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Ratings

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Svenska Handelsbanken AB

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Svenska Handelsbanken AB

Ratings Score Snapshot

Global Scale Ratings
Issuer Credit Rating
AA-/Stable/A-1+
Resolution Counterparty Rating
AA-/--/A-1+

SACP: a+ → **Support: +1** → **Additional factors: 0**

Anchor	a-	
Business position	Strong	+1
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
AA-/Stable/A-1+
Resolution counterparty rating
AA-/A-1+

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths	Key risks
Conservative strategy and stable business model, reflected in sound profitability and strong asset quality.	High concentration in the Nordic and U.K. real estate sector.
Solid market position in household and corporate lending and deposits in Sweden.	High share of wholesale funding, leading to high sensitivity to market confidence.
Robust risk-adjusted capitalization (RAC).	Declining business volumes at its U.K. subsidiary.

Continued net interest income (NII) tailwind will support earnings growth despite a challenging macroeconomic environment. We project net operating income of SEK25-28 billion (€2.2-2.5 billion) in 2023-2025, compared with SEK21.5 billion in 2022. This incorporates significantly higher net interest margins compared to 2022, which we expect will only partially be offset by higher running costs, including rising cost of risk, and high development spending. Assuming yearly dividends of approximately 60% of net income, this will support organic capital growth and a RAC ratio of 12.5%-13.5% through 2025, compared with 12.2% as of Dec. 31, 2022.

We expect higher interest rates will result in moderate upward pressure on asset quality metrics. We project Handelsbanken's nonperforming assets (NPA) ratio will increase towards 0.35%-0.40%, from 0.26% as of March 31, 2023, because of tighter financial conditions for households and corporates. While interest coverage ratios among real estate companies have lowered in tandem with rapidly rising financing costs, operating performance in the domestic market has so far proven resilient. Handelsbanken's track record of conservative underwriting and low loan-to-value ratios would, in a downside scenario, be mitigating factors, in our view.

Handelsbanken's reshaped service model and enhanced focus on core business will support operating efficiency and absorb ramped-up development spending. While we expect Handelsbanken's updated service model will require enhanced IT and development spending, its narrowed focus on core markets and reduced branch network in Sweden and the U.K. provides a good basis for further efficiency gains from already strong levels. Underpinned by robust earnings we project cost-to-income in the range of 37%-39% in 2023-2025, compared to 38.5% as of first-quarter 2023.

Handelsbanken is reducing its Nordic footprint. After finalizing the sale of its Danish business to Jyske Bank A/S in fourth-quarter 2022, on May 31, 2023, Handelsbanken announced it has agreed to sell its Finnish retail, small and midsize enterprise (SME), and insurance business (accounting for approximately 30% of loans and 50% of risk-weighted assets in its Finnish portfolio) to a consortium of Finnish institutions. The deal, which is pending regulatory approval, is expected to close in the second half of 2024, with the divestment process of its remaining Finnish operation (large corporates and property management customers) ongoing.

Handelsbanken's broad market access, in particular the domestic covered bond market, will ensure funding stability and mitigate its comparatively higher share of short-term funding in our view. Handelsbanken has over the past three years grown its deposit base, accounting for around 45% of total funding as of March 31, 2023, compared with 39% five years ago. Still, this is somewhat lower than Nordic peers and reflective of Handelsbanken's broader funding profile, which includes extensive use of covered bond issuance (20% the funding base) but also a greater reliance on other short-term funding sources (20%). Moreover, we project that the bank will continue issuing subordinated debt instruments to meet its minimum requirement for own funds and eligible liabilities (MREL) by first-quarter 2024. We therefore expect Handelsbanken will maintain an additional loss absorbing capacity (ALAC) ratio comfortably above our 3% threshold. As of March 31, 2023, the ALAC ratio was estimated at 5.2% of S&P risk-weighted assets (RWA) as per year-end 2022.

Outlook

Our stable outlook indicates that Handelsbanken's well-established business model and strategic measures will translate into sound profitability and operating efficiency over the next two years, despite a more challenging operating environment. We expect the bank will preserve its strong capitalization and asset quality, supported by our view of Handelsbanken's projected RAC ratio exceeding 10% and its low-risk business model in its core markets.

In addition, we believe that Handelsbanken will continue issuing senior nonpreferred instruments to meet the MREL by 2024. As a result, we anticipate the bank's ALAC will sustainably exceed our 3% threshold for a one-notch uplift.

Downside scenario

We could take a negative rating action if, contrary to our expectation, Handelsbanken's issuance of ALAC-eligible instruments amounts to less than 3% of our calculated RWAs.

Upside scenario

We consider a positive rating action on Handelsbanken unlikely, given that our ratings on the bank are now among the highest of those on rated commercial banks globally. Moreover, we do not see Handelsbanken as a positive outlier compared with these banks.

