

Interim Report

January-June

2020

Stadshypotek Interim Report

January-June 2020 compared with January-June 2019

Income increased by SEK 341m to SEK 7,282m (6,941).

Expenses before credit losses increased by SEK 190m to SEK -900m (-710).

Net credit losses totalled SEK -53m (21).

Operating profit rose by SEK 77m to SEK 6,329m (6,252).

Profit after tax increased by SEK 44m to SEK 4,960m (4,916).

Loans to the public increased by 5%, or SEK 64bn, to SEK 1,406bn.

The common equity tier 1 ratio increased to 13.4% (13.2).

The return on equity decreased to SEK 14.9% (15.5).

The C/I ratio after credit losses increased to 13.1% (9.9).

January-June 2020 compared with July-December 2019

Income increased by SEK 189m to SEK 7,282m (7,093).

Expenses before credit losses decreased by SEK 14m to SEK -900m (-914).

Net credit losses totalled SEK -53m (-12).

Operating profit increased by SEK 162m to SEK 6,329m (6,167).

Profit after tax increased by SEK 105m to SEK 4,960m (4,855).

Loans to the public increased by 2%, or SEK 33bn, to SEK 1,406bn.

The common equity tier 1 ratio remained unchanged at 13.4% (13.4).

The return on equity decreased to SEK 14.9% (15.1).

The C/I ratio after credit losses remained unchanged at 13.1% (13.1).

Stadshypotek Interim Report

January–June 2020

JANUARY–JUNE 2020 COMPARED WITH JANUARY–JUNE 2019

Stadshypotek's operating profit rose by SEK 77m, or 1%, to SEK 6,329m (6,252). Net interest income grew by SEK 337m to SEK 7,276m (6,939). This is mainly due to higher lending volumes to the private and corporate markets in Sweden.

Of the net interest income, SEK 404m (424) was attributable to the branch in Norway, SEK 250m (226) to the branch in Finland and SEK 275m (267) to the branch in Denmark. Excluding the branches, net interest income increased by SEK 325m (99). Net gains/losses on financial transactions increased by SEK 3m to SEK 19m (16).

Expenses increased by SEK 190m to SEK -900m (-710). This increase was mainly attributable to 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, which is driven chiefly by an increase in business volumes.

Net credit losses totalled SEK -53m (21). The credit loss ratio amounted to 0.01% of lending (0.00).

LENDING

Compared with the end of the corresponding period of the previous year, loans to the public increased by 5%, or SEK 64bn, to SEK 1,406bn (1,342). In Sweden, loans to the public increased by 5%, or SEK 61bn, to SEK 1,207bn (1,146).

FUNDING

Issues of Stadshypotek's benchmark programme loans¹ in Swedish kronor reached a nominal volume of SEK 66.7bn (78.6) during the period, and a nominal volume totalling SEK 82.9bn (42.4) matured or was repurchased. The carrying amount of the outstanding Swedish kronor bonds was SEK 485.8bn (479.3) at the end of the period.

No bonds were issued under the EMTCN programme during the period (EUR 1.2bn). The nominal outstanding volumes in the programme at the end of the period were EUR 10.4bn (10.4) and GBP 0.7bn (0.7).

The outstanding volume in the US programme totalled USD 1.3bn (3.8) at the end of the period. An issue in NOK was made for the nominal amount of NOK 6.0bn (5.0). The outstanding volume at the end of the period was NOK 25.5bn (23.5).

CAPITAL ADEQUACY

The total capital ratio according to CRD IV was 21.1% (21.2), while the common equity tier 1 ratio calculated according to CRD IV was 13.4% (13.2). Further information on capital adequacy is provided in note 18, Capital adequacy, on page 28.

RATINGS

The ratings remained unchanged during the entire period.

Stadshypotek	Covered bonds	Long-term	Short-term
Moody's	Aaa	-	P-1
Standard & Poor's		AA-	A-1+
Fitch		AA	F1+

¹ See definition on page 33.

JANUARY–JUNE 2020 COMPARED WITH JULY–DECEMBER 2019

Stadshypotek's operating profit rose by SEK 162m, or 3%, to SEK 6,329m (6,167). Net interest income grew by SEK 218m to SEK 7,276m (7,058). This is mainly due to higher lending volumes to the private and corporate markets in Sweden.

Of the net interest income, SEK 404m (377) was attributable to the branch in Norway, SEK 250m (213) to the branch in Finland and SEK 275m (257) to the branch in Denmark. Excluding the branches, net interest income increased by SEK 136m (189). Net gains/losses on financial transactions decreased by SEK 32m to SEK 19m (51).

Expenses decreased by SEK 14m to SEK -900m (-914).

Net credit losses totalled SEK -53m (-12). The credit loss ratio amounted to 0.01% of lending (0.00).

LENDING

Loans to the public increased by 2%, or SEK 33bn, during the period, to SEK 1,406bn (1,373). In Sweden, loans to the public increased by 3%, or SEK 32bn, to SEK 1,207bn (1,175).

FUNDING

Issues of Stadshypotek's benchmark programme loans¹ in Swedish kronor reached a nominal volume of SEK 66.7bn (46.7) during the period, and a nominal volume totalling SEK 82.9bn (55.2) matured or was repurchased. The carrying amount of the outstanding Swedish kronor bonds was SEK 485.8bn (471.0) at the end of the period.

No bonds were issued under the EMTCN programme during the period or during the period of comparison. The nominal outstanding volumes in the programme at the end of the period were EUR 10.4bn (10.4) and GBP 0.7bn (0.7).

The outstanding volume in the US programme totalled USD 1.3bn (2.3) at the end of the period. Issues in NOK totalled NOK 6.0bn (-). The outstanding volume at the end of the period was NOK 25.5bn (24.0).

CAPITAL ADEQUACY

The total capital ratio according to CRD IV was 21.1% (21.3), while the common equity tier 1 ratio calculated according to CRD IV was 13.4% (13.4). Further information on capital adequacy is provided in note 18, Capital adequacy, on page 28.

EFFECTS OF COVID-19

Uncertainty in financial markets and throughout the economy in general have had a limited impact on Stadshypotek AB. The option to apply for a temporary exemption from amortisation, initiated by the Swedish Financial Supervisory Authority and applying until August 2021, has been taken up by some customers. In accordance with IFRS 9, an extra provision of SEK 77m was made in Q1 to cover the expected credit losses due to the Covid-19 pandemic.

Income statement

SEK m	Jan-Jun 2020	Jul-Dec 2019	Change %	Jan-Jun 2019	Change %	Full year 2019
Interest income according to the effective interest method	11,306	11,092	2	10,737	5	21,829
Interest expense	-4,030	-4,034	0	-3,798	6	-7,832
Net interest income <i>Note 3</i>	7,276	7,058	3	6,939	5	13,997
Fee and commission income	7	5	40	8	-13	13
Fee and commission expense	-21	-22	-5	-22	-5	-44
Net fee and commission income	-14	-17	-18	-14	0	-31
Net gains/losses on financial transactions <i>Note 4</i>	19	51	-63	16	19	67
Other income	1	1	0	0		1
Total income	7,282	7,093	3	6,941	5	14,034
General administrative expenses						
Staff costs	-41	-37	11	-34	21	-71
Other administrative expenses	-856	-869	-1	-675	27	-1,544
<i>Note 5</i>						
Depreciation, amortisation and impairment of property, equipment, and intangible assets	-3	-8	-63	-1	200	-9
Total expenses before credit losses	-900	-914	-2	-710	27	-1,624
Profit before credit losses	6,382	6,179	3	6,231	2	12,410
Net credit losses	-53	-12	342	21		9
<i>Note 6</i>						
Operating profit	6,329	6,167	3	6,252	1	12,419
Profit before taxes	6,329	6,167	3	6,252	1	12,419
Taxes	-1,369	-1,312	4	-1,336	2	-2,648
Profit for the period	4,960	4,855	2	4,916	1	9,771
Earnings per share, SEK	30,616	29,966		30,347		60,313

Statement of comprehensive income

SEK m	Jan-Jun 2020	Jul-Dec 2019	Change %	Jan-Jun 2019	Change %	Full year 2019
Profit for the period	4,960	4,855	2	4,916	1	9,771
Other comprehensive income						
Items that may subsequently be reclassified to the income statement						
Cash flow hedges	1,414	-1,685		3,675	-62	1,990
Translation differences for the period	-121	-57	112	58		1
<i>of which hedging of net assets in business operations outside Sweden</i>	-	-		-		-
Tax on items that may subsequently be reclassified to the income statement	-304	361		-787	-61	-426
<i>of which cash flow hedges</i>	-304	361		-787	-61	-426
Total items that may subsequently be reclassified to the income statement	989	-1,381		2,946	-66	1,565
Total other comprehensive income	989	-1,381		2,946	-66	1,565
Total comprehensive income for the period	5,949	3,474	71	7,862	-24	11,336

The period's reclassifications to the income statement are presented in Statement of changes in equity on page 5.

