Security Ratings	
Outlook	Stable
5.25% USD 1.2bn perpetual AT1 notes (Feb 2015) temporary writedown	BB+

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This rating was not solicited by the issuer; the analysis is based solely on public information.

Rating rationale

We assign ratings of BB+, with a stable outlook, to Handelsbanken's Additional Tier 1 notes issued in February 2015. The rating is based on the following considerations:

- Issuer Credit Strength Rating (ICSR): A, stable outlook
- Minimum notches down from the ICSR: 4
- Additional notches: 1

Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in July 2015 for more details about the minimum notching for AT1 securities. The additional notch for these securities reflects the following considerations:

1) The presence of a double trigger, of which the one based on group CET1 is a high trigger of 8%.
2) The low average risk intensity of Handelsbanken's balance sheet, which may cause volatility in the capital ratios.

ICSR

Handelsbanken ICRS is A, Stable outlook

The ratings reflect the bank's strong financial fundamentals, to some extent supported by a positive macroeconomic cycle but also by company-specific factors, such as a well-tested risk culture and incentive structure.

The ratings also reflect the concentrated exposure to what we consider an overvalued real estate sector in Sweden, an economy with very high levels of household borrowing. As highlighted by the Riksbank in its latest Financial stability report, Sweden's financial system is sensitive to shocks due to its high proportion of wholesale funding, a large part of which is in foreign currency.[1]

Handelsbanken's degree of international diversification offers some additional protection against potential asset quality shocks, and we note that international revenues are growing strongly in recent years, with the UK franchise driving the growth.

[1] Financial Stability Report 2015:2, January 2016

Summary terms – 5.25% USD 1.2bn, Feb 2015

Issuer	Svenska Handelsbanken AB
Issue Date	25/02/2015
Amount	USD 1.2bn
Coupon	- Paid annually in arrear on March 1 - 5.25% from 3/2016 to 3/2021 - then: 5 year US Mid-Swap Rate + Margin (3.335%)
Format	• Perpetual Non-Call Additional Tier 1 Notes (issued under USD50bn EMTN Program) • Redeemable by the issuer on first reset date (2021) and every subsequent reset date thereafter, subject to regulator approval. • Redeemable at any date, subject to regulator's approval, in case of change in capital or tax treatment
ISIN	XS1194054166
Capital Treatment	Additional Tier 1
Coupon cancellation features	• Fully discretionary • Mandatory in case of: (i) lack of available distributable items (ii) payment causing the Maximum Distributable Amount (MDA) to be exceeded (iii) request from the supervisory authority
Principal Loss absorption features	Temporary write-down: • upon occurrence of a trigger event, by an amount sufficient to restore the CET1 ratio(s) to the trigger level(s), or, if insufficient, write down to USD0.01 • by the supervisory authority at the Point of non-viability Reinstatement, if a Positive net profit at Issuer and Group level is recorded
Triggers for Principal Loss absorption	• 5.125% in relation to the CET1 Ratio of the Issuer on a solo basis and • 8% in relation to the CET1 Ratio of the Group on a consolidated basis.

Source: Prospectus. Scope Ratings

Key risk: coupon cancellation

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions.

Available Distributable Items

The concept of Available Distributable Items (ADI) is defined in the CRR (Art.4.1-128) as “the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution’s by-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statuses of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts”.

We do not expect lack of distributable items to be a limiting factor in the payment of coupons for Handelsbanken.

We estimate the available distributable reserves of Handelsbanken based on Handelsbanken AB unconsolidated accounts and calculations assume the item “Other funds” does not include any reserve which is deemed “non-distributable”. Our calculations point to the availability of SEK 96.4bn in distributable items, including SEK 86.6bn in the form of retained earnings, which give ample comfort that AT1 coupons payments would not be restricted by the lack of available ADIs.