Key Metrics

Svenska Handelsbanken AB--Key ratios and forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2021a**	**2022a**	**2023f**	**2024f**	**2025f**
Growth in operating revenue	-3.0	14.6	19.3-23.6	0.6-0.7	(0.3)-(0.4)
Growth in customer loans	-4.9	7.1	1.8-2.2	3.6-4.4	4.5-5.5
Growth in total assets	6.7	3.2	(2.9)-(3.6)	2.5-3.1	3.2-3.9
Net interest income/average earning assets (NIM)	1.2	1.5	1.8-1.9	1.7-1.9	1.6-1.8
Cost to income ratio	46.1	42.8	36.1-37.9	36.9-38.8	37.8-39.7
Return on average common equity	11.1	11.4	13.1-14.5	12.8-14.1	11.9-13.1
Return on assets	0.6	0.7	0.8-0.9	0.8-0.9	0.7-0.9
New loan loss provisions/average customer loans	0.0	0.0	0.0-0.1	0.0-0.1	0.0-0.1
Gross nonperforming assets/customer loans	0.2	0.2	0.3-0.3	0.3-0.4	0.3-0.3
Net charge-offs/average customer loans	0.0	0.0	0.0-0.0	0.0-0.0	0.0-0.0
Risk-adjusted capital ratio	12.4	12.2	12.3-13.0	12.7-13.4	12.9-13.6

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'a-', Reflecting Blended Economic Risks In Core Markets And Industry Risk In Sweden

Under our bank criteria, we use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor. The anchor for Handelsbanken is 'a-', in line with the anchor used for banks based in Sweden. Given Handelsbanken's geographic footprint, our blended score is based on Handelsbanken's disclosed loan balances, which reflects both the underlying risks to the bank and its available sources of revenues.

Our assessments for both economic and industry risk trends for its home markets of Sweden, U.K., Norway, and the Netherlands remain stable.

We expect the Swedish economy to fall into recession in 2023 and contract by 0.8% on account of eroding household purchasing power, weaker global demand, and an unfavorable investment climate. However, we also expect the economy to remain wealthy, with strong public finances that can provide support if deemed necessary. While we currently view the economic risk trend as stable, we continue to monitor developments within the household sector, where house prices have declined from their March 2022 peak by about 13%. The increased cost-of-living crisis coupled with an increased interest burden could have repercussions for the corporate sector in Sweden given lower levels of consumption and activity. Labor markets for now appear robust and are supportive for debt serviceability.

Our view of industry risk in Sweden reflects a regulatory environment in line with other EU countries. In addition to deep debt capital markets, a well-functioning domestic covered bond market and a history of liquidity support in times of need mitigate structural reliance on wholesale funding. Furthermore, we view the stability, sound profitability, and lack of complexity in the banking sector as strengths. The sector's good operating efficiency is backed by banks' advanced level of digitalization. As a result, we see the industry risk trend as stable.

Business Position: Leading Domestic Franchise Based On A Longstanding Business Model

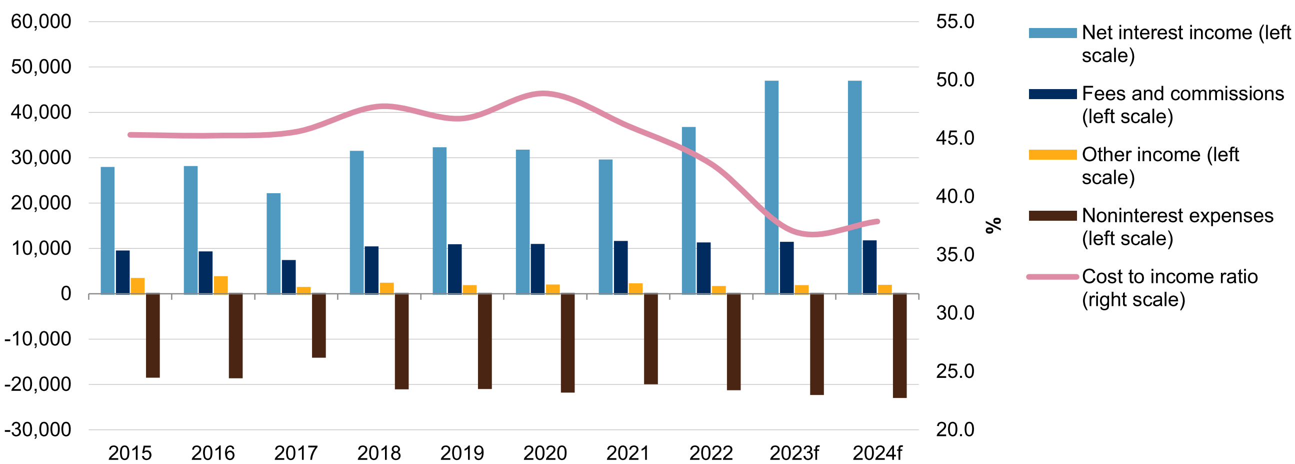
With total assets of SEK3.6 trillion (€319.4 billion) as of first quarter 2023, Handelsbanken's business position reflects its scale and pricing power as the leader of Swedish retail and commercial banking, which has resulted in a track record of earnings stability and high operating efficiency. It also reflects our view of its longstanding strategy based on a decentralized business model and a set of unique core principles; no bonuses, no budgets, no central marketing, and no targets for market share or sales.

Handelsbanken generates around three quarters of operating income in the domestic Swedish market where the bank maintains significant market shares in lending and deposits (20.2% and 19.4%, respectively). The product offering is complemented by its expanding asset management operation, with reported assets under management of SEK971 billion (€86 billion), where the bank holds a market share of 12.3% in net savings in Swedish mutual funds. Remaining income is generated internationally, in the U.K., Norway, and the Netherlands, with a focus on more affluent private customers, property companies, and other owner-led companies.

