



AA-_u
stable

Rating Committee: 06/13/2018

Svenska Handelsbanken AB (publ)

Rating result

Strengths/Opportunities:

- Decentralized structure leads to a cost-effective and flexible organization
- Local presence is strong due to Handelsbanken's advisory-focused branch network
- Incentive structure supports Handelsbanken'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

Financial data:

(in SEK m)	2017	2016
Total Income	41,674	40,763
Operating profit before tax	21,025	20,633
Profit for the year	16,102	16,245
Total assets	2,766,977	2,627,580
CET1 capital ratio	22.7 %	25.1 %
Total capital ratio	28.3 %	31.4 %
Leverage Ratio	4.6 %	4.8 %
LCR	133 %	126 %
NSFR	102 %	102 %

Analysts:

Volker Jindra
+ 49 221 912 897 233
v.jindra@gbb-rating.eu

Philipp Krohs
+ 49 221 912 897 257
p.krohs@gbb-rating.eu

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) (Handelsbanken/bank). The rating reflects Handelsbanken's both the strong financial figures and the supporting decentralized structure which underpins the strong business profile. Operating profit before tax increased to SEK 21,025 m (20,633) as at 31 December 2017 (31 December 2016), the highest figure in the bank's history. The result was significantly impacted by the increase in net interest income, which more than outweighed higher total expenses from IT and business development costs. Loan losses slightly decreased and the loan loss ratio fell to 0.08 per cent (0.09). Return on equity for total operations decreased to 12.3 per cent (13.1) due to the relatively higher increase in adjusted equity. GBB-Rating confirms that the bank has a resilient capitalization.

The business profile is characterized by highly decentralized decision lines which make the organization cost-effective and flexible. Handelsbanken upholds a strong local presence through the branch network in its home markets. During 2017 the bank continued to expand its branch network in the growth markets of the UK and the Netherlands. In Sweden, the number of branches and meeting places further dropped in 2017 to 420 (435) owing to a more customer- and advisory-focused concept. Handelsbanken operates with a strong business position in its relevant markets. It is one of the major banks in Sweden and also one of the largest banks in the Nordic region. Due to its business profile, Handelsbanken is particularly sensitive to the Swedish economy. In 2017, the Swedish macroeconomic environment remained mostly supportive of the bank's business; however, the operating environment remains challenging with respect to evolving regulation.

Handelsbanken has a low-risk corporate culture supported by the established incentive structure. Credit risk is the main contributor to the bank's risk profile. The conservative approach towards lending and related risk mitigation contributes to the low loan loss ratio. Handelsbanken has a signi-

Summary:

	Rating
Financial profile	strong
- Earnings position	strong
- Capital position	strong
Business profile	strong
- Strategy and market	strong
- Risk profile	strong
- Capitalization potential	strong

(strong > adequate > acceptable > deficient > problematic > insufficient)

Rating history:

Rating	Outlook	Date
AA~u	stable	06/13/2018
AA~u	stable	07/14/2017
AA~u	stable	09/02/2016

Rating scale:

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

ficant 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 to interest rate rises from current low levels. The liquidity position remains strong with a notable liquid asset portfolio.

Rating drivers

The rating could benefit from further improvements in financial and regulatory metrics, aligning to the growing business.

Downward pressure could arise mainly from decreasing earnings due to adverse operating conditions in Sweden (e.g. housing shock, increasing indebtedness) and increasingly complex regulatory requirements. Further downward pressure could occur if fixed costs from the expanding branch network were to deteriorate profitability.

Regulatory disclosure requirements

Name and function of the analysts:

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

Company address:

- GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH, Kattenbug 1, 50667 Cologne

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	09/02/2016	09/02/2016	09/16/2016
Current rating	06/13/2018	06/14/2018	06/28/2018

Validity:

- Rating: 12 months
- Outlook: 24 months

Subsequent rating changes after notification to client:

- None

Major sources of information for the rating:

- Annual report as at 12/31/2017
- Publicly available information
- Conference call 05/16/2018
- 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 (interviews and documents) 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 3.0.03 Banks – credit and counterparty credit risk (CCR)
- GBB-Rating, Policy on Performing and Issuing Unsolicited Credit Ratings, 08-2017
- 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

Business relationship:

- There is no business relationship

Legal remarks

GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH does not make any guarantees regarding the accuracy, completeness or timeliness of the present rating or the data, values and other information presented (including ERI) or the eligibility of this information for specific purposes nor for losses arising from the use of the information or in confidence in the information. The current rating report is not an investment recommendation.

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.

GBB-Rating puts focus on sustainability and is a signatory of the UN Global Compact since 2018. We support the 10 principles of the UN Global Compact relating to human rights, labor standards, the environment and anti-corruption.