Half-yearly performance

SEK m	Jan-Jun 2020	Jul-Dec 2019	Jan-Jun 2019	Jul-Dec 2018	Jan-Jun 2018
Interest income according to the effective interest method	11,306	11,092	10,737	10,286	10,152
Interest expense	-4,030	-4,034	-3,798	-3,439	-3,311
Net interest income	7,276	7,058	6,939	6,847	6,841
Fee and commission income	7	5	8	6	7
Fee and commission expense	-21	-22	-22	-19	-20
Net fee and commission income	-14	-17	-14	-13	-13
Net gains/losses on financial transactions	19	51	16	-7	-5
Other income	1	1	0	0	0
Total income	7,282	7,093	6,941	6,827	6,823
General administrative expenses					
Staff costs	-41	-37	-34	-49	-46
Other administrative expenses	-856	-869	-675	-600	-538
Depreciation, amortisation and impairment of property, equipment, and intangible assets	-3	-8	-1	-2	-2
Total expenses before credit losses	-900	-914	-710	-651	-586
Profit before credit losses	6,382	6,179	6,231	6,176	6,237
Net credit losses	-53	-12	21	2	-14
Operating profit	6,329	6,167	6,252	6,178	6,223
Profit before taxes	6,329	6,167	6,252	6,178	6,223
Taxes	-1,369	-1,312	-1,336	-1,359	-1,370
Profit for the period	4,960	4,855	4,916	4,819	4,853
Earnings per share, SEK	30,616	29,966	30,347	29,750	29,956

Balance sheet

SEK m		30 Jun 2020	31 Dec 2019	30 Jun 2019
Assets				
Loans to credit institutions		19,350	11,544	7,684
Loans to the public	<i>Note 7</i>	1,405,530	1,372,940	1,342,489
Value change of interest-hedged item in portfolio hedge		18	25	34
Shares and participating interests		0	0	0
Derivative instruments	<i>Notes 8 and 9</i>	18,633	18,027	24,360
Intangible assets		139	120	94
Property and equipment		0	0	0
Current tax assets		0	0	3
Other assets		196	204	1,200
Prepaid expenses and accrued income		323	3	487
Total assets		1,444,189	1,402,863	1,376,351
<i>of which Group claims</i>	<i>Note 17</i>	37,497	29,606	32,649
Liabilities				
Due to credit institutions	<i>Note 10</i>	735,627	695,716	649,057
Issued securities	<i>Note 11</i>	639,154	634,565	658,425
Derivative instruments	<i>Notes 8 and 9</i>	336	295	325
Current tax liabilities		748	634	1,691
Deferred tax liabilities		919	617	977
Other liabilities		150	9,466	194
Accrued expenses and deferred income		61	46	75
Total liabilities		1,376,995	1,341,339	1,310,744
<i>of which Group liabilities</i>	<i>Note 17</i>	734,628	705,449	648,626
Equity				
Share capital		4,050	4,050	4,050
Other funds		33,300	32,291	33,419
Retained earnings		24,884	15,412	23,222
Profit for the period		4,960	9,771	4,916
Total equity		67,194	61,524	65,607
Total liabilities and equity		1,444,189	1,402,863	1,376,351

Statement of changes in equity

30 June 2020	Restricted equity			Non-restricted equity				Retained earnings including profit for the year	Total
	Share capital ¹	Statutory reserve	Fund for internally developed software	Tier 1 capital instruments ³	Tier 2 capital instruments ³	Hedge reserve ²	Translation reserve ²		
SEK m									
Closing equity 2019	4,050	8,106	119	5,300	16,400	2,264	102	25,183	61,524
Profit for the period								4,960	4,960
Other comprehensive income						1,110	-121		989
Total comprehensive income for the period						1,110	-121	4,960	5,949
Dividend on capital instruments								-279	-279
Fund for internally developed software			20					-20	-
Closing equity at 30 June 2020	4,050	8,106	139	5,300	16,400	3,374	-19	29,844	67,194

31 December 2019	Restricted equity			Non-restricted equity				Retained earnings including profit for the year	Total
	Share capital ¹	Statutory reserve	Fund for internally developed software	Tier 1 capital instruments ³	Tier 2 capital instruments ³	Hedge reserve ²	Translation reserve ²		
SEK m									
Closing equity 2018	4,050	8,106	42	-	21,700	700	101	23,171	57,870
Profit for the year								9,771	9,771
Other comprehensive income						1,564	34		1,598
Reclassification in equity							-33		-33
Total comprehensive income for the year						1,564	1	9,771	11,336
Reclassified to retained earnings								33	33
Tier 2 capital instruments					-5,300				-5,300
Tier 1 capital instruments				5,300					5,300
Dividend on capital instruments								-327	-327
Group contributions provided								-9,400	-9,400
Tax effect on Group contributions								2,012	2,012
Fund for internally developed software			77					-77	-
Closing equity at 31 December 2019	4,050	8,106	119	5,300	16,400	2,264	102	25,183	61,524

30 June 2019	Restricted equity			Non-restricted equity				Retained earnings including profit for the year	Total
	Share capital ¹	Statutory reserve	Fund for internally developed software	Tier 1 capital instruments ³	Tier 2 capital instruments ³	Hedge reserve ²	Translation reserve ²		
SEK m									
Closing equity 2018	4,050	8,106	42	-	21,700	700	101	23,171	57,870
Profit for the period								4,916	4,916
Other comprehensive income						2,888	92		2,980
Reclassification in equity							-34		-34
Total comprehensive income for the period						2,888	58	4,916	7,862
Reclassified to retained earnings								34	34
Dividend on capital instruments								-159	-159
Fund for internally developed software			52					-52	-
Closing equity at 30 June 2019	4,050	8,106	94	-	21,700	3,588	159	27,910	65,607

¹ Average number of shares, 162,000 (162,000).

² Included in the fair value fund.

³ Tier 2 capital and tier 1 capital are deemed to be non-restricted equity and have therefore been reclassified as such, rather than as restricted equity.

The translation reserve includes translation effects related to the balance sheets and income statements of the company's international branches. Accumulated translation effects are subject to taxation if a branch is closed or divested. Tax rules covering the taxation of translation effects are very complex and are therefore open to different interpretations. For this reason, one cannot exclude the possibility that translation effects will be liable to taxation at a point in time sooner than a divestment/closure.

Condensed statement of cash flows

SEK m	Jan–Jun 2020	Full year 2019	Jan–Jun 2019
Operating profit	6,329	12,419	6,252
Adjustment for non-cash items in profit/loss	3,331	4,263	2,889
Paid income tax	-1,254	-830	-475
Changes in the assets and liabilities of operating activities	9,369	-8,293	-5,363
Cash flow from operating activities	17,775	7,559	3,302
Cash flow from investing activities	-22	-87	-52
Group contribution paid	-9,400	-7,400	-7,400
Dividend on capital instruments	-280	-327	-
Cash flow from financing activities	-9,680	-7,727	-7,400
Liquid funds at beginning of year	11,544	11,735	11,735
Cash flow for the period	8,072	-255	-4,150
Exchange rate difference on liquid funds	-266	64	99
Liquid funds at end of year	19,350	11,544	7,684
<i>Liquid funds consist of deposits in a bank</i>			
Liquid funds with banks	14,350	6,544	2,684
Funds on a blocked account at a bank relating to issuance of covered bonds	5,000	5,000	5,000
Loans to credit institutions	19,350	11,544	7,684

The cash flow statement has been prepared using the indirect method.

Key figures

For definitions, see page 33.

	Jan-Jun 2020	Jul-Dec 2019	Jan-Jun 2019	Full year 2019
Return on equity, %	14.9	15.1	15.5	15.2
Return on total assets, %	0.70	0.71	0.73	0.71
Net interest margin, %	1.03	1.03	1.02	1.02
C/l ratio before credit losses, %	12.4	12.9	10.2	11.6
C/l ratio after credit losses, %	13.1	13.1	9.9	11.5
Credit loss ratio, %	0.01	0.00	0.00	0.00
Common equity tier 1 ratio, CRR, %	13.4	13.4	13.2	13.4
Tier 1 ratio, CRR, %	15.3	15.3	13.2	15.3
Total capital ratio, CRR, %	21.1	21.3	21.2	21.3
Average number of employees	65	67	79	73

Calculation of key figures

For definitions, see page 33.

SEK m	Jan-Jun 2020	Jul-Dec 2019	Jan-Jun 2019	Full year 2019
Equity	67,194	61,524	65,607	61,524
Adjustment hedge reserve	-3,374	-2,264	-3,588	-2,264
Reversal of Group contribution, net	-	7,388	-	7,388
Total adjusted equity	63,820	66,648	62,019	66,648
Adjusted equity average ¹	65,099	64,345	63,414	64,252
Profit for the period	4,960	4,855	4,916	9,771
Return on equity, %	14.9	15.1	15.5	15.2

¹ Average closing balance for the past three and five quarters respectively.

Notes

NOTE 1 Accounting policies and other matters relating to the preparation of the financial reports

1. STATEMENT OF COMPLIANCE

Basis for accounts

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.

The accounting policies applied in the interim report comply with the accounting policies applied in the 2019 Annual Report, with the exception of the amendments described below, under 2.

2. AMENDMENTS TO ACCOUNTING POLICIES

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

3. CHANGES IN IFRS WHICH ARE YET TO BE APPLIED

None of the changes in IFRS that have been issued for application are deemed to have any material impact on the company's financial reports, capital adequacy, large exposures or other circumstances under the applicable operating rules.

4. EXCHANGE RATES

Exchange rates	30 Jun 2020	31 Dec 2019	30 Jun 2019
EUR 1 = SEK			
Income statement (average)	10.6612	10.5900	10.5156
Balance sheet (at end of period)	10.4878	10.4547	10.5685
GBP 1 = SEK			
Income statement (average)	12.2010	12.0698	12.0442
Balance sheet (at end of period)	11.4982	12.2435	11.8034
USD 1 = SEK			
Income statement (average)	9.6809	9.4629	9.3086
Balance sheet (at end of period)	9.3460	9.3392	9.2841
NOK 1 = SEK			
Income statement (average)	0.9951	1.0749	1.0806
Balance sheet (at end of period)	0.9629	1.0588	1.0877
DKK 1 = SEK			
Income statement (average)	1.4281	1.4184	1.4086
Balance sheet (at end of period)	1.4056	1.3996	1.4159
CHF 1 = SEK			
Income statement (average)	10.0236	9.5214	9.3094
Balance sheet (at end of period)	9.8382	9.6080	9.5112

Other changes in IFRS

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

NOTE 2 Risks and risk control

RISKS AND UNCERTAINTY FACTORS

Stadshypotek's low risk tolerance means that, as part of the Handelsbanken Group, Stadshypotek avoids granting credits to customers that represent a high risk. This approach, coupled with Stadshypotek's sound capitalisation and strong liquidity, mean that the company is also well equipped to operate in line with stricter regulations and more difficult market conditions.

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. 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 risk is defined as the risk of loss due to inadequate or failed internal processes, human error, malfunctioning systems, or external events. The definition includes legal risk. The Stadshypotek Board establishes policies describing how various risks should be managed and reported. In addition, Stadshypotek's Chief Executive sets guidelines and instructions for managing and controlling all types of risk. These documents have been based on the policies that the Board of Handelsbanken has adopted for managing and reporting risks within the Handelsbanken Group as a whole. Stadshypotek's risk management aims to ensure compliance with the strict approach to risk established by its Board. Stadshypotek's lending operations are integrated with those of Handelsbanken, which means that Stadshypotek's lending is carried out via the Bank's branch network. Stadshypotek's funding needs are managed by Handelsbanken's Treasury department. Individual outsourcing agreements specify the services which Handelsbanken is to perform on behalf of Stadshypotek. Thus, the business operations at Stadshypotek are conducted according to the same fundamental principles which apply at Handelsbanken. The Bank's corporate culture is characterised by a clear division of responsibility where each part of the business operations bears full responsibility for its business and for risk

management. The person who is most familiar with the customer and the market conditions is the person best equipped to assess the risk and also take action at an early stage in the event of problems. Each branch and each profit centre bears the responsibility for dealing with any problems that arise. This encourages high risk awareness and a cautious approach in the business operations.

