Svenska Handelsbanken AB
Issuer Rating Report

AA- STABLE

Overview

Scope Ratings has assigned an Issuer Rating of AA- and a short-term rating of S-1+ to Svenska Handelsbanken AB ('Handelsbanken'). The agency also rates the institution's senior unsecured debt not eligible for MREL at AA-, and its senior unsecured debt eligible for MREL at A+. All ratings have a Stable Outlook.

The Issuer Rating was upgraded by one notch on 17th May 2018. This uplift was based on Handelsbanken's ability to weather weakness in Sweden's housing market, prudent growth strategy, and reassuring financial fundamentals, which Scope expects the bank to preserve.

The ratings were not solicited by the issuer. Both ratings and analysis are based solely on publicly available information. The issuer has participated in the process. The ratings are not applicable to unguaranteed subsidiaries of the rated parent.

Highlights

- Our ratings reflect Handelsbanken's reassuring financial fundamentals, supported by company-specific factors, such as a well-tested risk culture and incentive structure. The bank has recently initiated a strategic review designed to keep it focused on core, profitable businesses while limiting risk.
- In addition to its strong domestic franchise, Handelsbanken's degree of international diversification offers additional protection against potential domestic asset quality shocks, as Sweden's housing market has undergone a degree of correction since late 2017, albeit having partly recovered. International revenues have become more important to the Group in recent years, with the UK and Dutch franchises driving the growth.
- The ratings also reflect concentrated exposure to the Swedish real estate sector, in an economy with very high levels of household borrowing. We note that the Swedish banking sector is vulnerable to shocks due to its size, interconnectedness and reliance on wholesale funding. In Handelsbanken's case this is somewhat mitigated by a large liquid asset portfolio and substantial unencumbered mortgage assets together with overcollateralization of its covered bond issuance.

Rating drivers (summary)

The rating drivers, in decreasing order of importance in the rating assignment, are:

- Strong franchise in Sweden, with growing international presence that could help provide a buffer against domestic downturns
- A well-calibrated incentive structure underpinning a conservative risk culture, which has led to strong, resilient earnings and asset quality metrics over time
- Large liquidity reserves to cover for potentially less stable wholesale funds
- Large exposure to Swedish real estate, albeit balanced by a long track record of keeping credit losses low and loans to property companies being concentrated in lower-risk buckets

Ratings & Outlook

Issuer Rating	AA-
Outlook	Stable
Senior unsecured debt (non-MREL/TLAC eligible)	AA-
Senior unsecured debt (MREL/TLAC eligible)	A+
Additional Tier 1 rating	BBB-
Short term debt rating	S-1+
Short term debt rating outlook	Stable

The ratings are not applicable to debt issued by unguaranteed subsidiaries of the rated parent.

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Bloomberg: SCOP

Rating change drivers

Continued convincing execution of the bank's international diversification through measured expansion and demonstrated control of credit risks and the expenses associated with expansion. Sufficiently stable performance and growth in the bank's established international operations over time would reaffirm that these provide a reassuring hedge against any domestic downturn. The strategic review initiated in 2Q19 aims to improve the bank's focus on core, profitable businesses while limiting risk.

Any indication that the bank's culture of low-risk decision-making has changed or become ineffective could have a negative impact on our rating view. Handelsbanken's track record of weathering negative economic conditions to date has been impressive. Compared to peers the bank has generally reported lower loan losses on average, dating back to the 1990s banking system crisis, and the bank's market reputation and rating benefit from this reassuring track record. It has also avoided being drawn into the Estonia money-laundering scandals faced by some other Nordic banks, having limited its exposure in the Baltic region to focus on servicing home market clients.

Given the bank's concentrated exposure to Swedish real estate, a severe decline in real estate prices could be a rating negative. This is more likely if such a deterioration were to lead to significantly higher non-performing loans, sustained earnings erosion or lower capital adequacy. The interconnected nature of the Swedish banking sector also means that larger falls in housing prices could also affect market confidence and the cost of funding for all banks.

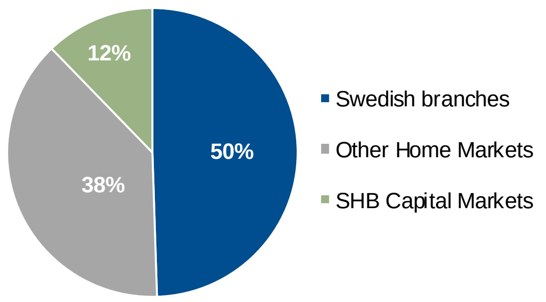
Maintaining or improving already sound prudential and financial fundamentals, especially if the economy deteriorates more than expected. A normalization of the domestic credit cycle could provide some challenges. We believe the bank is well positioned to deal with this, primarily by absorbing higher losses through current strong earnings while maintaining a strong and liquid balance sheet. Demonstrating this would further confirm our view that the bank is focused on maintaining its solid financial profile.

Rating drivers (details)

Strong franchise in Sweden, with a growing international presence that could help buffer domestic asset quality downturns

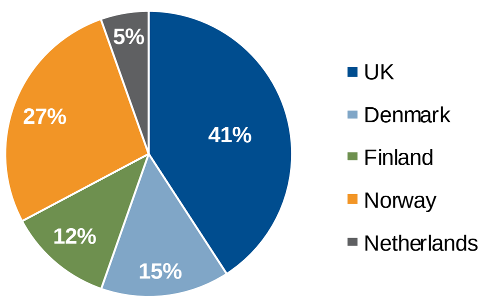
While Sweden represents by far the most important market for the group, accounting for half of 2018 revenues, a still significant 38% of revenues were generated outside Sweden, primarily in other Nordic countries but also in the UK and the Netherlands. The capital markets division is responsible for most of the remaining revenues (see Figure 1).