Underpinned by net interest income tailwind, we project Handelsbanken will continue to generate robust earnings despite a challenging macroeconomic backdrop. Following a strategic overhaul in recent years, resulting in a narrowed international focus and significantly reduced branches in Sweden and the U.K., we believe the bank is well positioned to maintain its strong operating efficiency (with cost-to-income of 39% as of first-quarter 2023). However, as communicated by the bank, we expect the updated service model to require continuous investments in the bank's digital capabilities, which will elevate IT spending over the forthcoming years.

Chart 1

NII will continue to lead earnings growth in 2023f-2024



f--Forecast. Source: S&P Global Ratings.

As of May 31, 2023, the bank announced it has agreed to sell its Finnish retail, SME, and life insurance operations to a consortium of Finnish institutions (consisting of S-Bank PLC (S-Bank; BBB/Positive/A-2), Oma Savings Bank PLC (OmaSp; BBB+/Stable/A-2), and Fennia Insurance Group). The sale--comprising loans of SEK4.1 billion and deposits of SEK2.8 billion--is not expected to close until the second half of 2024, subject to regulatory approval. The bank finalized the sale of its Danish operations to Jyske Bank (Jyske; A/Stable/A-1) in fourth-quarter 2022 and the divestment of its remaining Finnish portfolio of large corporates and property management customers remains ongoing.

One of Handelsbanken's key challenges, in our view, remains returning to growth in the U.K. market where business volume growth has remained persistently slow. With the branch restructuring and internal projects related to anti-money laundering now closed, we believe the bank has the right pre-requisites to focus on expanding the business, although the operating condition may continue to prove challenging over the near to medium-term.

Capital And Earnings: Strong Capital Position Supported By Robust Earnings

We expect Handelsbanken's robust earnings generation and strong capital position will remain a rating strength over the next two years. This is reflected in our view that the RAC ratio will be 12.5%-13.5% through 2025, compared with 12.2% as of year-end 2022. We continue to view Handelsbanken as having good quality of capital because only 9% of our total adjusted capital comprises additional tier 1 (AT1) hybrid capital instruments.

Our forecast assumptions for 2023-2025 include:

- Net interest margins to continue to lead revenue growth and peak in 2023, before moderating to still high levels in 2024-2025.
- A deceleration of loan growth to 1%-2% in 2023 before gradually rebounding to 3%-5% in 2024-2025, as sticky inflation and high borrowing cost will weigh on borrowers' credit demand.
- While we remain mindful that potential financial market volatility could impair revenue from asset management, we project slightly increasing fee and commission income, supported by our expectation of continuously strong inflow into Handelsbanken's mutual funds and relatively resilient lending and payment fees;
- In line with the bank's communication that it will maintain higher development spending, we forecast operating expenses to grow by approximately 12% in 2023, before reverting to single digits at the lower end in 2024-2025, resulting in cost-to-income of 37%-39%;
- We anticipate that a weakening financial position of borrowers will drive a higher provisioning need of approximately five basis points (bps) through 2025, from negligible levels over the past three years. Still well below S&P Global Ratings' estimate of normalized losses;
- Net operating profits in the range of SEK25-28 billion, from SEK21.5 billion in 2022.
- We assume the bank will distribute dividends of approximately 60% of net income through 2025, resulting in subsequent organic capital growth of SEK10-11 billion annually.

Our view of Handelsbanken's strong capital is also supported by its regulatory capital ratios. As of March 31, 2023, the bank reported a common equity tier 1 (CET1) ratio of 19.4%, down from 19.6% at year-end 2022. As such, Handelsbanken demonstrates a strong buffer of 400 bps above its regulatory requirement, including the announced but not yet implemented raise of the countercyclical buffer requirement to 1.9% from 1.1%, its internal target range of 100-300 bps.

Risk Position: Conservative Underwriting Principles Based On Collateral And Cash-flow Generation

We consider Handelsbanken's lending book of SEK2.3 trillion (€203.5 billion) as of March 31, 2023, to represent a low-risk and well-collateralized portfolio, but the bank's focus on property lending exposes it to adverse market conditions and potential volatility in the Nordic and U.K. real estate segments.