In addition to the accountability of decision-makers, control procedures are in place to ensure that excessive risks are not taken in individual transactions or local operations. In lending, this means that large loans are subject to limits and assessed by a dedicated credit organisation. Decisions on limits are made at the branch, regional or central level, depending on the size of the credit limit. As regards the procedures for limiting market risk and liquidity risk at Stadshypotek, the company's Board establishes limits for this purpose. 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 the Chief Executive and Board of Stadshypotek.

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

Group Risk Control also develops and provides models for measuring risk that are applied in Stadshypotek's operations and performs certain calculations that provide a basis for some of Stadshypotek's external reporting. Information about credit risks regarding credit losses can be found in note 6 of this interim report.

PREPAREDNESS FOR LIQUIDITY CRISIS

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.

CAPITAL REQUIREMENT

Stadshypotek's assessment is that, taking account of the current capital requirement regulations, the company is well-capitalised.

NOTE 3 Net interest income

SEK m	Jan-Jun 2020	Jul-Dec 2019	Change %	Jan-Jun 2019	Change %	Full year 2019
Interest income according to the effective interest method						
Loans to the public	11,182	10,965	2	10,611	5	21,576
Loans to credit institutions	124	127	-2	126	-2	253
Total interest income	11,306	11,092	2	10,737	5	21,829
Interest expense						
Due to credit institutions	-1,821	-1,786	2	-1,640	11	-3,426
Issued securities	-2,406	-2,595	-7	-2,670	-10	-5,265
Derivative instruments ¹	442	751	-41	914	-52	1,665
State fees	-238	-403	-41	-402	-41	-805
Other interest expense	-7	-1		0		-1
Total interest expense	-4,030	-4,034	0	-3,798	6	-7,832
<i>of which interest expense according to the effective interest method</i>	<i>-3,792</i>	<i>-3,631</i>	<i>4</i>	<i>-3,396</i>	<i>12</i>	<i>-7,027</i>
Net interest income	7,276	7,058	3	6,939	5	13,997

¹ Net interest income from derivative instruments related to Stadshypotek's funding may have both a positive and a negative impact on interest expenses.

NOTE 4 Net gains/losses on financial transactions

SEK m	Jan-Jun 2020	Jul-Dec 2019	Change %	Jan-Jun 2019	Change %	Full year 2019
Amortised cost	23	44	-48	10	130	54
<i>of which loans</i>	<i>78</i>	<i>120</i>	<i>-35</i>	<i>63</i>	<i>24</i>	<i>183</i>
<i>of which issued securities</i>	<i>-55</i>	<i>-76</i>	<i>-28</i>	<i>-53</i>	<i>4</i>	<i>-129</i>
Fair value through profit or loss, mandatory and other foreign exchange effects	4	21	-81	6	-33	27
<i>Trading, derivatives, foreign exchange effect, etc.</i>	<i>4</i>	<i>21</i>	<i>-81</i>	<i>6</i>	<i>-33</i>	<i>27</i>
Hedge accounting	-8	-14	-43	0		-14
<i>of which net/gains losses, fair value hedges</i>	<i>-8</i>	<i>-13</i>	<i>-38</i>	<i>0</i>		<i>-13</i>
<i>of which ineffective portion of cash flow hedges</i>	<i>0</i>	<i>-1</i>	<i>-100</i>	<i>0</i>		<i>-1</i>
Total	19	51	-63	16	19	67

Loans at amortised cost refers to early redemption charges for loans and receivables which have been repaid ahead of time. Issued securities refers to realised price differences when repurchasing bonds. Net gains/losses, fair value hedges includes the net result of unrealised and realised changes in the fair value of financial assets which are subject to this hedge accounting. Interest income and interest expense for hedging instruments are recognised under net interest income. Changes in the value of hedging instruments in cash flow hedges which exceed the changes in the value of hedged future cash flows are recognised under ineffective portion of cash flow hedges.

NOTE 5 Other administrative expenses

SEK m	Jan-Jun 2020	Jul-Dec 2019	Change %	Jan-Jun 2019	Change %	Full year 2019
Cost of premises	-4	-4	0	-5	-20	-9
External IT costs	-82	-45	82	-53	55	-98
Communication	0	-1	-100	0	0	-1
Travel and marketing	-4	-2	100	-1	300	-3
Purchased services ¹	-739	-790	-6	-589	25	-1,379
Other expenses	-27	-27	0	-27	0	-54
Total	-856	-869	-1	-675	27	-1,544

¹ Purchased services mainly comprise remuneration to Handelsbanken for services ordered by Stadshypotek and performed by regional banks/branches of the Bank. Purchased services also include remuneration to Handelsbanken for IT services ordered by Stadshypotek, as well as funding services.

NOTE 6 Credit losses

SEK m	Jan–Jun 2020	Jul–Dec 2019	Change %	Jan–Jun 2019	Change %	Full year 2019
Expected credit losses on balance sheet items						
Provision for the period, Stage 3	-15	-20	-25	-2		-22
Reversal of Stage 3 provisions to Stage 1 or Stage 2	3	2	50	0		2
Total expected credit losses in Stage 3	-12	-18	-33	-2	500	-20
Net provision for the period, Stage 2	-40	2		4		6
Net provision for the period, Stage 1	-9	-9	0	1		-8
Total expected credit losses in Stage 1 and Stage 2	-49	-7		5		-2
Total expected credit losses on balance sheet items	-61	-25		3		-22
Expected credit losses on off-balance sheet items						
Net provision for the period, Stage 3	0	-		-		-
Net provision for the period, Stage 2	0	0	0	0	0	0
Net provision for the period, Stage 1	-	0		0		0
Total expected credit losses on off-balance sheet items	0	0	0	0	0	0
Write-offs						
Actual credit losses for the period	-8	-6	33	-6	33	-12
Utilised share of previous provisions in Stage 3	5	2	150	3	67	5
Total write-offs	-3	-4	-25	-3	0	-7
Recoveries	11	17	-35	21	-48	38
Net credit losses	-53	-12	342	21		9
<i>of which loans to the public</i>	-53	-12	342	21		9

Key figures, credit losses	30 Jun 2020	31 Dec 2019	30 Jun 2019	Full year 2019
Loans to the public				
Credit loss ratio, acc., %	0.01	0.00	0.00	0.00
Total reserve ratio, %	0.02	0.01	0.01	0.01
Reserve ratio Stage 1, %	0.01	0.00	0.00	0.00
Reserve ratio Stage 2, %	0.40	0.28	0.26	0.28
Reserve ratio Stage 3, %	9.13	8.20	9.61	8.20
Proportion of loans in Stage 3, %	0.06	0.06	0.05	0.06

The provision for expected credit losses at portfolio level increased by SEK 77m, as a result of higher expected future credit losses owing to COVID-19.

For definitions and calculation of key figures, see pages 33 and 7.

NOTE 7 Loans to the public

Loans to the public SEK m	30 Jun 2020	31 Dec 2019	30 Jun 2019
Loans in Swedish kronor			
Gross lending, households	851,598	833,199	814,823
Gross lending, corporates	355,520	341,697	331,338
Expected credit losses, households	-115	-92	-83
Expected credit losses, corporates	-59	-33	-31
Total	1,206,944	1,174,771	1,146,047
Loans in foreign currency			
Gross lending, households	140,200	142,298	141,954
Gross lending, corporates	58,452	55,928	54,541
Expected credit losses, households	-57	-50	-44
Expected credit losses, corporates	-9	-7	-9
Total	198,586	198,169	196,442
Total loans to the public	1,405,530	1,372,940	1,342,489
<i>of which accrued interest income, households</i>	<i>929</i>	<i>908</i>	<i>960</i>
<i>of which accrued interest income, corporates</i>	<i>445</i>	<i>415</i>	<i>501</i>

Loans to the public, by sector and industry 30 June 2020 SEK m	Gross			Provisions			Net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
Private individuals	936,599	15,036	815	-43	-38	-57	952,312
Housing co-operative associations	217,764	1,039	24	-6	-1	-10	218,810
Property management	199,960	3,343	38	-8	-14	-11	203,308
Manufacturing	216	39	-	0	0	-	255
Retail	704	142	8	-1	-3	-1	849
Hotel and restaurant	661	193	0	-1	-12	0	841
Passenger and goods transport by sea	9	4	-	0	0	-	13
Other transport and communication	570	49	-	0	-1	-	618
Construction	1,016	205	-	-1	-3	-	1,217
Electricity, gas and water	835	15	-	0	0	-	850
Agriculture, hunting and forestry	12,897	965	4	-6	-10	0	13,850
Other services	2,449	342	1	-2	-6	-1	2,783
Holding, investment and insurance companies, mutual funds, etc.	1,026	78	2	-1	0	-2	1,103
Sovereigns and municipalities	5,726	445	-	0	0	-	6,171
Other corporate lending	2,484	63	4	-1	0	0	2,550
Total	1,382,916	21,958	896	-70	-88	-82	1,405,530

Loans to the public, by sector and industry 31 December 2019 SEK m	Gross			Provisions			Net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
Private individuals	922,906	13,812	664	-40	-34	-52	937,256
Housing co-operative associations	209,831	709	35	-4	0	-10	210,561
Property management	191,927	2,885	48	-7	-9	-6	194,838
Manufacturing	226	27	-	0	0	-	253
Retail	695	117	7	0	-1	-1	817
Hotel and restaurant	620	84	0	0	0	0	704
Passenger and goods transport by sea	13	-	-	0	-	-	13
Other transport and communication	565	43	-	0	0	-	608
Construction	968	190	-	0	-1	-	1,157
Electricity, gas and water	1,156	47	-	0	0	-	1,203
Agriculture, hunting and forestry	10,666	1,057	17	-4	-6	0	11,730
Other services	2,391	326	1	-1	-2	-1	2,714
Holding, investment and insurance companies, mutual funds, etc.	996	78	2	0	0	-2	1,074
Sovereigns and municipalities	7,075	88	-	0	0	-	7,163
Other corporate lending	2,621	121	108	0	-1	0	2,849
Total	1,352,656	19,584	882	-56	-54	-72	1,372,940

Note 7 Loans to the public, cont.