Figure 1: Revenues split by division (2018)



Source: Company data, Scope Ratings

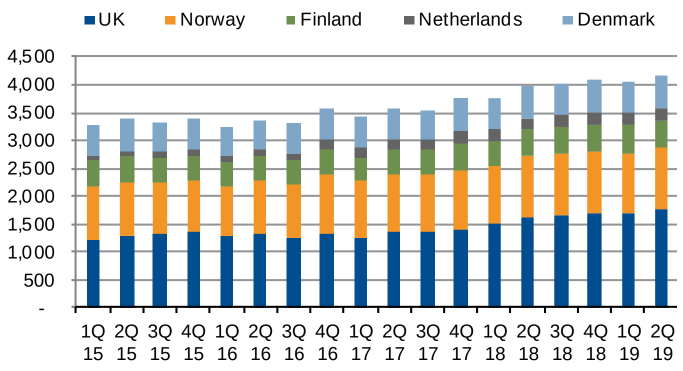
Figure 2: Other home markets revenue split (2018)



Source: Company data, Scope Ratings

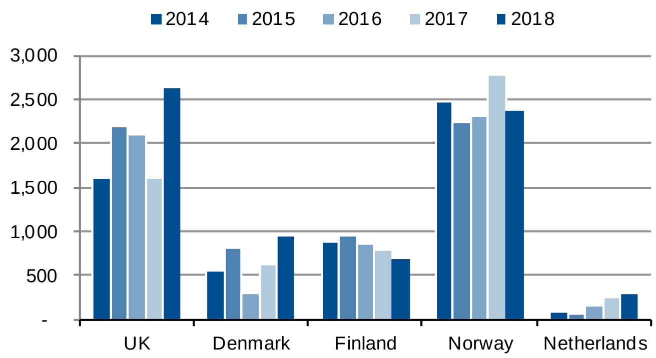
Handelsbanken focuses on providing services to personal customers and businesses, with a focus on SMEs, and has been expanding internationally in recent years, largely through organic growth, driven especially by the UK business. However, some international businesses saw their profits fall in FY18. In Finland pre-tax profit fell due to higher credit losses and higher total expenses. In Norway pre-tax profit also decreased due to higher staff costs and higher credit losses.

Figure 3: International branches' revenues (SEKm)



Source: Company data, Scope Ratings

Figure 4: International branches pre-tax profits, (SEKm, 2014-2018)



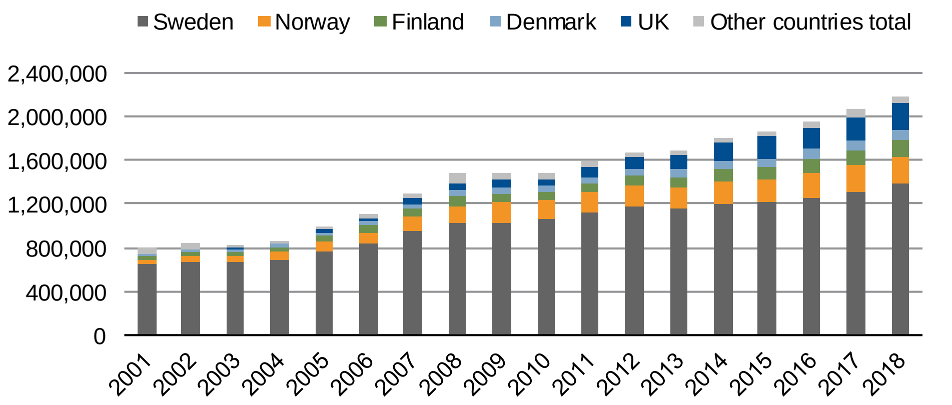
Source: Company data, Scope Ratings

Handelsbanken's international operations utilize the bank's well-established business model and are run with a tight grip on costs, with some necessary investment in growth markets – at present especially in the UK. For 2019, Handelsbanken is expecting its UK subsidiary's formation costs to be just below the SEK 314m reported in 2018. Before December 2018, the UK operation existed in branch form. Following the result of the Brexit referendum, Handelsbanken decided to set up a subsidiary in the UK. The decision also considered Handelsbanken's then position as the largest branch-based foreign retail bank operating in the UK and its ongoing growth in the market, which may eventually lead the bank to be subject to the ring-fencing provisions applied to larger UK banks.

Handelsbanken thus applied for a banking licence from the Prudential Regulation Authority (PRA). In December 2018 all UK branch operations were transferred to the new created subsidiary.

Despite the challenges faced in FY18, the international businesses continue to contribute a positive and substantial earnings flow to the group, and as such could provide a buffer should the domestic business face a downturn.

Figure 5: Evolution of loan book - distribution by geography (SEKm)



Source: Company data, Scope Ratings

The dominance of Swedish exposures in the loan book has decreased from 81% in 2001 to 63% in 2018 (see Figure 5). Whether the asset quality track record seen in Sweden can be replicated in other countries throughout the cycle is more of an open question – although so far credit losses in the international operations have generally remained low.

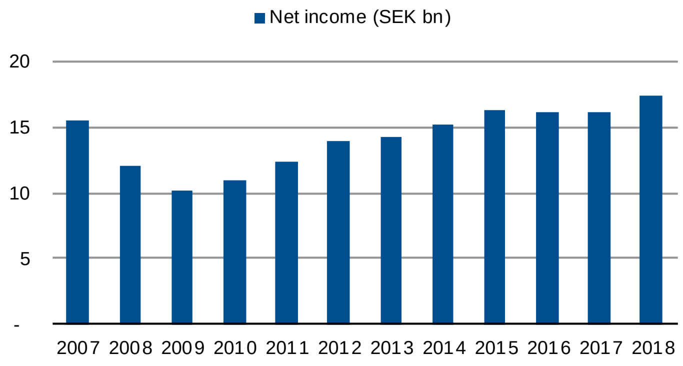
A well-calibrated incentive structure underpinning a conservative risk culture and enabling an effective, decentralized decision-making model, all of which help to explain a track record of sound profitability and low credit losses

Svenska Handelsbanken has an impressive track record of profits underpinned by low levels of credit losses and non-performing assets throughout the cycle. The bank's strong cost/income ratio, especially in Sweden, helps to support its investment in new digital channels.

