



# AA-u stable

Rating Committee: 02.09.2016

## Strengths/Opportunities:

- Decentralized structure leads to a cost-effective and flexible organization
- Local presence is strong due to its growing nationwide branch network
- Incentive structure supports Svenska's low risk culture and leads to resilient earnings and asset quality metrics
- Conservative and risk selective lending approach
- Short term assets represent substantial liquidity buffer

## Weaknesses/Threats:

- Significant exposure to Swedish real estate market and macroeconomic environment
- Uncertainties arising from the EU referendum results in the UK

## Financial data:

Figures (SEK m)	2015	2014
Total Income	40,336	38,314
Operating profit before tax	20,475	19,212
Profit for the year	16,343	15,184
Total assets	2,522,133	2,816,676
CET1 capital ratio	21.2 %	20.4 %
Total capital ratio	27.2 %	25.6 %

## Analysts:

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# Svenska Handelsbanken AB (publ)

## Rating result

Based on the information available at the date of the rating GBB-Rating assigns an unsolicited rating of AA-, stable outlook to Svenska Handelsbanken AB (publ), Stockholm, Sweden (Svenska). The rating reflects Svenska's strong financial figures and the supporting decentralized structure underpinning the strong business profile. At 31 December 2015 (31 December 2014) Svenska reported an operating profit before tax of SEK 20,475 m (19,212), the highest figure in the bank's history, while return on equity for total operations stood at 13.5 per cent (13.4). The result was positively affected by a higher net fee and commission income. The increase in total expenses was due to Svenska's expansion abroad. Costs beyond growth regions showed a slight downward trend in the last two years. Loan losses decreased and the loan loss ratio was 0.09 per cent (0.10). Furthermore, GBB-Rating considers that the bank has a resilient capitalisation.

Svenska has a strongly decentralized decision model which makes the organization cost-effective and flexible. Local presence is strong due to the group's growing nationwide branch network. In its markets, Svenska's business position is strong. Svenska is one of the major banks in Sweden and also one of the largest banks in the Nordic region. Due to its business profile, Svenska is particularly sensitive to the Swedish economy. In 2015 the Swedish macroeconomic environment remained mostly supportive to the bank's business. However, the operating environment especially in Sweden is still challenging due to further evolving regulations.

Svenska has a low-risk corporate culture. The established incentive structure supports such a risk culture. Credit risk is the main contributor to Svenska's risk profile, though the conservative approach towards lending contributes to the low loan loss ratio. Svenska has a significant exposure to the Swedish housing market which could constrain the rating in case of a potential major shock in the real estate market, as households are highly indebted and therefore sensitive if interest rates were to rise from current low levels. The liquidity position remains strong with a notable liquid asset portfolio.

**Summary:**

	Rating
Financial profile	strong
- Long-term earnings position	strong
- Sustained capital position	strong
Business profile	strong
- Strategy and market	strong
- Risk profile	adequate
- Capitalization potential	strong

(strong &gt; adequate &gt; acceptable &gt; deficient &gt; problematic &gt; insufficient)

**Rating drivers**

The rating could benefit if financial and regulatory metrics go further in line with the growing business.

Downward pressure could arise mainly from decreasing earnings due to worsening operating conditions in Sweden (e.g. housing shock, increasing indebtedness) and increasingly complex regulatory requirements. Further downward pressure could arise if Svenska's fixed cost related to its expanding branch network are burdening significantly its profitability.

**Rating history:**

Rating	Outlook	Date
AA-u	stable	02.09.2016

**Rating scale**

Rating	Rating categories
AAA <sub>u</sub>	highest financial standing
AA+ <sub>u</sub> /AA <sub>u</sub> /AA- <sub>u</sub>	very high financial standing
A+ <sub>u</sub> /A <sub>u</sub> /A- <sub>u</sub>	high financial standing
BBB+ <sub>u</sub> /BBB <sub>u</sub> /BBB- <sub>u</sub>	good financial standing
BB+ <sub>u</sub> /BB <sub>u</sub> /BB- <sub>u</sub>	satisfactory financial standing
B+ <sub>u</sub> /B <sub>u</sub> /B- <sub>u</sub>	financial standing scarcely adequate
CCC+ <sub>u</sub> /CCC <sub>u</sub> /CCC- <sub>u</sub>	financial standing no longer adequate
CC <sub>u</sub> /C <sub>u</sub>	inadequate financial standing
D <sub>u</sub>	moratorium / insolvency proceedings

## Regulatory disclosure requirements

Name and function of the analysts:

- Volker Jindra, Lead Rating Analyst, GBB-Rating, Cologne
- Philipp Krohs, Rating Analyst, GBB-Rating, Cologne

Company address:

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Members of the Rating Committee:

- Sebastian Podporowski, Certified Public Accountant
- Manfred Kühnle, Certified Public Accountant
- Bernd Bretschneider, Managing Director GBB-Rating, Köln

Date	Rating Committee	Notification	Issue
▪ First rating	02.09.2016	02.09.2016	16.09.2016

Validity:

- Rating: 12 months
- Outlook: 24 months

Subsequent rating changes after notification to client:

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Major sources of information for the rating:

- Annual report 2015
- Publicly available information

Statement about the quality of information available (including potential restrictions):

- The quality and extent of information were suitable to obtain a comprehensive picture of the bank and to assign an objective, transparent and professional credit rating

Applicable rating methodology and release:

- Unsolicited rating without participation of the rated company
- Methodology for Rating Banks and Building Societies (Version 3.0.02) – cluster credit and counterparty credit risk (CRR)
- GBB-Rating, Policy on Performing and Issuing Unsolicited Credit Ratings, 04-2016
- [www.gbb-rating.eu/en/presse/eu-veroeffentlichungen/Pages/default.aspx](http://www.gbb-rating.eu/en/presse/eu-veroeffentlichungen/Pages/default.aspx)

Meaning of the rating category:

- [www.gbb-rating.eu/en/ratings/ratingskala/Pages/default.aspx](http://www.gbb-rating.eu/en/ratings/ratingskala/Pages/default.aspx)

Business relationship:

- There is no business relationship

### Legal remarks

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Future events are uncertain. Ratings are based on predictions of these and thus inevitably rely upon estimates. Therefore they solely represent statements of opinion rather than statements of fact or investment advice.

Credit ratings are performed with proficiency and due professional care. Ratings are based on publicly available information and possibly the information provided by the rated company. This information is used in reaching an opinion about the future viability as well as the strengths and weaknesses of the rated company as of the date of rating issuance.