Loans to the public, by sector and industry 30 June 2019 SEK m	Gross			Provisions			Net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
Private individuals	905,805	12,260	574	-36	-27	-48	918,528
Housing co-operative associations	201,179	1,229	23	-4	0	-10	202,417
Property management	186,411	3,208	23	-8	-10	-2	189,622
Manufacturing	210	42	-	0	0	-	252
Retail	716	103	1	0	-1	-1	818
Hotel and restaurant	697	58	0	0	-1	0	754
Passenger and goods transport by sea	12	0	-	0	0	-	12
Other transport and communication	462	35	0	0	0	-	497
Construction	965	179	-	-1	-1	-	1,142
Electricity, gas and water	1,093	153	-	0	0	-	1,246
Agriculture, hunting and forestry	9,529	1,183	5	-3	-6	-	10,708
Other services	2,284	414	3	-2	-3	-1	2,695
Holding, investment and insurance companies, mutual funds, etc.	926	68	-	0	0	-	994
Sovereigns and municipalities	7,749	300	-	0	0	-	8,049
Other corporate lending	4,623	124	10	-1	-1	-	4,755
Total	1,322,661	19,356	639	-55	-50	-62	1,342,489

Change in the provision for expected credit losses, loans to the public 30 June 2020 SEK m	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of period	-56	-54	-72	-182
Derecognised assets	2	4	7	13
Write-offs	0	0	5	5
Remeasurement due to change in credit risk	-30	-12	-10	-52
Changes due to update in the methodology for estimation	0	0	0	0
Foreign exchange effect, etc.	0	0	0	0
Purchased or originated assets	-6	-1	0	-7
Transfer to Stage 1	-2	7	0	5
Transfer to Stage 2	13	-39	0	-26
Transfer to Stage 3	9	7	-12	4
Provision at end of period	-70	-88	-82	-240

Change in the provision for expected credit losses, loans to the public 31 December 2019 SEK m	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of period	-54	-54	-59	-167
Derecognised assets	4	9	3	16
Write-offs	0	0	5	5
Remeasurement due to change in credit risk	-23	2	12	-9
Changes due to update in the methodology for estimation	0	0	0	0
Foreign exchange effect, etc.	-1	0	0	-1
Purchased or originated assets	-9	-1	0	-10
Transfer to Stage 1	-3	10	0	7
Transfer to Stage 2	17	-34	1	-16
Transfer to Stage 3	13	14	-34	-7
Provision at end of period	-56	-54	-72	-182

Change in the provision for expected credit losses, loans to the public 30 June 2019 SEK m	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of period	-54	-54	-59	-167
Derecognised assets	2	5	2	9
Write-offs	0	0	-2	-2
Remeasurement due to change in credit risk	-12	6	3	-3
Changes due to update in the methodology for estimation	0	0	0	0
Foreign exchange effect, etc.	-1	0	-1	-2
Purchased or originated assets	-5	-1	0	-6
Transfer to Stage 1	-5	11	-1	5
Transfer to Stage 2	11	-24	1	-12
Transfer to Stage 3	9	7	-5	11
Provision at end of period	-55	-50	-62	-167

The provision for expected credit losses at portfolio level increased by SEK 77m, as a result of higher expected future credit losses owing to COVID-19.

NOTE 8 Derivative instruments

SEK m	Nominal amount/maturity			Nominal amount			Positive market values			Negative market values		
	Up to 1 year	1–5 yrs	Over 5 yrs	30 Jun 2020	31 Dec 2019	30 Jun 2019	30 Jun 2020	31 Dec 2019	30 Jun 2019	30 Jun 2020	31 Dec 2019	30 Jun 2019
Derivatives for fair value hedges												
Interest rate-related contracts												
Options	2,095	1,752	-	3,847	4,733	5,239	1	3	3	-	-	-
Swaps	-	7,244	23,587	30,831	17,727	-	1,292	-127 ¹	-	-	-	-
Offset amounts	-	-	-	-	-	-	-	-	-	-	-	-
Total	2,095	8,996	23,587	34,678	22,460	5,239	1,293	-124	3	-	-	-
Derivatives for cash flow hedges												
Interest rate-related contracts												
Swaps	42,460	149,856	39,096	231,412	238,747	259,583	9,078	8,873	10,502	185	117	313
Currency-related contracts												
Swaps	22,014	61,070	24,552	107,636	116,724	128,932	8,262	9,278	13,855	151	178	12
Offset amounts	-	-	-	-	-	-	-	-	-	-	-	-
Total	64,474	210,926	63,648	339,048	355,471	388,515	17,340	18,151	24,357	336	295	325
Total derivative instruments	66,569	219,922	87,235	373,726	377,931	393,754	18,633	18,027	24,360	336	295	325
<i>of which OTC derivatives not settled by CCP</i>	<i>66,569</i>	<i>219,922</i>	<i>87,235</i>	<i>373,726</i>	<i>377,931</i>	<i>393,754</i>	<i>18,633</i>	<i>18,027</i>	<i>24,360</i>	<i>336</i>	<i>295</i>	<i>325</i>
Net amount				373,726	377,931	393,754	18,633	18,027	24,360	336	295	325

Currency breakdown of market values	Positive market values			Negative market values		
	30 Jun 2020	31 Dec 2019	30 Jun 2019	30 Jun 2020	31 Dec 2019	30 Jun 2019
SEK	-84,539	-93,817	-102,821	13,645	13,557	13,594
USD	12,199	21,352	35,311	0	31	183
EUR	83,456	82,486	84,155	-13,309	-13,293	-13,452
GBP	7,517	8,006	7,715	-	-	-
Total	18,633	18,027	24,360	336	295	325
Offset amounts	-	-	-	-	-	-
Net amount	18,633	18,027	24,360	336	295	325

¹ Due to a reclassification from cash flow hedges to fair value hedges, the same derivatives contracts are reported in both categories in this note. The change in market value after this reclassification is negative and is reported under positive derivatives, as the overall value of the derivatives is positive.

Derivatives contracts are presented as gross figures in the balance sheet and in notes. Stadshypotek AB (publ) only has derivative transactions with its parent company Svenska Handelsbanken AB (publ).

NOTE 9 Offsetting of financial instruments

SEK m	Derivatives		
	30 Jun 2020	31 Dec 2019	30 Jun 2019
Financial non-current assets subject to offsetting, netting agreements or similar agreements			
Gross amount	18,633	18,027	24,360
Offset amounts	-	-	-
Carrying amount on the balance sheet	18,633	18,027	24,360
Related amounts not offset in the balance sheet			
Financial instruments, netting agreements	336	295	325
Total amounts not offset in the balance sheet	336	295	325
Net amount	18,297	17,732	24,035
Financial liabilities subject to offsetting, netting agreements or similar agreements			
Gross amount	336	295	325
Offset amounts	-	-	-
Carrying amount on the balance sheet	336	295	325
Related amounts not offset in the balance sheet			
Financial instruments, netting agreements	18,633	18,027	24,360
Total amounts not offset in the balance sheet	18,633	18,027	24,360
Net amount	18,297	17,732	24,035

The above-mentioned disclosures refer to reported financial instruments covered by legally binding netting agreements. All financial instruments covered by netting agreements have been entered into with the parent company Svenska Handelsbanken AB (publ) as the counterparty.

NOTE 10 Due to credit institutions

SEK m	30 Jun 2020	31 Dec 2019	30 Jun 2019
Due in Swedish kronor			
Banks	574,689	539,352	495,701
Total	574,689	539,352	495,701
Due in foreign currency			
Banks	160,938	156,364	153,356
Total	160,938	156,364	153,356
Total due to credit institutions	735,627	695,716	649,057

NOTE 11 Issued securities

SEK m	30 Jun 2020		31 Dec 2019		30 Jun 2019	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Bonds						
Bonds in Swedish kronor	485,771	464,431	471,068	449,814	479,299	456,743
Foreign currency bonds	153,383	153,308	163,497	163,634	179,126	179,032
Total	639,154	617,739	634,565	613,448	658,425	635,775
<i>of which accrued interest expense</i>	<i>5,274</i>		<i>4,405</i>		<i>5,178</i>	

SEK m	30 Jun 2020	31 Dec 2019	30 Jun 2019
Issued securities at beginning of period	634,565	627,475	627,475
Issued	74,813	151,767	102,355
Repurchased	-43,303	-22,155	-34,895
Matured	-24,586	-120,679	-40,666
Foreign exchange effect, etc.	-2,335	-1,843	4,156
Issued securities at end of period	639,154	634,565	658,425

NOTE 12 Classification of financial assets and liabilities

30 June 2020	Fair value through profit or loss					Total carrying amount	Fair value
	Mandatory	Fair value option	Derivatives identified as hedging instruments	Amortised cost			
SEK m							
Assets							
Loans to credit institutions				19,350	19,350	19,350	19,350
Loans to the public				1,405,530	1,405,530	1,415,827	1,415,827
Value change of interest-hedged item in portfolio hedge	18				18	18	18
Derivative instruments			18,633		18,633	18,633	18,633
Other assets	7			512	519	519	519
Total	25	-	18,633	1,425,392	1,444,050	1,454,347	1,454,347
Shares and participating interests in Group companies and associated companies				0	0	0	0
Non-financial assets				139	139	139	139
Total assets	25	-	18,633	1,425,531	1,444,189	1,454,486	1,454,486
Liabilities							
Due to credit institutions				735,627	735,627	712,990	712,990
Issued securities				639,154	639,154	649,733	649,733
Derivative instruments			336		336	336	336
Other liabilities		7		204	211	211	211
Total	-	7	336	1,374,985	1,375,328	1,363,270	1,363,270
Non-financial liabilities				1,667	1,667	1,667	1,667
Total liabilities	-	7	336	1,376,652	1,376,995	1,364,937	1,364,937

Note 12 Classification of financial assets and liabilities, cont.