Handelsbanken's return on equity (12.8% in FY18, up from 12.3% in FY17) consistently remained above 12% throughout the financial crisis and subsequently. The bank reported FY18 net earnings of SEK17.4m, 8% higher than in FY17, and above the pre-crisis peak of 2007 (Figure 6). Net interest income rose by 5% to SEK 31.3bn, attributable to an increase in business volumes (+SEK 1.6bn) Net fee and commission income increased by 5% to SEK 10.2bn, mainly driven by fund management, custody account management and other asset management commissions

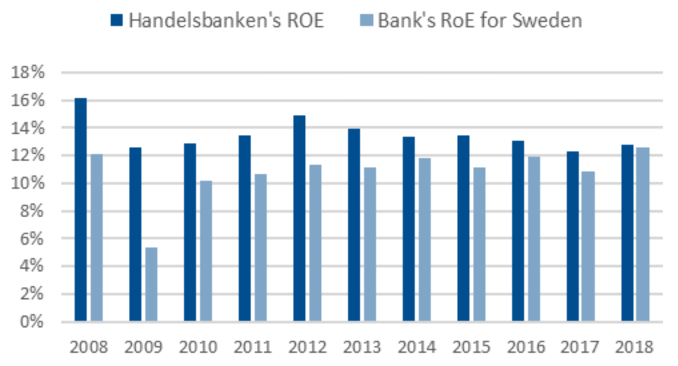
Handelsbanken has ceased to disclose an impaired loans ratio, having converted to accounting under IFRS 9 (based on a model for expected credit losses) from IAS 39. The impaired loans ratio stood at 0.13% at YE17 and has been remarkably stable, at negligible levels, throughout the crisis. The cost of risk in 2018 was also negligible at 4bps (on the new basis pursuant to IFRS 9), having reached just 23bps (pursuant to IAS 39) at the height of the crisis in 2009.

Figure 6: Net earnings (SEKbn)



Source: Company data, Scope Ratings

Figure 7: Handelsbanken's and Swedish Banking Sector's RoE (2006-2018)



Source: ECB, Scope Ratings

Cyclical factors, including the benign credit environment in Sweden, partly explain Handelsbanken's more recent performance. We also believe that its strong track record is driven by factors specific to the bank, including its conservative strategy and incentive scheme, which in our view contributes to a healthy, low-risk corporate culture. Over a long period Handelsbanken has been focused on sustaining profitability rather than immediate growth or boosting market share. The bank has not paid cash bonuses in 40 years. Instead employees have a stake in the bank via the Oktogonen foundation (which owned 10.3% of shares at YE18). These shares can only be cashed out after an employee turns 60 (or at latest upon retirement).

Handelsbanken has no sales targets, budgets or central business plan. Instead, it places a high degree of emphasis on the relationships maintained and developed by staff in its branch network with local businesses and private customers. The bank is supplementing branches with digital channels. Branch numbers have fallen over time, from 779 at YE18, compared to 822 at YE13. Branch numbers in Sweden have been reduced, from 474 to 390 over the same period as the business operations of some branches were merged with nearby larger branches. The same trend has been apparent in the Finnish operation. The bank entrusts branch level managers with credit decisions focused on a combination of knowing the customer and low risk tolerance. While this could lead to increase risk-taking behavior in any institution where employees have a focus on short term profit targets and bonuses, it has proven to be sustainable for Handelsbanken. Decisions on the largest credits are taken at regional or central level, but only with local support. Responsibility for following up problem credits rests at local level.

We note that Handelsbanken has avoided being drawn into the Estonia money-laundering scandals faced by some other Nordic banks, having limited its exposure in the Baltic region to focus on servicing home market clients. At the time when competitors were expanding more in the region, Handelsbanken held back due to concerns that risks could not adequately be assessed.

In the second quarter of 2019, the bank has initiated work towards a partially new strategic direction, aiming to focus on core businesses. Thus, it will pull out of areas where it has limited market potential, low earnings or higher risk. It is also expected that this degree of streamlining will support ongoing efforts towards digitalisation. The intention is to allocate resources to more profitable businesses or those where this can be improved while limiting risk. For example, the bank will cease to offer export finance, and trade finance operations will be concentrated in Sweden rather than the separate home markets. The bank has also begun to review its geographical presence in Europe. While remaining in its core home markets, it will close its branches in Estonia, Latvia and

Lithuania, and its Polish branch. Representative offices in Sydney and Jakarta have been closed.

Large liquidity reserves to cover for potentially less stable wholesale funds.

An important factor in assessing Swedish banks is that Swedish household savings are often tied up in longer term investments rather than bank deposits, typically intermediated by insurance or pension companies. These savings are partly recycled into the banking system in the form of wholesale funds, chiefly covered bonds. By volume Sweden's covered bond market is the world's fifth largest after those of Denmark, Germany, France and Spain, and in size equals around half of GDP, a proportion exceeded only in Denmark. As one of Sweden's largest mortgage lenders Handelsbanken's liability structure reflects this market reality.

Covered bonds are considered a well-tested, stable source of funding for Swedish banks. The market benefits from a strong investor base domestically and to a lesser extent (about one third) internationally. Investors primarily consist of insurance companies, banks and asset managers including pension funds. Covered bonds issued by Stadshypotek, Handelsbanken's mortgage financing subsidiary, totaled SEK 617bn at YE18, equivalent to 22% of total funding.