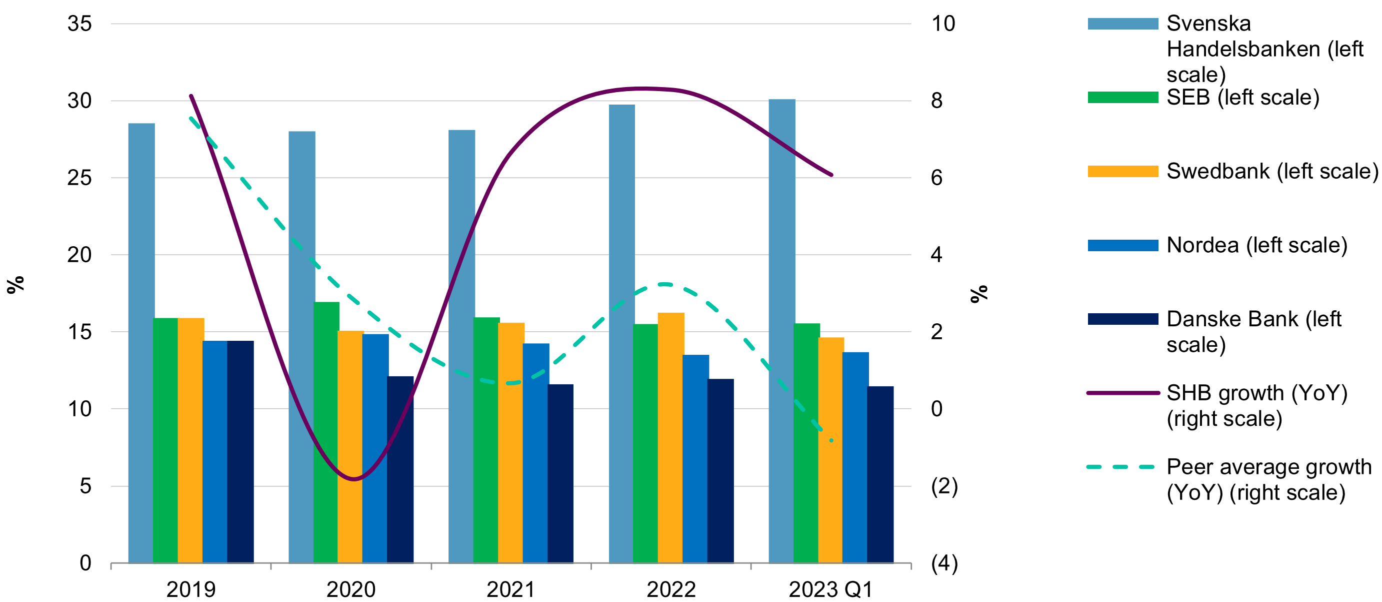
Handelsbanken's longstanding business model--based on strict underwriting principles at the group-level and local proximity to customers at the branch level--has translated into an exceptional loan loss record. The bank's niche towards retail mortgages and property management customers results in a higher share of collateralized lending (approximately 90% of total loans as of first-quarter 2023) vis-à-vis Nordic peers.

The loan book is equally split between private individuals (49% of gross loans) and corporate entities (51%), with the latter predominantly comprising property management customers (30% of gross loans) and tenant-owner associations (12%). With over 80% of retail mortgages and approximately two thirds of total lending volumes in the domestic market, Handelsbanken is mainly exposed to Swedish trends and developments, but also has sizeable corporate exposures in its other home markets, mainly the U.K. and Norway.

Chart 2

Handelsbanken has greater real estate exposure than Nordic peers

Property management as % of total lending



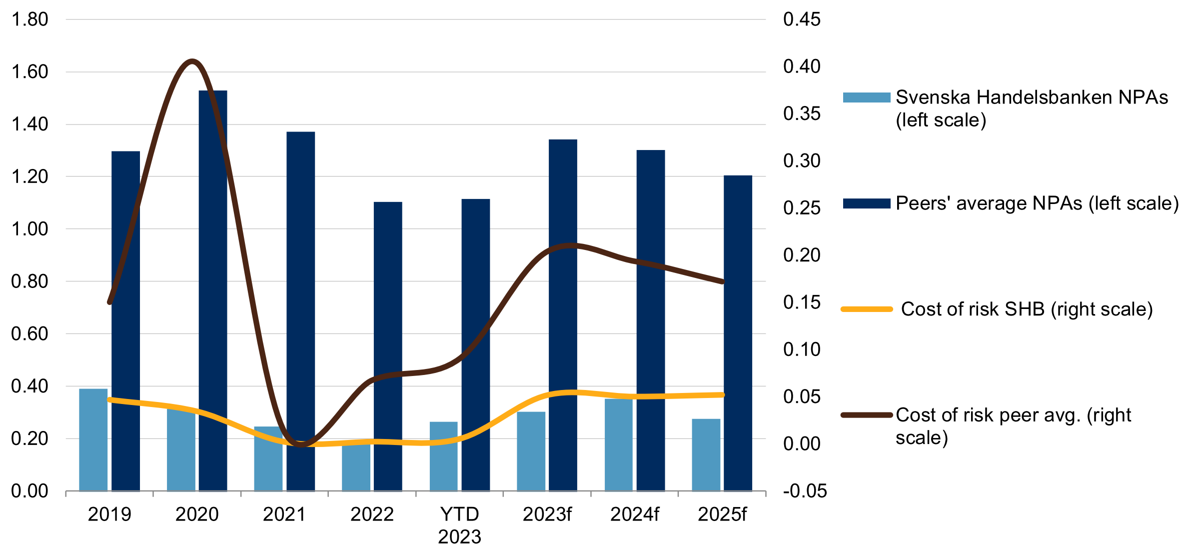
Q1--First quarter. YoY--Year-on-year. Source: S&P Global Ratings.

While financing conditions have significantly tightened and effectively lowered interest coverage ratios among commercial real estate companies, operating performance in the Swedish CRE market--accounting for 45% of Handelsbanken's exposure to the property sector--has so far remained largely resilient. The segment as a whole has adjusted rents with inflation and compensated for a higher cost burden. That said, we expect financing pressures in the sector to further intensify with upcoming maturities over 2023-2024 and remain mindful of rising vacancy rates. Handelsbanken's conservative LTV ratios, with average LTV of 44% for residential and 48% for commercial property, and its focus on cash-flow generating commercial property and multifamily dwellings would, in a downside scenario, be mitigating factors, in our view.