31 December 2019		Fair value through profit or loss				
SEK m	Mandatory	Fair value option	Derivatives identified as hedging instruments	Amortised cost	Total carrying amount	Fair value
Assets						
Loans to credit institutions				11,544	11,544	11,544
Loans to the public				1,372,940	1,372,940	1,378,418
Value change of interest-hedged item in portfolio hedge	25				25	25
Derivative instruments			18,027		18,027	18,027
Other assets	5			202	207	207
Total	30	-	18,027	1,384,686	1,402,743	1,408,221
Shares and participating interests in Group companies and associated companies				0	0	0
Non-financial assets				120	120	120
Total assets	30	-	18,027	1,384,806	1,402,863	1,408,341
Liabilities						
Due to credit institutions				695,716	695,716	695,055
Issued securities				634,565	634,565	638,118
Derivative instruments			295		295	295
Other liabilities		5		9,507	9,512	9,512
Total	-	5	295	1,339,788	1,340,088	1,342,980
Non-financial liabilities				1,251	1,251	1,251
Total liabilities	-	5	295	1,341,039	1,341,339	1,344,231

30 June 2019		Fair value through profit or loss				
SEK m	Mandatory	Fair value option	Derivatives identified as hedging instruments	Amortised cost	Total carrying amount	Fair value
Assets						
Loans to credit institutions				7,684	7,684	7,684
Loans to the public				1,342,489	1,342,489	1,351,425
Value change of interest-hedged item in portfolio hedge	34				34	34
Derivative instruments			24,360		24,360	24,360
Other assets	8			1,679	1,687	1,687
Total	42	-	24,360	1,351,852	1,376,254	1,385,190
Shares and participating interests in Group companies and associated companies				0	0	0
Non-financial assets				97	97	97
Total assets	42	-	24,360	1,351,949	1,376,351	1,385,287
Liabilities						
Due to credit institutions				649,057	649,057	646,363
Issued securities				658,425	658,425	668,291
Derivative instruments			325		325	325
Other liabilities		8		261	269	269
Total	-	8	325	1,307,743	1,308,076	1,315,248
Non-financial liabilities				2,668	2,668	2,668
Total liabilities	-	8	325	1,310,411	1,310,744	1,317,916

NOTE 13 Fair value measurement of financial instruments

Fair value of financial instruments 30 June 2020 SEK m				
	Level 1	Level 2	Level 3	Total
Assets				
Value change of interest-hedged item in portfolio hedge			18	18
Derivative instruments		18,633		18,633
Other assets	7			7
Total	7	18,633	18	18,658
Liabilities				
Derivative instruments		336		336
Other liabilities		7		7
Total	-	343	-	343

Fair value of financial instruments 31 December 2019 SEK m				
	Level 1	Level 2	Level 3	Total
Assets				
Value change of interest-hedged item in portfolio hedge			25	25
Derivative instruments		18,027		18,027
Other assets	5			5
Total	5	18,027	25	18,057
Liabilities				
Derivative instruments		295		295
Other liabilities		5		5
Total	-	300	-	300

Fair value of financial instruments 30 June 2019 SEK m				
	Level 1	Level 2	Level 3	Total
Assets				
Value change of interest-hedged item in portfolio hedge			34	34
Derivative instruments		24,360		24,360
Other assets	8			8
Total	8	24,360	34	24,402
Liabilities				
Derivative instruments		325		325
Other liabilities		8		8
Total	-	333	-	333

Change in holdings of financial instruments at fair value in level 3 SEK m			
	30 Jun 2020	31 Dec 2019	30 Jun 2019
Value change of interest-hedged item in portfolio hedge			
Carrying amount at beginning of period	25	33	33
Acquisitions	0	1	-3
Matured	-4	-7	-1
Unrealised value change in income statement	-3	-2	5
Carrying amount at end of period	18	25	34

Note 13 Fair value measurement of financial instruments, cont.

Fair value of financial instruments measured at amortised cost 30 June 2020 SEK m				
	Level 1	Level 2	Level 3	Total
Assets				
Loans to credit institutions		19,350		19,350
Loans to the public			1,415,827	1,415,827
Other assets			512	512
Total	-	19,350	1,416,339	1,435,689
Liabilities				
Due to credit institutions		712,990		712,990
Issued securities	584,338	65,395		649,733
Other liabilities			204	204
Total	584,338	778,385	204	1,362,927

Fair value of financial instruments measured at amortised cost 31 December 2019 SEK m				
	Level 1	Level 2	Level 3	Total
Assets				
Loans to credit institutions		11,544		11,544
Loans to the public			1,378,418	1,378,418
Other assets			202	202
Total	-	11,544	1,378,620	1,390,164
Liabilities				
Due to credit institutions		695,055		695,055
Issued securities	568,132	69,986		638,118
Other liabilities	-		9,507	9,507
Total	568,132	765,041	9,507	1,342,680

Fair value of financial instruments measured at amortised cost 30 June 2019 SEK m				
	Level 1	Level 2	Level 3	Total
Assets				
Loans to credit institutions		7,684		7,684
Loans to the public			1,351,425	1,351,425
Other assets			1,679	1,679
Total	-	7,684	1,353,104	1,360,788
Liabilities				
Due to credit institutions		646,363		646,363
Issued securities	597,595	70,696		668,291
Other liabilities			261	261
Total	597,595	717,059	261	1,314,915

Note 13 Fair value measurement of financial instruments, cont.

VALUATION PROCESS

Stadshypotek's independent risk control is responsible for the existence of fit-for-purpose instructions and processes for the fair value measurement of financial instruments. In general, the valuations are based on externally generated data as far as is possible, considering the circumstances in each case. In the case of model valuation, valuation models that are established in the market are always used. The models and input data which form the basis of the valuations are regularly validated by the independent risk control function to ensure that they are consistent with market practice and established financial theory. New and changed valuation models are always validated before they come into use.

Stadshypotek is also 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 both central and local risk control as well as financial functions. The valuation committee ensures that general instructions for valuation of financial instruments are consistently followed throughout the Handelsbanken Group and serve as support for decision-making in valuation and accounting matters.

PRINCIPLES FOR FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants. For financial instruments traded on an active market, the fair value is the same as the quoted market price. An active market is one where quoted prices are readily and regularly available from a regulated market, execution venue, reliable news service or equivalent, and where the price information

received can be 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 mainly contains interest and currency-related derivatives.

Financial instruments valued using models which to a material extent are based on input data that is not possible to verify using external market information are categorised as level 3. Level 3 includes Value change of interest-hedged item in portfolio hedge.

PRINCIPLES FOR INFORMATION ABOUT THE FAIR VALUES OF FINANCIAL INSTRUMENTS WHICH ARE CARRIED AT COST OR AMORTISED COST

Information about the fair values of financial instruments which are carried at cost or amortised cost is shown in the table. These instruments essentially comprise lending and funding.

Lending

The calculation of fair value for lending purposes is based on the current market rate with an adjustment for an assumed credit and liquidity risk premium on market terms. The premium is assumed to be the same as the average margin for new lending at the time of the measurement.

Funding and deposits

Issued securities have been valued at the current market price where this has been available. Funding where market price information has not been found has been valued using a valuation model based on market data in the form of prices or interest rates for similar instruments.

Other interest-bearing financial assets and liabilities

For means of payment and short-term receivables and liabilities, the carrying amount is considered to be an acceptable estimate of the fair value. Short-term receivables and liabilities also include those with a maturity date or date for the next interest rate fixing falling within 30 days. Financial receivables and liabilities with a life of more than three months are discounted at the time the fair value is established.

Note 13 also reports information about the fair values of financial instruments which are carried at cost or amortised cost, categorised according to their respective valuation hierarchies.

NOTE 14 Assets and liabilities by currency

The total value in Swedish kronor of the company's assets and liabilities, broken down by currency, is specified in the following table.

30 June 2020							
SEK m							
	SEK	DKK	EUR	GBP	NOK	USD	Total
Assets							
Loans to credit institutions	11,388	2,875	167	0	4,920	0	19,350
Loans to the public	1,206,944	49,980	55,230	-	93,376	-	1,405,530
<i>of which corporate</i>	355,461	-	34,926	-	23,517	-	413,904
<i>of which households</i>	851,483	49,980	20,304	-	69,859	-	991,626
Derivatives	-84,539	-	83,456	7,517	-	12,199	18,633
Other assets	642	7	26	-	1	-	676
Total assets	1,134,435	52,862	138,879	7,517	98,297	12,199	1,444,189
Liabilities							
Due to credit institutions	574,689	51,485	37,346	-	72,107	-	735,627
Issued securities	485,771	-	109,590	7,479	24,577	11,737	639,154
Derivatives	13,645	-	-13,309	-	-	-	336
Other liabilities	1,496	158	9	-	154	-	1,817
Accrued expenses and deferred income	38	-	2	-	21	-	61
Total liabilities	1,075,639	51,643	133,638	7,479	96,859	11,737	1,376,995
Net position by currency	58,796	1,219	5,241	38	1,438	462	67,194
<i>of which retained earnings and international branch profits for the period</i>	-	1,218	1,290	-	1,425	-	3,933

31 December 2019

SEK m

	SEK	DKK	EUR	GBP	NOK	USD	Total
Assets							
Loans to credit institutions	7,493	3,232	288	0	531	0	11,544
Loans to the public	1,174,771	49,004	51,963	-	97,202	-	1,372,940
<i>of which corporate</i>	341,662	0	31,556	-	24,367	-	397,585
<i>of which households</i>	833,109	49,004	20,407	-	72,835	-	975,355
Derivatives	-93,817	0	82,486	8,006	-	21,352	18,027
Other assets	327	7	17	-	1	-	352
Total assets	1,088,774	52,243	134,754	8,006	97,734	21,352	1,402,863
Liabilities							
Due to credit institutions	539,352	51,116	34,435	-	70,813	-	695,716
Issued securities	471,068	-	108,961	7,965	25,474	21,097	634,565
Derivatives	13,557	-	-13,293	-	-	31	295
Other liabilities	10,447	104	9	-	157	-	10,717
Accrued expenses and deferred income	22	-	1	-	23	-	46
Total liabilities	1,034,446	51,220	130,113	7,965	96,467	21,128	1,341,339
Net position by currency	54,328	1,023	4,641	41	1,267	224	61,524
<i>of which retained earnings and international branch profits for the year</i>	-	1,023	1,103	-	1,260	-	3,386

Note 14 Assets and liabilities by currency, cont.