Handelsbanken's excellent track record and reputation also give it substantial access to diverse unsecured market funding sources. The main wholesale funding currencies are SEK, EUR and USD. Aside from covered bonds, other securities issued (which include long-term senior unsecured debt, commercial paper and certificates of deposit) accounted for 27.5% of funding at YE18, and interbank borrowings 7%. Subordinated debt made up just 2% of total funding.

The relatively low availability of domestic household deposits in Sweden also gives Handelsbanken significant reliance on corporate deposits, which, along with interbank borrowings and short-term securities are considered inherently more volatile and vulnerable to market sentiment than household deposits. Deposits amounted to SEK 1,008bn at YE18, or 36% of Handelsbanken's funding. 48% of the total came from households, with the remainder from corporate sources. Handelsbanken's headline loans to deposits ratio was 217% as of YE 2018, well above that of international peers, This includes corporate deposits. Reflecting their potential volatility, these are not used to fund long term assets.

From a maturity point of view, Handelsbanken discloses short term liabilities (under one year) at SEK 1,033bn, or 36% of total liabilities. These comprise interbank loans and issued securities (including covered bonds) with less than one year residual maturity. The calculation does not include SEK 1,008bn of deposits from the public (36% of liabilities) with unspecified maturity. Handelsbanken works on the assumption that under a scenario of liquidity stress, 20% of deposits could disappear, and thus estimates that (as of YE18) despite the stress, short-term assets will exceed short-term liabilities at year-end, with liabilities maturing in under one year of about SEK 1tr.

Set against this, Handelsbanken has an immediate high-quality liquidity reserve totaling SEK 508bn at YE18, comprising cash and balances with central banks, and additionally liquid securities – mainly government bonds and covered bonds. In all, the bank estimates that taking into account interbank balances and loans maturing in less than one year, available short term asset liquidity for the first twelve months is SEK1.1tr. We also note that there are SEK366 bn of unpledged mortgage loans, which don't form part of the cover pools (which are also substantially overcollateralised, with an average loan to value ratio of c.53%).

From a regulatory standpoint, Handelsbanken's funding amply complies with requirements: its LCR stood at 146%[1] in at YE18 and both the LCR in EUR and USD are well above 100%. The NSFR was 104% at year end.

Large exposure to Swedish real estate, albeit balanced by a long track record of keeping credit losses low and loans to property companies being concentrated in lower-risk buckets

A long period of low default rates coupled with inexpensive covered bond funding has supported an expansion in mortgage credit, which so far has proved very profitable for the banks, with low credit losses. Concentrated exposure to domestic real estate is Handelsbanken's largest single asset risk. A bull market lasting more than two decades until the autumn of 2017 saw house prices rise much faster than inflation, more than doubling since 2005, according to the Riksbank's May 2019 Financial Stability Report,[2]. This is much faster than seen in the EU as a whole and was largely uninterrupted by the financial crisis. Several structural factors (including an imbalance between supply and demand for housing, strong income growth and continued low interest rates) helped to explain the long bull market.

The Swedish Finansinspektionen (FSA), the Riksbank and the European Commission have been sending cautious signals for some time about excessive credit growth and levels of household debt in Sweden.

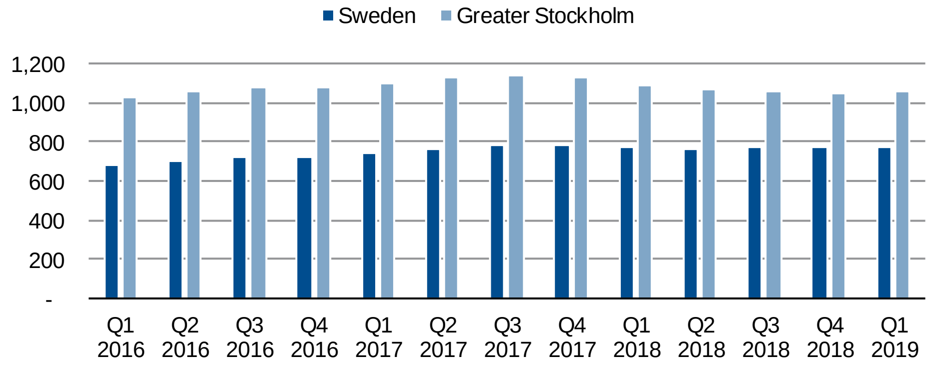
In response to concerns over household debt levels, the FSA implemented various macro-prudential measures designed to put a brake on excess lending growth, and there is evidence that these have been somewhat effective. They include a mortgage cap limiting the LTV ratio on new loans to 85% from 2010 onwards and raising the risk weight on Swedish mortgages to 25%, applied (since YE18) through a Pillar 1 requirement. Given the traditional Swedish reliance on maintaining long-maturity mortgages, in June 2016 the FSA also introduced an amortisation requirement, forcing households with a mortgage LTV ratio between 50% and 70% to amortise at least 1% of the mortgage's original value every year, rising to 2% for an LTV ratio over 70%.

A further amortization requirement became effective in March 2018, for new mortgage loans with a value exceeding 4.5x household gross income. These will be amortised 1% faster than would otherwise have been the case. Thus, where the income cap is exceeded, loans with an LTV below 50% will amortise at least 1% annually, with the percentage rising to 2% for mortgages with LTVs between 50% and 70%, and to 3% for mortgages with LTVs in excess of 70%.

By historical standards the debt-to-income ratio for the entire household sector remains high at 186%, or just under 206% if debts through housing co-operatives are taken into account[3]. For new borrowers the ratio was at 398% in 2018[4], although this is slightly lower than the previous year.