While our base case anticipates that the repayment capacity of Handelsbanken's customer base will remain resilient, we expect tighter financial conditions for households and corporates will result in moderate upside pressure on its ratio of nonperforming assets, which we expect will rise towards 0.35%-0.40% of gross loans (compared with 0.26% as of first-quarter 2023). In our view, SMEs and retailers (including retail property) are the most vulnerable segments and where we expect to see increased pressure. Broader property market turbulence beyond our base case, for example, driven by rising vacancies or sharper devaluations, is likely to result in larger stage 3 migrations and higher provisioning needs than we currently project.

Chart 3

Handelsbanken's asset quality metrics and loan losses outperform peers'
Gross nonperforming asset ratio and new loan loss provisions to total loans



f--Forecast. NPL--Nonperforming loan. YTD--Year till date. Peers include: Danske Bank, DNB, Nordea Bank, OP Financial group, Royal Bank of Canada, SEB, Swedbank. Source: S&P Global Ratings.

Funding And Liquidity: Benchmark Covered Bond Issuer With Broad Capital Market Access

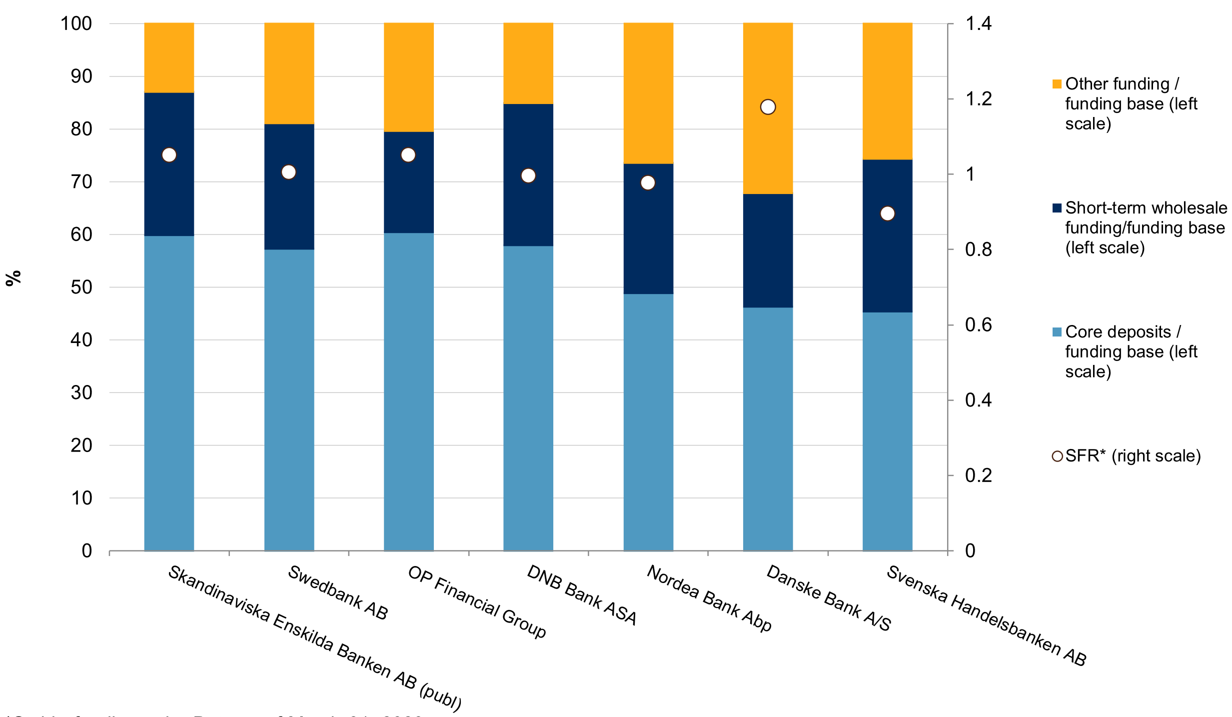
Our view of Handelsbanken's funding profile balances its diversified funding mix, substantial pre-funding of long-term debt, and undisputed access to the Swedish covered bond market as a benchmark issuer, with its comparatively greater use of shorter dated wholesale funding. While we see this as partly mitigated by the bank's cash-flow matching and structural pre-funding of longer dated debt, this results in weaker S&P Global Ratings funding and liquidity metrics vis-à-vis Nordic peers. As of March 31, 2023, the stable funding ratio stood at 89.5% (compared with 87.3% as of year-end 2022) and our one-year liquidity metric (broad liquid assets to short-term wholesale funding) stood at 0.84x (from 0.77x). At the same time Handelsbanken demonstrates stable regulatory ratios, with a regulatory liquidity coverage ratio (LCR) and a net stable funding ratio of 151% and 115%, respectively, comfortably above the regulatory minimum.

Despite tightened financial conditions for corporates and households, Handelsbanken's customer deposits in core markets have so far remained resilient and on March 31, 2023 was reported at broadly the same level as in first quarter 2022. Core customer deposits (of which 33% is covered under the deposit insurance scheme) make up around 45% of the funding base, in line with its historical range since 2020 but still lower relative to larger Nordic peers (average of 55%).