30 June 2019							
SEK m							
	SEK	DKK	EUR	GBP	NOK	USD	Total
Assets							
Loans to credit institutions	4,639	1,546	415	0	1,083	0	7,684
Loans to the public	1,146,050	49,858	51,557	-	95,023	-	1,342,489
<i>of which corporate</i>	331,315	3	30,799	-	23,730	-	385,847
<i>of which households</i>	814,735	49,855	20,758	-	71,294	-	956,642
Derivatives	-102,820	0	84,153	7,715	0	35,311	24,360
Other assets	1,772	7	38	-	1	-	1,818
Total assets	1,049,642	51,412	136,163	7,715	96,108	35,311	1,376,351
Liabilities							
Due to credit institutions	495,702	50,397	34,148	-	68,810	-	649,057
Issued securities	479,317	-	110,332	7,673	26,156	34,948	658,425
Derivatives	13,594	-	-13,451	-	-	183	325
Other liabilities	2,613	161	3	-	85	-	2,862
Accrued expenses and deferred income	42	-	1	-	31	-	75
Total liabilities	991,267	50,558	131,033	7,673	95,083	35,130	1,310,744
Net position by currency	58,375	853	5,131	43	1,025	181	65,607
<i>of which retained earnings and international branch profits for the period</i>	-	853	954	-	1,018	-	2,825

NOTE 15 Pledged assets and commitments

Assets pledged for own debt	30 Jun 2020	31 Dec 2019	30 Jun 2019
SEK m			
Liquid funds on blocked account	5,000	5,000	5,000
<i>of which pledged for covered bonds</i>	5,000	5,000	5,000
Loans to the public ¹	689,202	670,012	695,681
<i>of which pledged for covered bonds</i>	689,202	670,012	695,681
Total	694,202	675,012	700,681

¹ The cover pool comprises loans against mortgages in single-family housing, multi-family dwellings and housing co-operative apartments with a loan-to-value ratio of up to 75% of the market value, as well as public credits plus additional collateral in the form of cash funds on a blocked account. A separate specification is kept of the assets and the covered bonds, and also derivatives relating to these. In the event of the company's insolvency, pursuant to the Swedish Right of Priority Act, the holders of Stadshypotek's covered bonds have prior rights to the assets registered as collateral. If, at the time of a bankruptcy decision, the assets in the cover pool fulfil the terms of the Act, these must instead be kept separate from the bankruptcy estate's other assets and liabilities. In this event, the holders of the bonds must receive contractual payments under the terms of the bond for the period until maturity.

Commitments	30 Jun 2020	31 Dec 2019	30 Jun 2019
SEK m			
Irrevocable credit commitments	6	21	10
Revocable credit commitments	1,156	1,839	1,181
Repurchase agreements	13,062	211	1,323
Issued interest rate options, nominal value	3,794	4,774	5,420
Future lease payments	48	49	57
Total	18,066	6,894	7,991

NOTE 16 Segment information

Segment reporting is designed to reflect how company management monitors the business operations, which in Stadshypotek corresponds to a geographic organisational structure.

For calculation and definitions of key figures, see pages 7 and 33.

Income statement						
Jan–Jun 2020						
SEK m	Sweden	Norway	Denmark	Finland	Eliminations	Stadshypotek AB
Net interest income	6,347	404	275	250	-	7,276
Net fee and commission income	-18	0	-	4	-	-14
Net gains/losses on financial transactions	12	7	0	0	-	19
Other income	1	-	-	-	-	1
Total income	6,342	411	275	254	-	7,282
General administrative expenses						
Staff costs	-40	-	-1	-	-	-41
Other administrative expenses	-777	-40	-20	-19	-	-856
Depreciation, amortisation and impairment of property, equipment, and intangible assets	-3	-	-	-	-	-3
Total expenses before credit losses	-820	-40	-21	-19	-	-900
Profit before credit losses	5,522	371	254	235	-	6,382
Net credit losses	-44	-1	-6	-2	-	-53
Operating profit	5,478	370	248	233	-	6,329
Profit before taxes	5,478	370	248	233	-	6,329

Key figures					
Jan–Jun 2020					
	Sweden	Norway	Denmark	Finland	Stadshypotek AB
Return on total assets, %	0.68	0.61	0.74	0.68	0.70
Net interest margin, %	1.01	0.86	1.05	0.91	1.03
C/I ratio before credit losses, %	12.9	9.7	7.5	7.5	12.4
C/I ratio after credit losses, %	13.6	9.9	9.8	8.2	13.1
Credit loss ratio, %	0.01	0.00	0.03	0.01	0.01

Loans to the public						
30 June 2020						
SEK m	Sweden	Norway	Denmark	Finland	Eliminations	Stadshypotek AB
Loans to the public, households						
Gross lending, households	851,598	69,867	50,018	20,315	-	991,798
Expected credit losses, households	-115	-8	-38	-11	-	-172
Total loans to the public, households	851,483	69,859	49,980	20,304	-	991,626
Loans to the public, corporates						
Gross lending, corporates	355,520	23,519	-	34,933	-	413,972
Expected credit losses, corporates	-59	-2	-	-7	-	-68
Total loans to the public, corporates	355,461	23,517	-	34,926	-	413,904
Total loans to the public	1,206,944	93,376	49,980	55,230	-	1,405,530
<i>Average loans to the public for the period Jan–Jun 2020</i>	<i>1,187,699</i>	<i>92,999</i>	<i>50,278</i>	<i>54,838</i>	<i>-</i>	<i>1,385,814</i>
Total assets	1,278,972	98,297	52,862	55,423	-41,365	1,444,189
<i>Average total assets for the period Jan–Jun 2020</i>	<i>1,257,559</i>	<i>94,292</i>	<i>52,626</i>	<i>54,759</i>	<i>-41,023</i>	<i>1,418,213</i>

Note 16 Segment information, cont.

Income statement						
Jul–Dec 2019						
SEK m	Sweden	Norway	Denmark	Finland	Eliminations	Stadshypotek AB
Net interest income	6,211	377	257	213	-	7,058
Net fee and commission income	-20	0	-	3	-	-17
Net gains/losses on financial transactions	48	1	0	2	-	51
Other income	1	-	-	-	-	1
Total income	6,240	378	257	218	-	7,093
General administrative expenses						
Staff costs	-36	-	-1	-	-	-37
Other administrative expenses	-793	-37	-20	-19	-	-869
Depreciation, amortisation and impairment of property, equipment, and intangible assets	-8	-	-	-	-	-8
Total expenses before credit losses	-837	-37	-21	-19	-	-914
Profit before credit losses	5,403	341	236	199	-	6,179
Net credit losses	0	-8	-4	0	-	-12
Operating profit	5,403	333	232	199	-	6,167
Profit before taxes	5,403	333	232	199	-	6,167

Key figures						
Jul–Dec 2019						
	Sweden	Norway	Denmark	Finland		Stadshypotek AB
Return on total assets, %	0.70	0.57	0.71	0.62		0.71
Net interest margin, %	1.02	0.80	1.00	0.80		1.03
C/l ratio before credit losses, %	13.4	9.8	8.1	8.6		12.9
C/l ratio after credit losses, %	13.4	11.9	9.6	8.6		13.1
Credit loss ratio, %	0.00	-0.01	-0.01	0.00		0.00

Loans to the public						
31 December 2019						
SEK m	Sweden	Norway	Denmark	Finland	Eliminations	Stadshypotek AB
Loans to the public, households						
Gross lending, households	833,199	72,844	49,035	20,419	-	975,497
Expected credit losses, households	-92	-8	-31	-11	-	-142
Total loans to the public, households	833,107	72,836	49,004	20,408	-	975,355
Loans to the public, corporates						
Gross lending, corporates	341,697	24,368	0	31,560	-	397,625
Expected credit losses, corporates	-33	-2	0	-5	-	-40
Total loans to the public, corporates	341,664	24,366	0	31,555	-	397,585
Total loans to the public	1,174,771	97,202	49,004	51,963	-	1,372,940
<i>Average loans to the public for the period Jul–Dec 2019</i>	<i>1,157,745</i>	<i>94,965</i>	<i>49,991</i>	<i>52,356</i>	<i>-</i>	<i>1,355,057</i>
Total assets	1,242,819	97,734	52,243	52,267	-42,200	1,402,863
<i>Average total assets for the period Jul–Dec 2019</i>	<i>1,233,030</i>	<i>95,972</i>	<i>52,099</i>	<i>52,619</i>	<i>-42,698</i>	<i>1,391,022</i>

Note 16 Segment information, cont.

Income statement						
Jan–Jun 2019						
SEK m	Sweden	Norway	Denmark	Finland	Eliminations	Stadshypotek AB
Net interest income	6,022	424	267	226	-	6,939
Net fee and commission income	-19	-	-	5	-	-14
Net gains/losses on financial transactions	14	2	-	-	-	16
Other income	0	0	0	0	-	0
Total income	6,017	426	267	231	-	6,941
General administrative expenses						
Staff costs	-34	-	-	-	-	-34
Other administrative expenses	-605	-38	-13	-19	-	-675
Depreciation, amortisation and impairment of property, equipment, and intangible assets	-1	-	-	-	-	-1
Total expenses before credit losses	-640	-38	-13	-19	-	-710
Profit before credit losses	5,377	388	254	212	-	6,231
Net credit losses	14	4	2	1	-	21
Operating profit	5,391	392	256	213	-	6,252
Profit before taxes	5,391	392	256	213	-	6,252
Key figures						
Jan–Jun 2019						
	Sweden	Norway	Denmark	Finland		Stadshypotek AB
Return on total assets, %	0.70	0.66	0.79	0.64		0.73
Net interest margin, %	1.00	0.91	1.05	0.86		1.02
C/l ratio before credit losses, %	10.6	8.9	5.2	8.1		10.2
C/l ratio after credit losses, %	10.4	7.9	4.4	7.8		9.9
Credit loss ratio, %	0.00	0.00	0.00	0.00		0.00
Loans to the public						
30 June 2019						
SEK m	Sweden	Norway	Denmark	Finland	Eliminations	Stadshypotek AB
Loans to the public, households						
Gross lending, households	814,823	71,296	49,884	20,775	-	956,778
Expected credit losses, households	-82	-2	-29	-13	-	-126
Total loans to the public, households	814,741	71,294	49,855	20,762	-	956,652
Loans to the public, corporates						
Gross lending, corporates	331,338	23,731	3	30,806	-	385,878
Expected credit losses, corporates	-32	-2	0	-7	-	-41
Total loans to the public, corporates	331,306	23,729	3	30,799	-	385,837
Total loans to the public	1,146,047	95,023	49,858	51,561	-	1,342,489
<i>Average loans to the public for the period Jan–Jun 2019</i>	<i>1,127,641</i>	<i>91,317</i>	<i>48,911</i>	<i>52,134</i>	<i>-</i>	<i>1,320,003</i>
Total assets	1,219,888	96,108	51,412	52,010	-43,067	1,376,351
<i>Average loans to the public for the period Jan–Jun 2019</i>	<i>1,204,497</i>	<i>92,966</i>	<i>50,824</i>	<i>52,724</i>	<i>-45,736</i>	<i>1,355,275</i>

Note 16 Segment information, cont.