[1] Calculated according to the European Commission's delegated act
[2] Published 28 May 2019
[3] Source: Statistics Sweden and Riksbank
[4] Source: FSA's mortgage survey

Figure 8: Sweden and Greater Stockholm quarterly house price evolution (2016-2019)



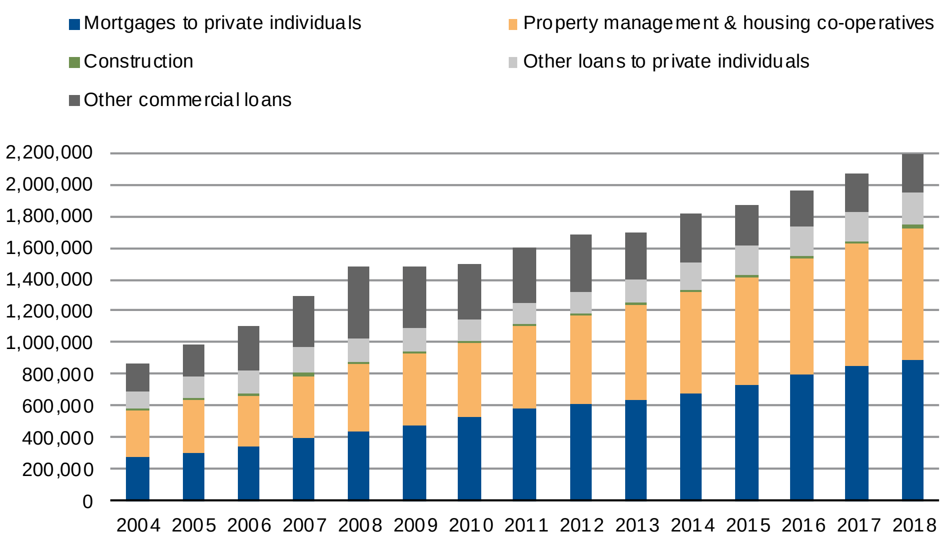
Index: 1981=100 Source: Statistics Sweden, Scope Ratings

We do not see a serious correction as the most likely scenario. House prices have been largely stable since the beginning of 2018 after falling in the autumn of 2017 and undergoing some measured recovery. However, prices continue to be above their historical average, and we caution that a deep slump in the real estate market hurting households' wealth levels, or an economic shock leading to a faster-than-expected rise in mortgage interest rates and hitting debt affordability, could hurt Handelsbanken's asset quality and profitability. Most Swedish mortgages are variable-rate, so households are sensitive to rate rises, particularly those that are most indebted. However, risks associated with higher rates appear to have subsided in the near term, as previously-announced rate rises were placed on hold, in response to a slowdown in growth that began in late 2018.

Borrowers' ability to service debt has remained resilient, and the cost of risk over recent periods has been remarkably low.

As shown in Figure 9, Handelsbanken's property-related lending has expanded more rapidly in recent years than other segments of the loan book and made up 87% of all loans as of YE18.

Figure 9: Handelsbanken - loan book evolution 2004-2018, by sector (SEK m)



Source: Company data, Scope Ratings

The greatest concentration of the loan book is to the domestic property sector. This accounted for 88% of loans in Sweden as of YE18 (YE17: 88%), or about ten times group CET1 capital. Of these, 63% of exposures are residential mortgages, which have a strong track record in Sweden and which we would expect to perform well under most scenarios.

The riskiest part of the credit book comprises loans secured by commercial real estate (CRE) or property management, which represents 27% of total loans – not insignificant but not of excessive concern either, especially as the majority are in lower-risk buckets. Many of the property management companies in Sweden are state- or municipally-owned property companies and other housing-related operations, where borrowers tend to have strong, stable cash flows, and where the relationship with the bank is of long standing. Due to international expansion, 58% of property management exposures are outside Sweden, primarily in Norway and in the UK. Direct exposure to real estate construction is relatively small.

Our view is that over time prevailing low levels of credit losses may not be fully sustainable. Handelsbanken's granular decision-making framework has proved reliable in limiting credit losses in the past, so we expect it to be more able than most to manage through a potentially more challenging economic backdrop.

In this context, we also note that in general Swedish banks' headline capital ratios have converged significantly with those of international peers as of YE18. This is due to the FSA's changes to Swedish banks' capital calculations with effect from 31st December 2018. Effective risk weights on Swedish mortgages rose and were set via Pillar 1 rather than Pillar 2. This has reduced banks' reported capital ratios and overall capital requirements expressed as a percentage of RWAs. It has also increased asset risk intensity closer to that of international peers, although a gap remains. The regulator expects the real effect on capital to be minimal, in that the nominal amount of equity held remains stable. Handelsbanken's asset risk intensity (RWAs as a percentage of total assets) was 24% at YE18, compared to 24% for its Nordic peers and 30% for international peers. The ratio stood at 18% for Handelsbanken as of YE17.

The application of 72.5% output floors as agreed by the BIS, forcing banks' internal risk models to give outputs closer to the standardized approach, may affect Handelsbanken's capital ratios, although we expect the near-term impact to be limited, as full implementation is not due until 2027.

Handelsbanken's additional tier 1 instruments: key features and risks

We have rated the AT1 securities issued by Svenska Handelsbanken AB at BBB-/Stable.

In accordance with our rating methodology for capital instruments, the starting point for notching down when rating capital instruments is provided by the senior non preferred rating of A+. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going-concern loss-absorbing features and investors' exposure to coupon-cancellation risks. Handelsbanken's additional notch for AT1 securities reflects: a) The presence of a double trigger, of which the one based on group CET1 is a high trigger of 8% (with a 5.125% trigger related to the mother company); b) The low average risk intensity of Handelsbanken's balance sheet, which may cause volatility in the bank's capital ratios.

