10.2%
Tier 1 ratio	7.1%	6.8%	7.3%
Capital ratio *	9.8%	9.8%	10.2%
Tier 1 ratio *	7.3%	6.9%	7.3%

\* Incl. profit for the period

## Bad debts

	30 Sep 2004	30 Jun 2004	31 Dec 2003	30 Sep 2003
SEK m				
Bad debts	4,337	4,578	5,191	5,239
Specific provision for individually assessed loan receivables	-2,136	-2,394	-2,561	-2,979
Provision for collectively assessed homogenous groups of loan receivables with limited value	-104	-107	-108	-76
<b>Bad debts, net</b>	<b>2,097</b>	<b>2,077</b>	<b>2,522</b>	<b>2,184</b>
Bad debt reserve ratio	51.6%	54.6%	51.4%	58.3%
Proportion of bad debts	0.23%	0.23%	0.28%	0.25%
Loan loss ratio	-0.00%	0.00%	0.06%	0.04%
Non-performing loans for which interest is accrued	1,078	1,084	1,097	1,521
Book value of loan receivables restructured during the period, before restructure	75	74	406	107
Book value of loan receivables restructured during the period, after restructure	74	71	404	104
Bad debts which during the period have been reclassified as normal loans	233	191	647	448

## Collateral taken over

	30 Sep 2004	30 Jun 2004	31 Dec 2003	30 Sep 2003
SEK m				
Buildings and land	6	6	3	7
Shares and other participations	174	179	178	215
Other	30	31	39	46
<b>Total collateral taken over</b>	<b>210</b>	<b>216</b>	<b>220</b>	<b>268</b>

## Derivatives

SEK m	Interest rate-related		Currency-related		Equity-related	
	Fair value	Book value	Fair value	Book value	Fair value	Book value
Positive values	54,883	51,264	25,192	25,170	4,857	4,860
Negative values	57,588	51,437	32,007	31,445	6,384	6,384

The above table is compiled in accordance with the Finansinspektionen's regulations and includes all derivative instruments in the Group. For derivative instruments which are part of trading operations, the book value was the same as the market value. The differences between market value and book value reported in the table correspond to the reversed differences between market value and book value in those parts of the Group's operations which are subject to hedge accounting.

## Value-at-Risk

During the period 1 January - 30 September, Handelsbanken Markets' exposure to interest rate and exchange rate risks, measured as Value-at-Risk (VaR), was on average SEK 37m (33). During the period, this risk varied between SEK 15m (19) and 60m (81). During the same period, Handelsbanken Markets' exposure to equity price risks, measured as VaR, was on average SEK 5m (6). This risk varied between SEK 1m (1) and 15m (11).

## Contingent assets and contingent liabilities

The Handelsbanken Group is currently pursuing a number of legal disputes in various tax courts. The total amounts in dispute are approx. SEK 358m, excluding interest, which in the case of a positive judgement would increase the Group's income by the same amount.

Together with several other parties, Handelsbanken has brought a suit against Stockholmsbörsen (the Stockholm stock exchange), demanding repayment of value-added tax. Handelsbanken's claim is for approximately SEK 20m, excluding interest.

Total contingent liabilities are SEK 79,589m (66,471). This amount includes SEK 78m relating to a number of lawsuits which the Group is pursuing in general courts of law. The largest individual amount in dispute is SEK 24m. The Bank's assessment is that the lawsuits will essentially be judged in its favour. None of the amounts in dispute, nor any insurance compensation, has been taken up as income. The estimated expected value is included in contingent liabilities.

In addition, Ejendomsselskapet af 1. Januar 2002 A/S (formerly Midtbank) is the subject of criminal proceedings in Denmark. The trial concerns charges that Ejendomsselskapet was in breach of regulations for insider trading according to Danish law on securities trading when Handelsbanken placed a bid for the former Midtbank. Ejendomsselskapet would thus be bound to pay a confiscation amount of some DKK 69m. Handelsbanken is not a party to the trial, but since Ejendomsselskapet is now part of Handelsbanken, it is affected by the outcome. In mid-April 2003, Ejendomsselskapet was ordered to pay approximately DKK 55m for breaking the law on insider trading. The judgement was appealed and Ejendomsselskapet won the case in the Vestre Landsretten (the local high court) on 22 April this year. The court ruling has been appealed to the Danish Supreme Court and Handelsbanken's assessment is that there is good reason to believe that the court will rule in Ejendomsselskapet's favour, and thus no provision has been made.

## New method of reporting employee benefits

In 2004, the Swedish Financial Accounting Standards Council's recommendation 29 (IAS19) came into effect. This entails changes in how and when certain types of benefits to employees are reported. The net effect of this change on the Group's quarterly results was slightly positive. This calculation includes the following assumptions:

- Rate of salary increase 3.6%
- Increase in income base amount 3%
- Inflation rate 2%
- The liability is discounted at a rate of 5%
- The long-term anticipated return on the assets which are kept separate for covering pension commitments will be 7%.