Income statement						
Full year 2019						
SEK m	Sweden	Norway	Denmark	Finland	Eliminations	Stadshypotek AB
Net interest income	12,233	801	524	439	-	13,997
Net fee and commission income	-39	0	-	8	-	-31
Net gains/losses on financial transactions	62	4	0	1	-	67
Other income	1	-	-	-	-	1
Total income	12,257	805	524	448	-	14,034
General administrative expenses						
Staff costs	-70	-	-1	-	-	-71
Other administrative expenses	-1,399	-75	-33	-37	-	-1,544
Depreciation, amortisation and impairment of property, equipment, and intangible assets	-9	-	-	-	-	-9
Total expenses before credit losses	-1,478	-75	-34	-37	-	-1,624
Profit before credit losses	10,779	730	490	411	-	12,410
Net credit losses	14	-4	-2	1	-	9
Operating profit	10,793	726	488	412	-	12,419
Profit before taxes	10,793	726	488	412	-	12,419

Key figures						
Full year 2019						
	Sweden	Norway	Denmark	Finland		Stadshypotek AB
Return on total assets, %	0.70	0.61	0.75	0.63		0.71
Net interest margin, %	1.00	0.85	1.02	0.83		1.02
C/I ratio before credit losses, %	12.1	9.3	6.6	8.3		11.6
C/I ratio after credit losses, %	11.9	9.8	7.0	8.1		11.5
Credit loss ratio, %	0.00	0.00	0.00	0.00		0.00

Loans to the public						
31 December 2019						
SEK m	Sweden	Norway	Denmark	Finland	Eliminations	Stadshypotek AB
Loans to the public, households						
Gross lending, households	833,199	72,844	49,035	20,419	-	975,497
Expected credit losses, households	-92	-8	-31	-11	-	-142
Total loans to the public, households	833,107	72,836	49,004	20,408	-	975,355
Loans to the public, corporates						
Gross lending, corporates	341,697	24,368	0	31,560	-	397,625
Expected credit losses, corporates	-33	-2	0	-5	-	-40
Total loans to the public, corporates	341,664	24,366	0	31,555	-	397,585
Total loans to the public	1,174,771	97,202	49,004	51,963	-	1,372,940
<i>Average loans to the public for the period Jan–Dec 2019</i>	<i>1,142,693</i>	<i>93,199</i>	<i>49,471</i>	<i>52,269</i>	<i>-</i>	<i>1,337,632</i>
Total assets	1,242,819	97,734	52,243	52,267	-42,200	1,402,863
<i>Average total assets for the period Jan–Dec 2019</i>	<i>1,218,763</i>	<i>94,523</i>	<i>51,483</i>	<i>52,697</i>	<i>-44,217</i>	<i>1,373,249</i>

NOTE 17 Related party disclosures

Claims on and due to related parties SEK m	30 Jun 2020	31 Dec 2019	30 Jun 2019	
Loans to credit institutions	18,768	11,544	7,684	
Derivative instruments	18,633	18,027	24,360	
Other assets	96	35	605	
Total	37,497	29,606	32,649	
Due to credit institutions	734,244	695,716	648,253	
Derivative instruments	336	295	325	
Other liabilities	48	9,438	48	
Total	734,628	705,449	648,626	
Contingent liabilities	12,261	211	519	
Derivatives, nominal values	373,726	377,931	393,754	
Related party income and expenses SEK m	Jan~Jun 2020	Jul~Dec 2019	Jan~Jun 2019	Full year 2019
Interest income	124	127	126	253
Interest expense ¹	-1,379	-1,036	-727	-1,763
Fee and commission income	2	2	1	3
Fee and commission expense	-5	-4	-4	-8
Other income	3	4	3	7
Other administrative expenses	-809	-820	-631	-1,451
Total	-2,064	-1,727	-1,232	-2,959

¹ Interest expenses from derivative instruments related to Stadshypotek's funding may have both a positive and a negative impact on interest income and interest expenses.

All amounts reported in the tables above refer to transactions with the parent company.

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

Stadshypotek's branches in Norway, Denmark and Finland are run via Handelsbanken's branch operations in each of the respective countries. Stadshypotek's funding needs are managed by Handelsbanken's Treasury department. The services which Handelsbanken performs on behalf of Stadshypotek are regulated in outsourcing agreements between the parties. Most of the inter-company transactions are thus

with the parent company, Handelsbanken. The services that Stadshypotek purchases from the parent company, which are included in other administrative expenses, consist primarily of sales compensation, IT services and the treasury function. Other inter-company transactions include funding from the parent company, derivative transactions and lending to the parent company.

NOTE 18 Capital adequacy

Presentation in accordance with the requirements of Commission Implementing Regulation (EU) No 1423/2013. The excluded lines are deemed not to be relevant for Stadshypotek AB at the time of publication.

Own funds SEK m	30 Jun 2020	31 Dec 2019	30 Jun 2019	Regulation (EU) No 575/2013 Article Reference
Common equity tier 1 capital: instruments and provisions				
1 Capital instruments and related share premium accounts <i>of which: share capital</i>	4,050	4,050	4,050	26.1, 27, 28, 29 EBA list 26.3
2 Earnings not distributed	33,129	33,408	31,100	26.1 c
3 Accumulated other comprehensive income (and any other reserves, to include unrealised gains and losses according to the applicable accounting standards)	3,355	2,365	3,840	26.1
5a Independently reviewed interim profits net of any foreseeable charge or dividend	992		983	26.2
6 Common equity tier 1 (CET1) capital before regulatory adjustments	41,526	39,823	39,973	
Common equity tier 1 (CET1) capital: regulatory adjustments				
7 Additional value adjustments (negative amount)	0	0	0	34, 105
8 Intangible assets (net of related tax liability) (negative amount)	-139	-119	-94	36.1 b, 37
11 Fair value reserves related to gains or losses on cash flow hedges	-3,374	-2,262	-3,586	33.1 a
12 Negative amounts resulting from the calculation of expected loss amounts	-365	-393	-426	36.1 d, 40, 159
14 Gains or losses on liabilities measured at fair value resulting from changes in the institution's own credit standing				33.1 b
15 Defined benefit pension fund assets (negative amount)				36.1 e, 41
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)				36.1 f, 42
19 Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)				36.1 i, 43, 45, 47, 48.1 b, 49.1-49.3, 79
20a Exposure amount of the following items which qualify for a RW of 1,250%, where the institution opts for the deduction alternative				36 (1) (k)
20c <i>of which: securitisation (negative amount)</i>				36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)				36.1 c, 38, 48.1 a
22 Amount exceeding the 15% threshold (negative amount)				48.1
23 <i>of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities</i>				36.1 i, 48.1 b
25 <i>of which: deferred tax assets arising from temporary differences</i>				36.1 c, 38, 48.1 a
25a Losses for the current financial year (negative amount)				36.1 a
25b Foreseeable tax charges relating to CET1 items (negative amount)				36.1 l
27 Qualifying AT 1 deductions that exceed the AT1 capital of the institution (negative amount)				36.1 j
28 Total regulatory adjustments to common equity tier 1 (CET1)	-3,878	-2,774	-4,106	
29 Common equity tier 1 capital	37,648	37,049	35,867	
Additional tier 1 (AT1) capital: instruments				
30 Capital instruments and related share premium accounts	5,300	5,300		51, 52
32 <i>of which: classified as liabilities under applicable accounting standards</i>				
33 Amount of qualifying items referred to in Article 484.4 and the related share premium accounts subject to phase-out from AT1				486.3
36 Additional tier 1 (AT1) capital before regulatory adjustments				
Additional tier 1 (AT1) capital: regulatory adjustments				
37 Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)				52.1 b, 56 a, 57
40 The institution's direct and indirect holdings of the AT1 capital instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)				56 d, 59, 79
42 Qualifying tier 2 capital deductions that exceed the T2 capital of the institution (negative amount)				56 e
43 Total regulatory adjustments to additional tier 1 (AT1) capital				
44 Additional tier 1 capital	5,300	5,300		
45 Tier 1 capital (tier 1 capital = common equity tier 1 capital + additional tier 1 capital)	42,948	42,349	35,867	

Note 18 Capital adequacy, cont.

Own funds SEK m	30 Jun 2020	31 Dec 2019	30 Jun 2019	Regulation (EU) No 575/2013 Article Reference
Tier 2 (T2) capital: instruments and provisions				
46	16,400	16,400	21,700	62, 63
50				62 c and d
51	16,400	16,400	21,700	
Tier 2 (T2) capital: regulatory adjustments				
52				63 b i, 66 a, 67
55				66d, 69, 79
57	Total regulatory adjustments to tier 2 (T2) capital			
58	16,400	16,400	21,700	
59	59,348	58,749	57,567	
60	280,871	275,935	271,698	
Capital ratios and buffers				
61	13.4%	13.4%	13.2%	92.2 a
62	15.3%	15.3%	13.2%	92.2 b
63	21.1%	21.3%	21.2%	92.2 c
64	2.5%	4.9%	4.4%	CRD 128, 129, 130, 131, 133
65	2.5%	2.5%	2.5%	
66	-	2.4%	1.9%	
67				
67a				
68	7.0%	8.9%	8.8%	CRD 128
Amount below the thresholds for deduction (before establishing the risk weight)				
72				36.1 h, 46, 45, 56 c, 59, 60, 66 c, 69, 70
73				36.1 i, 45, 48
75				36.1 c, 38, 48
Applicable caps on the inclusion of provisions in Tier 2 capital (T2)				
76				62
77				62
78				62
79				62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)				
80				484.3, 486.2, 486.5
81				484.3, 486.2, 486.5
82				484.4, 486.3, 486.5
83				484.4, 486.3, 486.5
84				484.5, 486.4, 486.5
85				484.5, 486.4, 486.5

Note 18 Capital adequacy, cont.