Figure 10: CRD4 compliant AT1 instruments of Handelsbanken rated by Scope

Issuer	ISIN	Currency	Issue amount	Coupon %	Issue date	Next call date	Conversion type	Trigger %	Scope rating
SVENSKA HANDELSBANKEN AB	XS1194054166	USD	1,200,000,000	5.25	25/02/2015	01/03/2021	Temporary write down	5.125	BBB-
SVENSKA HANDELSBANKEN AB	XS1952091202	USD	500,000,000	6.25	22/02/2019	01/03/2024	Equity conversion	5.125	

As of Q1 2019, Svenska Handelsbanken's gap to the equity conversion trigger was 8.4%, higher than the average of large European banks (7.6%).

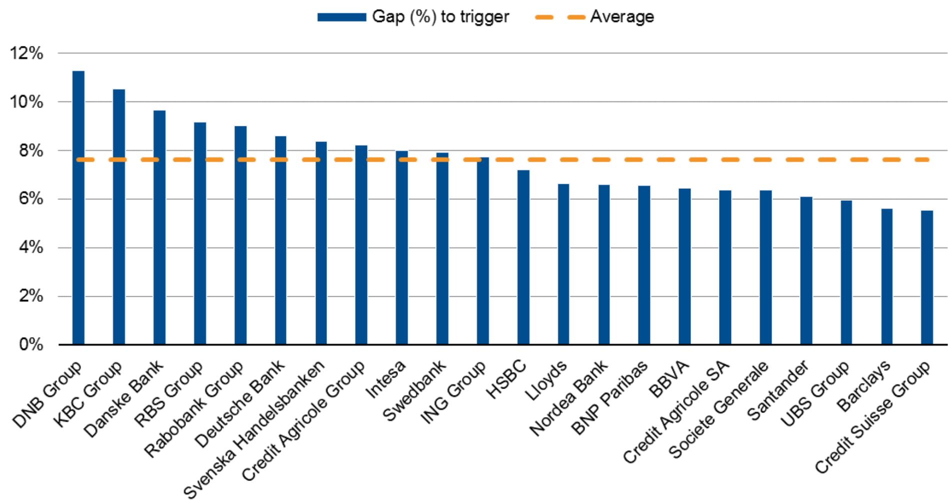
The distance to the MDA trigger (CET1 ratio requirement including CBR) stood at 4.9%, versus an average of 3.3% for the group of large European banks. This is based on the 2019 SREP requirement.

Compared with its 2019 SREP requirement of 11.50%, the bank's current headroom to regulatory requirements is 490 bps.

Handelsbanken has a CET1 capital target range of 1% to 3% above the FSA requirements. Other capital measures should be 1% above requirements.

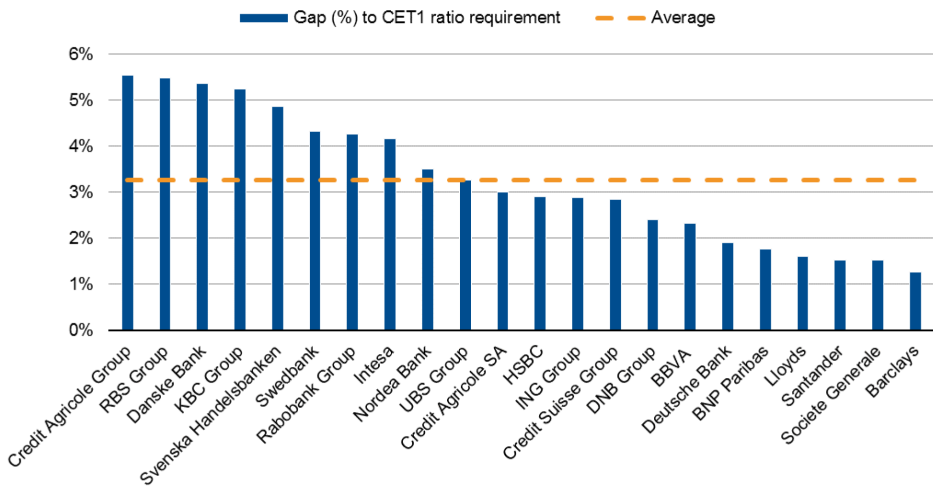
AT1 instruments are perpetual, although they can be called at the discretion of the issuer. So far, most issuers have exercised this option on the first call date.

Figure 11: Gap to trigger, selected European banks (Q1 2019)



Source: Banks, Scope Ratings

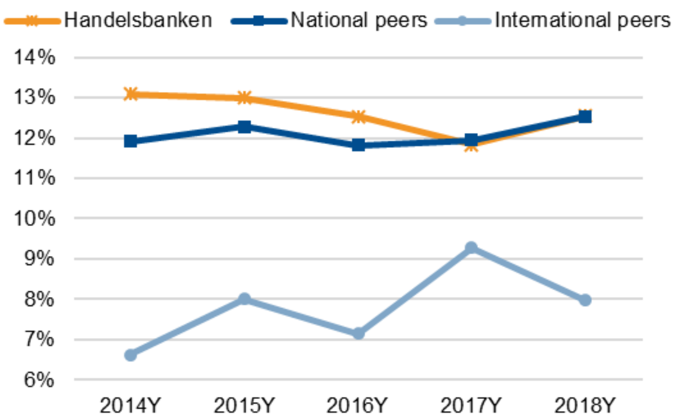
Figure 12: Distance to CBR, selected European banks (Q1 2019)