Handelsbanken generally makes extensive use of the covered bond market, which accounted for 41% of total wholesale funding as of first-quarter 2023. Remaining funding need is predominantly sourced through issuance of commercial paper and certificates of deposits (41% of wholesale funding) and issuance of long-term senior debt (13%).

Chart 4

Funding composition compared to Nordic peers



*Stable funding ratio. Data as of March 31, 2023.

As of March 31, 2023, the bank had a liquidity position of SEK765 billion (compared to SEK676 billion as of year-end 2022), consisting of cash and reserves at the central bank and liquid securities, which after haircuts represented approximately 56% of customer deposits and 22% of total assets. Moreover, in line with larger domestic peers, the bank holds vast contingent liquidity amounting to SEK2.5 trillion (€226 billion) as of March 31, 2023. This is mainly in the form of mortgage and other loans eligible as collateral for covered bonds and for central bank funding, which we do not incorporate in our liquidity metrics.

We expect Handelsbanken's funding and liquidity metrics will remain stable despite tighter competition for deposits and potential volatility in capital markets. This incorporates our expectation of a functioning domestic covered bond market, amid more stressful overall markets, and that Handelsbanken will maintain broad and diverse access to a variety of funding sources in international markets.

Support: One Notch Of Rating Uplift For ALAC

We incorporate one notch of ALAC uplift in Handelsbanken's issuer credit rating since we expect the bank will maintain a sufficient buffer of bail-inable debt instruments to meet its MREL.

To date, the bank has an outstanding stock of ALAC-eligible debt, consisting of senior nonpreferred (SNP) notes and Tier 2 instruments of about SEK71 billion (€6.3 billion). Hence, we estimate its ALAC buffer to equal 5.2% of RWAs at year-end 2022, comfortably above our 3% threshold for a one-notch uplift.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We see ESG credit factors for Handelsbanken as broadly in line with those of the industry and country peers.

Handelsbanken is committed to responsible and sustainable lending and financing and is involved in numerous initiatives and collaborations to promote the transition. In first-quarter 2023, the bank issued its first green covered bond of €1 billion, reaching a total outstanding volume of green bonds of €2.75 billion. Business volumes linked to sustainability continued to increase, with green loans increasing by 91% year-on-year to SEK70 billion (€6.2 billion). The bank has developed sustainable asset-management strategies within its fund offerings, with a vast majority of funds in Handelsbanken Fonder categorized as funds that promote environmental or social characteristics.

Handelsbanken is mainly exposed to environmental risk through its lending and securities portfolios. The bias toward retail lending limits these transition risks to some extent, but considering large exposure to real estate mortgages, extreme events, and the market's preference for energy-efficient housing could cause declining asset values, hurting credit quality.

In addition to a deep local entrenchment in the Swedish economy, the bank has not experienced any large-scale misselling cases with retail clients. It has strengthened its controls in terms of know-your-customer checks, anti-financial-crime controls, and compliance processes following a 2015 finding from the Swedish regulator. Similarly, comments from the U.K. regulator on Handelsbanken's branch in U.K. in 2017 led to increased investment in compliance and financial crime control processes to ensure the bank upholds the strong reputation underpinning its brand value. We observe an outstanding track record in terms of customer satisfaction in Handelsbanken's operations in the Nordics and the U.K.

Group Structure, Rated Subsidiaries, And Hybrids

Core subsidiaries: Stadshypotek AB and Handelsbanken PLC We equalize our ratings on the core subsidiaries Stadshypotek AB (AA-/Stable/A-1+) and Handelsbanken PLC (AA-/Stable/A-1+) with those on Handelsbanken according to our group methodology.

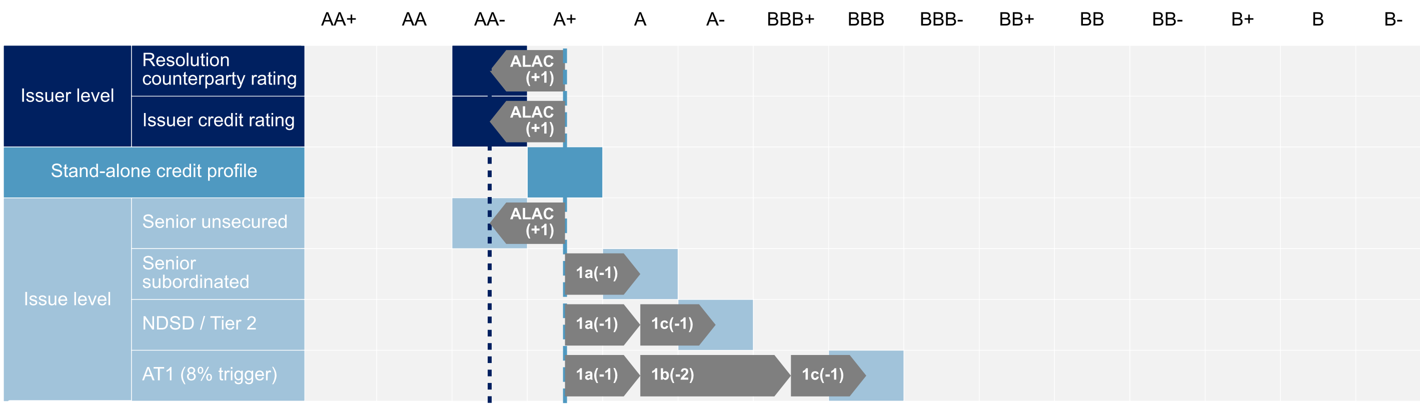
Stadshypotek is Handelsbanken's institute for qualifying Nordic mortgages and covered bond issuance. It is an integral part of the group and serves an important role in covered bond funding for Handelsbanken, underpinning our view of Stadshypotek's core status.