Credit risks IRB	Exposure amount			Average risk weight, %			Capital requirement		
	30 Jun 2020	31 Dec 2019	30 Jun 2019	30 Jun 2020	31 Dec 2019	30 Jun 2019	30 Jun 2020	31 Dec 2019	30 Jun 2019
SEK m									
Sovereign, municipal and central banks	17,640	19,424	21,191	7.1	7.1	7.1	100	111	121
Corporate	427,770	407,846	393,003	8.3	8.9	9.2	2,829	2,919	2,895
<i>of which other lending, foundation approach</i>	563	616	-	18.6	18.2	-	8	9	-
<i>of which other lending, advanced approach</i>	427,207	407,230	393,003	13.9	8.9	9.2	2,821	2,910	2,895
- Large corporates	1,394	1,061	604	30.7	30.9	23.4	34	26	11
- Medium-sized companies	20,220	17,275	15,448	18.7	22.8	23.6	303	315	291
- Property companies	187,463	179,068	175,310	13.3	14.4	15.0	1,989	2,058	2,105
- Housing co-operative associations	218,130	209,826	201,641	2.8	3.0	3.0	495	511	488
Institutions	583	-	-	63.6	0.0	0.0	30	-	-
Households	958,267	943,673	924,976	20.5	23.0	5.6	17,722	17,348	16,991
<i>of which risk weight floor for mortgage loans¹</i>				25.0	25.0	25.0	13,718	13,410	12,862
<i>of which private individuals</i>	952,256	937,389	918,641	5.2	3.3	5.5	3,935	2,491	4,059
<i>of which small companies</i>	6,011	6,284	6,335	14.3	9.6	13.9	69	48	70
Total IRB	1,404,260	1,370,943	1,339,170	18.4	18.6	18.7	20,681	20,378	20,007

¹The Swedish Financial Supervisory Authority has changed the methodology for the Swedish risk weight floor of 25%. This was previously a requirement under Pillar 2 but as of 31 December 2018, it constitutes a Pillar 1 requirement pursuant to Article 458 of the CRR.

Capital requirement credit risks standardised approach ²	30 June 2020			31 December 2019			30 June 2019		
	Exposure value	Average risk weight, %	Capital requirement	Exposure value	Average risk weight, %	Capital requirement	Exposure value	Average risk weight, %	Capital requirement
SEK m									
Sovereign and central banks	-	-	-	-	-	-	-	-	-
Municipalities	-	-	-	-	-	-	-	-	-
Institutions	46,231	0.0	0	38,939	0.0	0	51,670	0.0	0
Corporate	0	100.0	0	0	100.0	0	2	100.0	0
Households	194	100.0	15	101	99.6	8	98	100.0	8
Other items	307	100.0	25	33	100.0	3	430	100.0	34
Total	46,732	1.1	40	39,073	0.3	11	52,200	0.2	42

²Details of capital requirement for exposure classes where there are exposures.

Leverage ratio

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

Under Article 3 (2) of CRR2, these requirements will apply with effect from 28 June 2021. CRR2 came into effect on 27 June 2019.

Leverage ratio	30 Jun 2020	30 Dec 2019	30 Jun 2019
SEK m			
Balance sheet according to the reporting regulations	1,444,189	1,402,863	1,376,351
Adjustment for differences between the carrying amount and leverage exposure – derivatives	6,693	7,181	7,813
<i>Off-balance sheet assets, gross (before adjustment of credit conversion factors)</i>	12	21	10
<i>Deduction from assets off the balance sheet after applying credit conversion factors</i>	-7	-5	-5
Off-balance sheet assets, net	5	16	5
Further adjustments according to CRR, Article 429.4	-3,878	-2,774	-4,107
Deductions for exposures to Group companies as referred to in CRR Article 429.7	-44,191	-36,787	-40,463
Assets on which the leverage ratio is calculated	1,402,818	1,370,499	1,339,599
Capital on which the leverage ratio can be calculated			
Tier 1 capital	42,948	42,349	35,867
Leverage ratio			
Leverage ratio calculated using tier 1 capital	3.06%	3.09%	2.68%

NOTE 19 Material events after balance sheet date

No material events have occurred after the balance sheet date.

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, 14 July 2020

Katarina Berner Frösdal
Chairman

Michael Bertorp
Board member

Mikael Hallåker
Board member

Jörgen Nilsson
Board member

Helena Öström Nimander
Board member

Helena Håkansson
Employee representative, Board member

Göran Stille
Chief Executive

Auditor's review report

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

INTRODUCTION

We have reviewed the interim report for Stadshypotek AB as at 30 June 2020 and for the six-month period then ended. The Board of Directors and the Chief Executive are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

FOCUS AND SCOPE OF THE REVIEW

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Statements Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing and other generally accepted auditing practices in Sweden.

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

CONCLUSION

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

Stockholm, 14 July 2020

Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Definitions

ALTERNATIVE PERFORMANCE MEASURES

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

Benchmark programmes

Issues of covered bonds are made in the company's own name and under a joint funding programme. The bonds have a fixed or floating coupon yield.

C/I ratio

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

Credit loss ratio expressed as a percentage of loans to the public

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

Earnings per share

Profit for the year attributable to ordinary shareholders divided by the average number of outstanding shares. The dilution effect is taken into account where applicable.

Mortgage loan

Loans in a mortgage institution.

Net interest margin

Net interest income in relation to average total assets.

Proportion of loans in Stage 3

Net loans to the public in Stage 3 in relation to gross loans to the public.

Reserve ratio Stage 1 loans to the public

Provisions Stage 1 loans to the public in relation to gross loans to the public Stage 1.

Reserve ratio Stage 2 loans to the public

Provisions Stage 2 loans to the public in relation to gross loans to the public Stage 2.

Reserve ratio Stage 3 loans to the public

Provisions Stage 3 loans to the public in relation to gross loans to the public Stage 3.

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.

Return on total assets

Profit for the year in relation to average total assets.

Total reserve ratio loans to the public

Total provisions loans to the public in relation to gross loans to the public.

Definitions, cont.

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 tier 1 capital.

Capital requirement

The statutory capital requirement means that an institution which is subject to CRR must have a common equity tier 1 ratio of at least 4.5 per cent, a tier 1 ratio of at least 6 per cent and a total capital ratio of at least 8 per cent. This means that own funds for the respective ratio must be at least the stated percentage of the risk exposure amount. For definitions of the respective own funds amounts, see Common equity tier 1 capital, Tier 1 capital and Total capital. In addition to the general requirements, the supervisory authority may add institution-specific requirements in accordance with Pillar 2 of the Regulation.

Common equity tier 1 capital

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

Common equity tier 1 capital available for use as a buffer

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

Common equity tier 1 ratio

Common equity tier 1 capital in relation to total risk-weighted exposure amount.

Credit conversion factor (CCF)

The factor that is used when calculating the exposure amount for unutilised overdraft facilities, committed loan offers, guarantees and other off-balance-sheet commitments.

Exposure amount

Exposure amount (exposure at default) is the amount which is subject to capital adequacy requirements. It is calculated inclusive of interest and fees. Amounts for off-balance-sheet items are recalculated with the credit conversion factor (CCF). For derivatives, the exposure amount is calculated as positive MTM (mark-to-market) plus value change risk, i.e. the nominal amount multiplied by the upward adjustment factor.

Exposure value

Exposure value is the same as exposure amount. The concept of exposure value is used in the standardised approach for credit risk.

Leverage ratio

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

Own funds/Total assets

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

Risk exposure amount

Capital requirement as stipulated by CRR multiplied by 12.5. The risk exposure amount is used in connection with market risks and operational risks.

Risk-weighted assets

Total risk exposure amounts. The statutory capital requirement is based on this.

Risk weight

A measure to describe the level of risk an exposure is expected to have according to the capital adequacy regulations.

Tier 1 capital

Common equity tier 1 capital including additional tier 1 capital.

Tier 1 ratio

Tier 1 capital in relation to total risk-weighted exposure amount.

Tier 2 capital

Tier 2 capital is a sub-component of own funds and comprises, among other things, subordinated loans and puttable financial instruments classified as equity which meet the requirements stated in Regulation (EU) No 575/2013 and can therefore be included in Tier 2 capital.

Total capital ratio

Total own funds for capital adequacy purposes in relation to total risk-weighted exposure amount.

Total risk-weighted exposure amount

Total risk-weighted exposure amount is the sum of risk exposure amounts and risk-weighted exposure amounts.

Facts about the company

Registered name: Stadshypotek AB (publ)

Corporate identity number: 556459-6715

Date of registration: 23 December 1992

Registered office: Stockholm

Share capital: SEK 4,050,000,000, registered on 22 December 1997.

The lowest and highest permissible share capital according to the Articles of Association is SEK 2,000,000,000 and SEK 8,000,000,000 respectively.

Number of shares: 162,000 shares with a quotient value of SEK 25,000 per share.

Number of votes per share: Each share carries one vote.

Convertible debt instruments, etc.: The company has not issued any debt instruments which can be converted into or exchanged for shares or which entail the right to subscribe to new shares.

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.

ADDRESSES

Stadshypotek AB

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Postal address: SE-103 70 Stockholm, Sweden

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

Website: handelsbanken.com

Handelsbanken Kredit

Office address: Havneholmen 29

Postal address: DK-1561 Copenhagen V, Denmark

Tel: +45 (0)46 79 12 00

Stadshypotek AB (publ), branch operations in Finland

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Tel: +358 (0)10 444 11

Handelsbanken Eiendomskreditt

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Postal address: Postboks 1342 Viken, NO-0113 Oslo, Norway

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