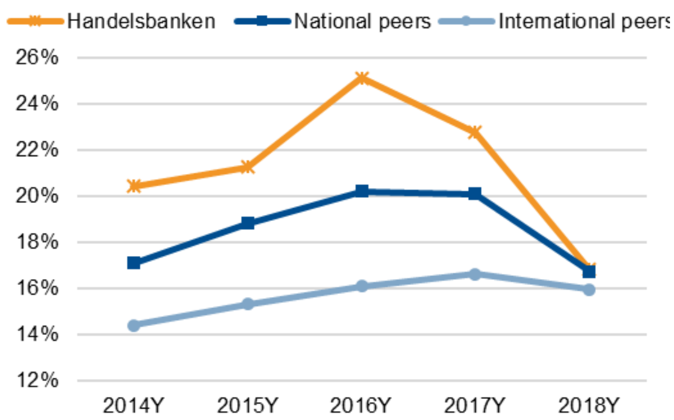
Source: Banks, Scope Ratings

I. Appendix: Peer comparison

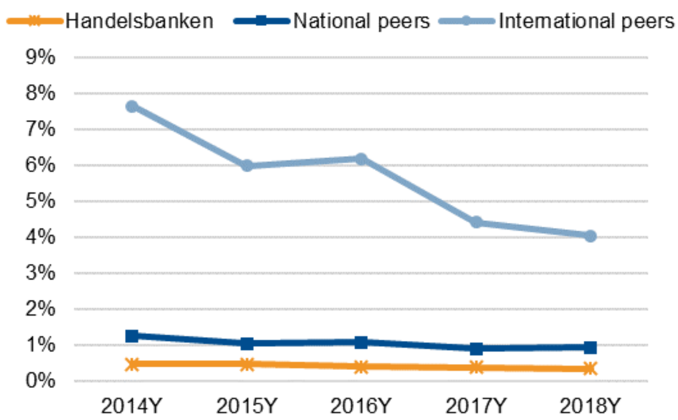
Return on average equity (%)



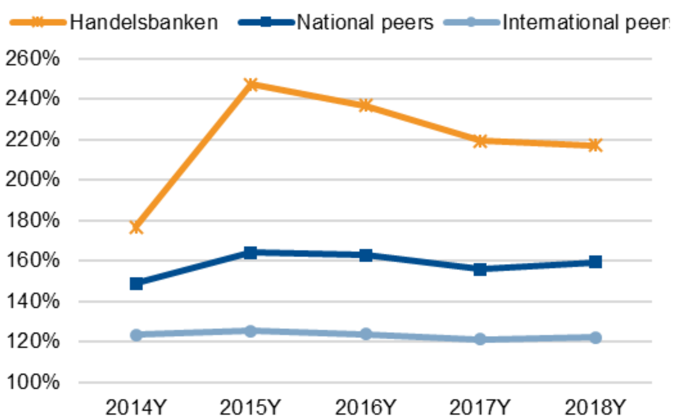
CET1 ratio (%, fully loaded)



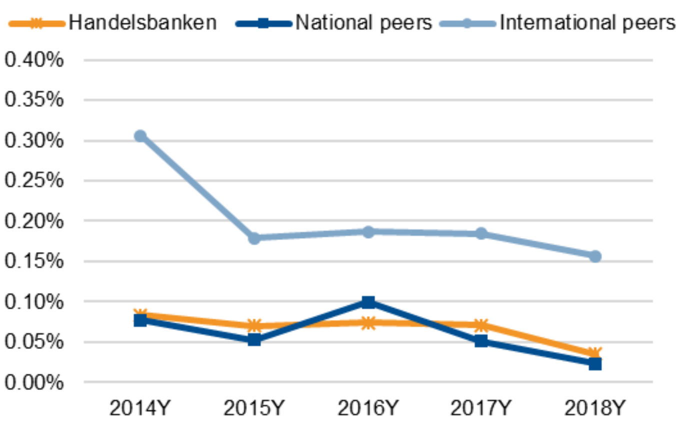
Problem loans / Gross customer loans (%)



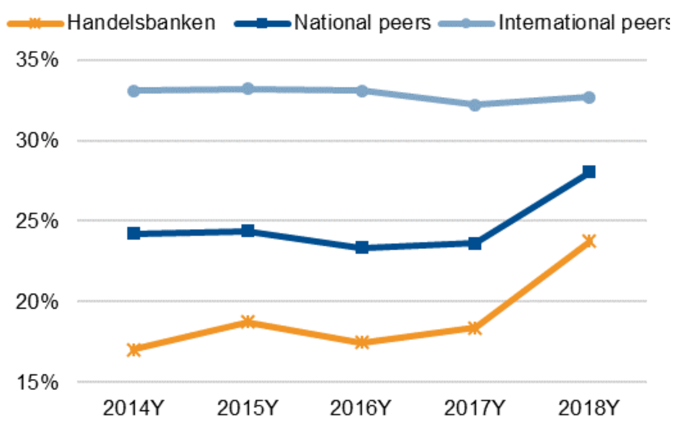
Net loans / Deposits



Impairment on financial assets / Pre-impairment income (%)



Asset risk intensity (RWAs / Total assets, %)



*Nordic peers: Danske Bank, DNB ASA, Nordea, Handelsbanken, Swedbank, SEB
**Cross-border peers: Credit Agricole, BPCE, Credit Mutuel, Lloyds, Nationwide, Rabobank, Intesa Sanpaolo, Commerzbank, Danske Bank, ABN AMRO, CaixaBank, Banco de Sadabell, Handelsbanken, DNB, SEB, Swedbank, La Banque Postale, Bank of Ireland, AIB, Banco BPM, UBI Banca
Source: SNL Financial