We believe that U.K.-based Handelsbanken PLC remains an integral part of Handelsbanken's overall business strategy, and therefore benefits from material ongoing and extraordinary support from senior group management in good times and under stressful conditions. This is underpinned by the ongoing funding agreement, the contingency funding agreement (which provides short-term liquidity), and a letter of intent offering potential capital support. We consider that Handelsbanken PLC is closely linked to the group's reputation, brand, and risk management, which supports its core group status.

After doubling net earnings in 2022, the U.K. business continued to improve in first-quarter 2023, with operating profits reported at £118.4 million, up by 12% quarter-on-quarter, driven primarily by a wider net interest margin. After growing by 5% in 2022, deposit volumes started to taper off in first quarter, especially on the household side, where we noted a 5% decline quarter-on-quarter. Although continued deposit outflow could weigh on funding costs going forward, we generally expect the bank to fare well in the current interest rate environment. That said, loan growth remains persistently slow and lending volumes contracted by 2% in first quarter 2023 after shrinking by 4% in 2022. This follows a period of stagnating customer volumes over the past few years, not least due to internal projects--restructuring of the branch network and the anti-money laundering (AML) project.

Ratings on hybrid instruments We rate Handelsbanken's hybrid debt instrument according to their respective features.

Svenska Handelsbanken AB: Notching



Key to notching

- - - Stand-alone credit profile

- - - - Issuer credit rating

ALAC Additional loss-absorbing capacity buffer

1a Contractual subordination

1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital

1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on March 2, 2022.

AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

Resolution Counterparty Ratings (RCRs)

The 'AA-/A-1+' resolution counterparty ratings (RCR) reflect our RCR jurisdiction assessment on Sweden, and our review of its relevance for Handelsbanken. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution.

Key Statistics

Table 1

Svenska Handelsbanken AB--Key figures

	--Fiscal year ended Dec. 31--				
(Mil. SEK)	**March 2023**	**2022**	**2021**	**2020**	**2019**
Adjusted assets	3,368,840.0	3,232,329.0	3,102,681.0	2,926,735.0	2,878,559.0
Customer loans (gross)	2,294,895.0	2,305,355.0	2,151,722.0	2,261,443.0	2,286,733.0
Adjusted common equity	166,822.3	152,117.3	145,292.7	139,186.8	138,616.9
Operating revenues	14,986.0	49,191.0	42,939.0	44,248.0	44,509.0
Noninterest expenses	5,775.0	21,047.0	19,774.0	21,613.0	20,784.0
Core earnings	7,151.5	22,424.4	18,695.6	16,918.8	17,611.4

SEK--Sweden krona.

Table 2

Svenska Handelsbanken AB--Business position

	--Fiscale year ended Dec. 31--				
(Mil. SEK)	**March 2023**	**2022**	**2021**	**2020**	**2019**
Loan market share in country of domicile	20.4	20.2	20.2	20.4	20.7
Deposit market share in country of domicile	19.4	19.3	19.2	19.3	19.8
Total revenues from business line (currency in millions)	15,225.0	50,554.0	44,056.0	44,250.0	44,584.0
Commercial and retail banking/total revenues from business line	75.4	72.4	66.7	71.4	72.1
Trading and sales income/total revenues from business line	4.0	2.2	3.9	2.3	1.2
Corporate finance/total revenues from business line	0.7	0.4	0.5	0.5	0.6
Brokerage/total revenues from business line	0.4	0.5	0.8	0.9	0.9
Insurance activities/total revenues from business line	1.1	1.6	1.8	2.2	2.0
Payments and settlements/total revenues from business line	2.6	3.4	3.4	3.8	4.5
Asset management/total revenues from business line	10.4	12.6	15.3	12.2	11.3
Other revenues/total revenues from business line	5.4	7.0	7.6	6.6	7.4
Investment banking/total revenues from business line	4.6	2.6	4.4	2.8	1.8
Return on average common equity	14.3	11.4	11.1	9.4	11.2

SEK--Sweden krona.

Table 3

Svenska Handelsbanken AB--Capital and earnings

	--Fiscale year ended Dec. 31--				
(Mil. SEK)	**March 2023**	**2022**	**2021**	**2020**	**2019**
Tier 1 capital ratio	21.3	21.5	21.1	21.9	20.7
S&P Global Ratings’ RAC ratio before diversification	N/A	12.2	12.4	12.5	11.9
S&P Global Ratings’ RAC ratio after diversification	N/A	11.6	12.0	12.2	11.6
Adjusted common equity/total adjusted capital	100.0	90.7	91.5	92.0	89.8
Double leverage	49.6	45.8	49.9	51.1	55.1
Net interest income/operating revenues	76.6	74.4	68.4	71.4	72.2
Fee income/operating revenues	18.5	22.6	26.7	24.4	24.0
Market-sensitive income/operating revenues	4.4	3.2	4.1	3.5	3.0
Cost to income ratio	38.5	42.8	46.1	48.8	46.7
Preprovision operating income/average assets	1.0	0.8	0.7	0.7	0.8
Core earnings/average managed assets	0.8	0.7	0.6	0.5	0.6

RAC--Risk adjusted capital. SEK--Sweden Krona. N/A--Not applicable.