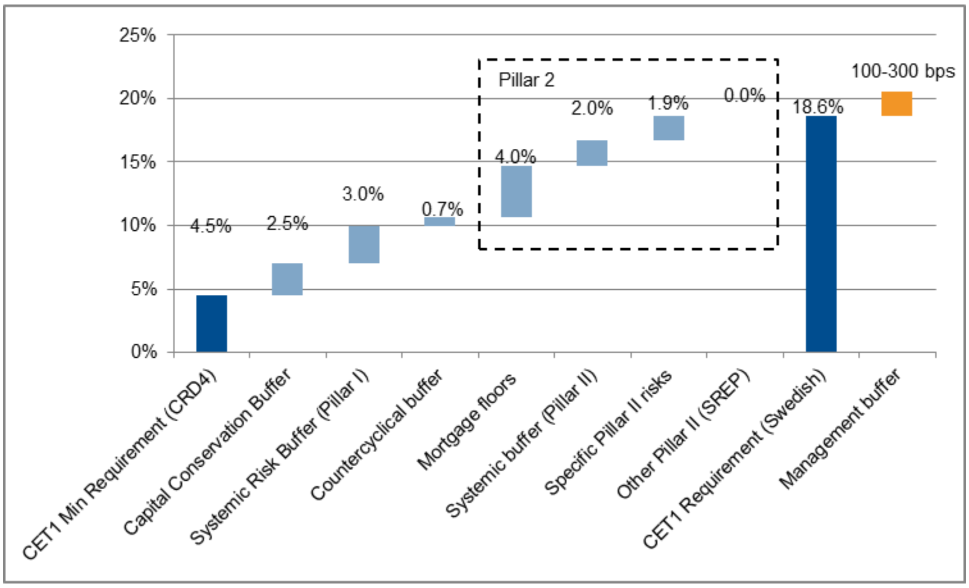
Combined Buffer Requirement and CET1 total requirement

The CRD4-CRR restrictions on discretionary distributions are based on transitional CET1 requirements. According to our calculations, the combined buffer requirement of Handelsbanken under Pillar 1 will stand at 10.7% already at the end of 2015, including:

- A minimum Pillar 1 CET1 requirement of 4.5%
- A capital conservation buffer of 2.5%
- A Pillar 1 systemic risk buffer of 3%
- A countercyclical buffer of 0.7%

On top of the Pillar 1 buffers, Handelsbanken is subject to additional CET1 requirement guidance under Pillar 2, which we estimate at 7.9% (based on November 2015 FSA memorandum - our estimate includes 1.9% own fund requirement, 2% systemic buffer, 4% for Swedish and Norwegian Mortgages). Including the Pillar 2 add-on, we estimate Handelsbanken's CET1 minimum capital requirement guidance to stand at 18.6% at the end of 2015.

Chart 1: Handelsbanken CET1 requirement build-up



Source: Handelsbanken, Finansinspektionen, Scope Ratings estimates
Note: based on November 2015 memorandum

As of the end of Q4 2015, Handelsbanken had a CET1 ratio of 21.2%. This offers ample distance to the Pillar 1 Combined Buffer Requirement. However, it is a more modest buffer of 260 bps to its total CET1 requirement. Handelbanken has indicated it will maintain a buffer of 100-300bps over the CET1 requirement. We note that in Sweden, the Pillar 2 add-on is not considered a hard requirement until a formal decision is taken, and is rather a "strict guidance". As such, it does not currently affect MDA calculations for Handelsbanken. The FSA has further indicated that it does not intend, in normal circumstances, to take a formal decision. However, should material losses arise that erode capital below the total capital guidance arise, these could lead to a firmer stance from the supervisor and to a formal decision with respect to Pillar 2.

Our understanding is that, should losses arise in the normal course of business or as a result of a systemic deterioration in the operating environment, the FSA would take a pragmatic approach and refrain from making a formal decision – and could even reduce the Pillar 2 guidance. On the other hand, should losses arise due to a firm specific weakness the FSA would in our view take a tougher stance, especially if there is evidence of weak risk governance or risk mismanagement. Even in the scenario where a formal Pillar 2 decision is taken, the first port of call to restore capital levels would probably be dividends, offering additional protection to AT1 holders.