II. Appendix: Selected Financial Information – Svenska Handelsbanken AB

	2014Y	2015Y	2016Y	2017Y	2018Y
Balance sheet summary (SEK m)					
Assets					
Cash and interbank assets	575,918	286,404	256,236	285,484	372,911
Total securities	304,684	235,051	264,194	248,765	244,884
of which, derivatives	116,194	85,374	82,668	56,106	58,074
Net loans to customers	1,807,836	1,866,467	1,963,622	2,065,761	2,189,092
Other assets	128,238	134,211	143,528	166,967	171,287
Total assets	**2,816,676**	**2,522,133**	**2,627,580**	**2,766,977**	**2,978,174**
Liabilities					
Interbank liabilities	200,074	163,770	178,781	174,820	194,082
Senior debt	1,212,613	1,245,367	1,261,765	1,276,595	1,394,647
Derivatives	62,878	40,592	31,738	24,876	17,360
Deposits from customers	1,022,267	753,855	829,336	941,967	1,008,487
Subordinated debt	30,289	34,216	33,400	32,896	51,085
Other liabilities	NA	NA	NA	NA	NA
Total liabilities	**2,689,849**	**2,393,865**	**2,491,199**	**2,625,373**	**2,835,913**
Ordinary equity	126,824	128,264	136,375	141,593	142,249
Equity hybrids	0	0	0	0	0
Minority interests	3	4	6	11	12
Total liabilities and equity	**2,816,676**	**2,522,133**	**2,627,580**	**2,766,977**	**2,978,174**
Core tier 1/Common equity tier 1 capital	98,084	100,535	115,240	115,753	118,810
Income statement summary (SEK m)					
Net interest income	27,244	27,740	27,943	29,766	31,286
Net fee & commission income	8,556	9,320	9,156	9,718	10,247
Net trading income	1,471	1,401	1,330	1,271	909
Other income	743	675	630	357	308
Operating income	**38,014**	**39,136**	**39,059**	**41,112**	**42,750**
Operating expense	17,318	18,219	17,737	19,210	21,053
Pre-provision income	**20,696**	**20,917**	**21,322**	**21,902**	**21,697**
Credit and other financial impairments	1,781	1,597	1,724	1,683	882
Other impairments	9	17	1	9	4
Non-recurring items	0	35	700	-239	-167
Pre-tax profit	**19,212**	**20,475**	**20,633**	**21,025**	**22,013**
Discontinued operations	41	145	13	0	0
Other after-tax Items	0	0	0	0	0
Income tax expense	4,069	4,277	4,401	4,923	4,656
Net profit attributable to minority interests	1	1	1	3	3
Net profit attributable to parent	**15,183**	**16,342**	**16,244**	**16,099**	**17,354**

Source: SNL

III. Ratios – Svenska Handelsbanken AB

	2014Y	2015Y	2016Y	2017Y	2018Y
Funding and liquidity					
Net loans/ Deposits (%)	176.6%	247.4%	236.7%	219.3%	217.1%
Liquidity coverage ratio (%)	140.4%	137.1%	125.8%	139.1%	145.9%
Net stable funding ratio (%)	NA	100.0%	102.0%	102.0%	104.0%
Asset mix, quality and growth					
Net loans/ Assets (%)	64.2%	74.0%	74.7%	74.7%	73.5%
Problem Loans/ Gross Customer Loans (%)	0.5%	0.5%	0.4%	0.4%	0.4%
Loan Loss Reserves/ Problem Loans (%)	47.2%	54.5%	59.9%	64.9%	49.2%
Net loan growth (%)	6.6%	3.2%	5.2%	5.2%	6.0%
Problem Loans/ Tangible Equity & Reserves (%)	7.1%	7.1%	5.9%	5.8%	5.7%
Asset growth (%)	13.4%	-10.5%	4.2%	5.3%	7.6%
Earnings and profitability					
Net interest margin (%)	1.1%	1.0%	1.0%	1.1%	1.1%
Net interest income/ Average RWAs (%)	5.6%	5.8%	6.0%	6.0%	5.5%
Net interest income/ Operating income (%)	71.7%	70.9%	71.5%	72.4%	73.2%
Net fees & commissions/ Operating income (%)	22.5%	23.8%	23.4%	23.6%	24.0%
Cost/ Income ratio (%)	45.6%	46.6%	45.4%	46.7%	49.2%
Operating expenses/ Average RWAs (%)	3.6%	3.8%	3.8%	3.9%	3.7%
Pre-impairment operating profit/ Average RWAs (%)	4.3%	4.3%	4.6%	4.4%	3.8%
Impairment on financial assets / Pre-impairment income (%)	0.1%	0.1%	0.1%	0.1%	0.0%
Loan Loss Provision/ Avg Gross Loans (%)	0.1%	0.1%	0.1%	0.1%	0.0%
Pre-tax profit/ Average RWAs (%)	4.0%	4.3%	4.4%	4.2%	3.9%
Return on average assets (%)	0.6%	0.6%	0.6%	0.6%	0.6%
Return on average RWAs (%)	3.1%	3.4%	3.5%	3.2%	3.1%
Return on average equity (%)	13.1%	13.0%	12.5%	11.8%	12.6%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	20.4%	21.2%	25.1%	22.7%	16.8%
Common equity tier 1 ratio (%, transitional)	20.4%	21.2%	25.1%	22.7%	16.8%
Tier 1 capital ratio (%, transitional)	22.1%	23.8%	27.9%	25.0%	18.6%
Total capital ratio (%, transitional)	25.6%	27.2%	31.4%	28.3%	21.0%
Leverage ratio (%)	3.7%	4.3%	4.8%	4.6%	4.4%
Asset risk intensity (RWAs/ Total assets, %)	17.1%	18.8%	17.5%	18.4%	23.8%
Market indicators					
Price/book (x)	2.0x	1.8x	1.9x	1.7x	1.5x
Price/tangible book (x)	0.7x	0.7x	0.6x	0.9x	0.6x
Dividend payout ratio (%)	74.4%	71.5%	60.2%	91.5%	62.2%

Source: Scope Ratings

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