



# AA-<sub>u</sub> stable

Rating-Committee: July 14, 2017

## Strengths/Opportunities:

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

## Weaknesses/Threats:

- Significant exposure to Swedish real estate market and macroeconomic environment
- Uncertain economic outlook following the EU referendum in the UK

## Financial data:

Figures (SEK m)	2016	2015
Total Income	40,763	40,336
Operating profit before tax	20,633	20,475
Profit for the year	16,245	16,343
Total assets	2,627,580	2,522,133
CET1 capital ratio	25.1 %	21.2 %
Total capital ratio	31.4 %	27.2 %

## Analysts:

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# Svenska Handelsbanken AB (publ) Rating result

Based on the information available at the date of the rating GBB-Rating affirms the unsolicited rating of AA-, stable outlook to Svenska Handelsbanken AB (publ) (hereinafter "Svenska"). The rating reflects Svenska's strong financial figures and the supporting decentralized structure underpinning the strong business profile. As at 31 December 2016 (31 December 2015), Svenska reported an operating profit before tax of SEK 20,633 m (20,475), the highest figure in the bank's history, while return on equity for total operations stood at 13.1 per cent (13.5). The result was positively affected by higher net gains/losses on financial transactions due to capital gains on shares. Total expenses slightly increased and loan losses grew moderately. The loan loss ratio was 0.09 per cent (0.09). Furthermore, GBB-Rating considers that the bank has a resilient capitalization.

Svenska has a highly decentralized decision model which makes the organization cost-effective and flexible. Local presence is strong due to the group's growing branch network. During 2016 the bank opened 13 branches in its home markets, the majority hereof in the UK. The number of branches and meeting places in Sweden dropped to 435 (474) due to adjustments in branch operations partially as a result of changed customer behavior owed to the ongoing digitalization. In its markets, Svenska's business position is strong. Svenska is one of Sweden's major banks 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 2016, the Swedish macroeconomic environment remained mostly supportive to the bank's business; however, the operating environment particularly in Sweden is still challenging due to further evolving regulations.

Svenska has a low-risk corporate culture. Such a risk culture is supported by the established incentive structure. 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 the case of a potential major shock in the real estate market, as households are highly indebted and therefore sensitive if

**Summary:**

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

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

**Rating history:**

Rating	Outlook	Date
AA-u	stable	Jul 14, 2017
AA-u	stable	Sep 02, 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

interest rates were to rise from current low levels. The bank takes many actions to mitigate the related risks. The liquidity position remains strong with a notable liquid asset portfolio.

**Rating drivers**

The rating could benefit if financial and regulatory metrics further align to 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 occur if Svenska's fixed cost related to its expanding branch network significantly burden its profitability.

## Regulatory disclosure requirements

Name and function of the analysts:

- Volker Jindra, Lead Rating Analyst, GBB-Rating, Cologne
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Members of the Rating Committee:

- Sebastian Podporowski, Certified Public Accountant, Cologne
- Manfred Kühnle, Certified Public Accountant, Cologne
- Bernd Bretschneider, Managing Director GBB-Rating, Cologne
- Oliver Mohr, Managing Director GBB-Rating, Cologne

Date	Rating Committee	Notification	Issue
▪ First rating	September 02, 2016	September 02, 2016	September 16, 2016
▪ Current rating	July 14, 2017	July 14, 2017	July 24, 2017

Validity:

- Rating: 12 months
- Outlook: 24 months

Subsequent rating changes after notification to client:

- None

Major sources of information for the rating:

- Annual report 2016
- Publicly available information
- Conference Call June 12, 2017
- Further disclosures and company specific information by the rated company

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, rating type and release:

- Unsolicited rating with participation of the rated company
- Methodology for Rating Banks and Building Societies (Version 3.0.03) – 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.