Chart 2: Distance to total CET1 requirement

	2015	2016E	2017E
Minimum CET1 - Pillar 1	4.5%	4.5%	4.5%
Combined buffer:			
- Capital conservation	2.5%	2.5%	2.5%
- Systemic	3.0%	3.0%	3.0%
- Countercyclical	0.7%	1.1%	1.4%
Required CET1 associated with distribution restrictions (Pillar 1)	**10.7%**	**11.1%**	**11.4%**
Pillar 2 Add-on to CET1 Requirement [1]	7.9%	7.9%	7.9%
Total CET1 requirement (Pillar 1 & Pillar 2)	**18.6%**	**19.0%**	**19.3%**
Handelbanken CET1 Ratio	21.2%	21.4%	21.6%
Distance-to-CBR	**10.5%**	**10.3%**	**10.2%**
Distance-to-total CET1 requirement (%)	**2.6%**	**2.4%**	**2.3%**
Distance-to-total CET1 requirement (SEK bn)	**12,330**	**11,734**	**11,346**

Source: Scope Ratings

1) Estimated by Scope based on November 2015 memorandum. Consists of 1.9% own fund requirement, 2% systemic buffer, 3.90% for Swedish and Norwegian Mortgages)

Further, the group may be subject to higher requirements, including a countercyclical buffer of up to 2.5% ex. art 160 of CRD4. As an example, the Swedish FSA has proposed on May 26, 2015 to raise the countercyclical buffer for Sweden from 1% to 1.5%, applicable from June 2016.). Any further increase in the countercyclical buffer rate in Sweden would lead to a higher capital buffer requirement at Handelsbanken, with the pass through of the higher requirement corresponding to the bank's exposure to Sweden as percentage of the total group.

As an additional risk, we highlight that while Handelsbanken capital ratios are high, they benefit from a very low level of risk weighted asset intensity, which could be subject to revisions given regulators renewed focus on RWA harmonisation. With a limited margin to the total requirement, RWA volatility represents an additional factor of risk in terms of coupon cancellation.

Key risk: principal loss absorption

The mechanism for loss absorption is temporary write-down. The rated securities have double triggers:

- 5.125% based on Svenska Handelsbanken AB unconsolidated
- 8% based on Handelsbanken Group consolidated accounts

In our view, the existence of a double trigger generally represents a factor of risk, partly offsetting the benefits of Handelsbanken's diversification, a key factor supporting the Issuer credit strength rating of the group. The difference between the two capital ratios trigger reference entities consists of Handelsbanken subsidiaries, including the covered bond issuer (Stadshypotek), the life insurance subsidiary (Liv), the fund management company (Fonder) and the public finance unit (Finans). For the parent company reference trigger to become relevant, one has to assume a marked divergence between the performances of the subsidiaries businesses and the parent as well as a regulatory ring-fencing of the former with respect to capital. While this is a possibility, we deem it unlikely.

Distance to trigger

On the other hand, the 8% trigger at the group level is certainly to be considered a high trigger – even in the context of Swedish high capital requirements.

Distance-to-Trigger	2015	2016	2017
Trigger CET1 Transitional - Svenska Handelsbanken AB	5.125%	5.125%	5.125%
Trigger CET1 Transitional - Handelsbanken Group	8.0%	8.0%	8.0%
CET1 Ratio - Handelsbanken Group [1]	21.2%	21.4%	21.6%
CET1 Ratio - Svenska Handelsbanken AB [2]	18.5%		
Distance-to-Trigger Svenska Handelsbnaken AB	13.4%		
Distance-to-Trigger Handelsbnaken Group	**13.2%**	**13.4%**	**13.6%**
Distance-to-Trigger Handelsbanken Group, in SEK	**62,597**	**65,463**	**68,197**

Source: Scope Ratings Estimates, Handelsbanken
[1] Group CET1 as of December 2015
[2] based on 2014 annual report

We calculate that Handelsbanken's CET1 ratio is 13.2% higher than the trigger point in 2015

Regulatory Disclosures

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund.

The rating analysis has been prepared by Marco Troiano, Director

Responsible for approving the rating: Sam Theodore, Managing Director

Date	Rating action	Rating
26.02.2016	First Assignment	BB+, Stable

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

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Methodology

The methodologies applicable for this rating “Bank Rating Methodology” (May 2015) & “Forecasting Bank Financials Methodology” (March 2015) & “Bank Capital Instruments Rating Methodology” (July 2015) are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope’s credit rating, definitions of rating symbols and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency’s website.

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