The portfolio which is kept separate contains around 20% of interest-bearing securities and around 80% of shares or other equity-related instruments.

The Group's balance sheet was affected at the beginning of the year by the addition of the surplus values in defined benefit pension plans. After a deduction for deferred tax liability, the net amount of shareholders' equity brought forward has increased by just over SEK 2bn.

## Changeover to IFRS standards

Starting in 2005, the EU requires that listed companies in Europe adapt their consolidated accounts to the IASB's accounting standards (IFRS or IAS). However, an accounting standard issued by the IASB will not be valid until the EU has approved it for application within the EU. Harmonisation will be made with recommendations applying within the EU on 1 January 2005. The recommendations currently adopted by the EU entail no major changes in the accounting principles which apply at present and are therefore not expected to have a material impact on shareholders' equity. In the first quarter of 2004, however, the IASB decided on changes in the standards concerning reporting of consolidated accounts, to take effect on 1 January 2005. The proposed changes are not expected to have any material impact on the Group's equity. One proposed change, however, is that goodwill and certain intangible assets will no longer be amortised. Instead, the need for a write-down must be regularly examined. If this new rule had already applied, it would have increased the Group's operating profits during the year by SEK 456m through not amortising goodwill and other intangible assets. There may be other effects on operating profits and on shareholders' equity.

The EU has not yet adopted recommendations IAS 32 and IAS 39, which refer to disclosure and valuation rules for financial assets and liabilities. An adapted version of IAS 39 was published in the first quarter of 2004. The changes mainly refer to the rules for hedge accounting. Other amendments have been sent to interested parties for comment, including some relating to the possibility of valuing financial assets and liabilities at fair value. One EU body has recommended that the EU adopt an adjusted IAS 39 which would imply some relaxation in the rules for hedge accounting. However it is also possible that the member states will be able to retain IAS 39 unchanged in this respect. It is also proposed that a company will not be permitted to freely opt to value its own debt at market value until IASB has established adjusted rules on this point. In view of the possible changes to IAS 39 which are currently known, our assessment is that the recommendations will not lead to any material impact on the reported profits and reported financial position, if and when the standard is implemented.

The Handelsbanken Group's project for adapting the accounts to the IFRS standards is proceeding according to plan. Preparations for harmonisation of the accounting principles to IAS 39 have been completed as far as possible. Before the final adaptations of systems and routines can be completed, a final version of IAS 39 must have been ratified and adopted by the EU.

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

# Handelsbanken's shares

The Swedish stock market continued to rise a little during the third quarter of the year. As at 30 September, the Affärsverlden General Index was 10% higher than at the beginning of the year. The Affärsverlden Bank and Insurance Index went up by 7%. Handelsbanken's Class A shares rose by 4%. As at 30 September 2004, the total market capitalisation of Handelsbanken, after share buy-backs, was SEK 102bn.

Handelsbanken's shares

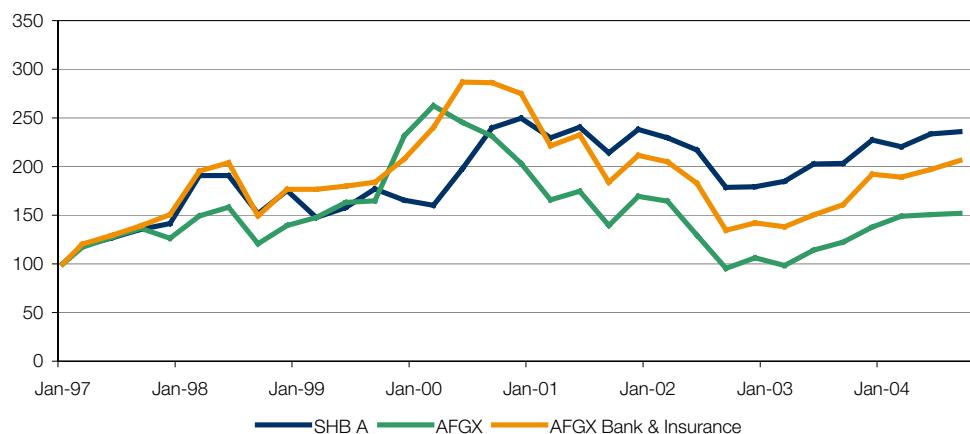
	30 Sep 2004	31 Dec 2003
Share price ordinary class A, SEK	152.50	147.00
Number of outstanding shares, million	669.6	693.4
Market capitalisation, SEK bn	102	102

Handelsbanken's rating at 30 September 2004

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

Share price performance until 30 September 2004

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Highlights of the annual report for 2004 will be published on 22 February 2005.

Handelsbanken's interim reports and other financial information are available at [www.handelsbanken.se/ireng](http://www.handelsbanken.se/ireng)

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Svenska Handelsbanken AB (publ), Corporate identity number 502007-7862