Table 4

Svenska Handelsbanken AB--S&P Global Risk-adjusted capital framework data

(Mil. SEK)	**EAD(1)**	**Basel III RWA (2)**	**Average Basel III RW (%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Government and central banks	711,822.1	8,900.4	1.3	6,144.0	0.9
Of which regional governments and local authorities	24,339.5	1,648.7	6.8	773.2	3.2
Institutions and CCPs	46,572.8	11,877.1	25.5	6,675.6	14.3

Table 4

Svenska Handelsbanken AB--S&P Global Risk-adjusted capital framework data (cont.)					
Corporate	1,010,867.4	296,605.3	29.3	733,126.7	72.5
Retail	1,618,960.8	354,414.6	21.9	407,605.4	25.2
Of which mortgage	1,561,345.5	335,783.8	21.5	377,679.8	24.2
Securitization (3)	0.0	0.0	0.0	0.0	0.0
Other assets(4)	21,759.9	11,047.7	50.8	19,806.8	91.0
Of which deferred tax assets	0.0	--	--	0.0	0.0
Of which amount of over (-) or under (+) capitalization of insurance subsidiaries	0.0	--	--	0.0	0.0
Total credit risk	3,409,983.1	682,845.2	20.0	1,173,358.5	34.4
Total credit valuation adjustment	--	2,800.0	--	0.0	--
Equity in the banking book	7,273.4	18,192.8	250.1	63,642.2	875.0
Trading book market risk	--	34,650.0	--	51,975.0	--
Total market risk	--	52,842.8	--	115,617.2	--
Total operational risk	--	71,650.6	--	83,359.3	--
RWA before diversification	--	810,138.5	--	1,372,335.0	100.0
Single name(On Corporate Portfolio) (5)	--	--	--	18,317.1	2.5
Sector(On Corporate Portfolio)	--	--	--	11,844.2	1.6
Geographic	--	--	--	74,289.4	5.9
Business and risk type	--	--	--	-32,437.7	-2.2
Total diversification/ Concentration adjustments	--	--	--	72,013.0	5.2
RWA after diversification	--	810,138.5	--	1,444,348.0	105.2

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings' RAC ratio (%)
Capital ratio before adjustments	174,134.0	21.5	167,700.0	12.2
Capital ratio after adjustments (6)	174,134.0	21.5	167,700.0	11.6

Footnotes: (1) EAD--Exposure at default (2) RWA--Risk-weighted assets (3) Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework (4) Other assets inlcudes Deferred Tax Assets (DTAs) not deducted from ACE (5) For Public-Sector Funding Agencies, the single name adjustment is calculated on the regional government and local authorities portfolio (6) For Tier 1 ratio, adjustments are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons) (7) RAC--Risk adjusted capital (8) SEK--Sweden krona

Table 5

Svenska Handelsbanken AB--Risk position					
	--Fiscale year ended Dec. 31--				
(Mil. SEK)	March 2023	2022	2021	2020	2019
Growth in customer loans	-0.5	7.1	-4.9	-1.1	4.7
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	5.3	3.1	2.2	3.3
Total managed assets/adjusted common equity (x)	21.6	22.7	23.0	22.5	22.1
New loan loss provisions/average customer loans	0.0	0.0	0.0	0.0	0.0
Net charge-offs/average customer loans	0.0	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	0.3	0.2	0.2	0.3	0.4
Loan loss reserves/gross nonperforming assets	41.8	43.8	42.7	49.4	51.7

N/A--Not applicable. RWA--Risk-weighted assets. SEK--Sweden krona.

Svenska Handelsbanken AB--Funding and liquidity

Table 6

	--Fiscale year ended Dec. 31--				
(Mil. SEK)	**March 2023**	**2022**	**2021**	**2020**	**2019**
Core deposits/funding base	46.9	45.4	46.7	45.5	41.7
Customer loans (net)/customer deposits	159.8	174.7	168.0	184.6	205.5
Long-term funding ratio	72.6	73.0	74.1	72.6	73.0
Stable funding ratio	89.5	87.3	81.4	89.1	87.3
Short-term wholesale funding/funding base	28.9	28.9	27.7	29.2	28.7
Regulatory net stable funding ratio	115.0	114.0	114.0	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	0.8	0.8	0.6	0.8	0.7
Broad liquid assets/total assets	20.7	18.6	13.2	18.9	16.2
Broad liquid assets/customer deposits	52.0	48.7	34.4	48.4	44.7
Net broad liquid assets/short-term customer deposits	-46.8	-147.2	-624.4	-416.2	-785.7
Regulatory liquidity coverage ratio (LCR) (x)	156.0	159.0	149.0	N/A	N/A
Short-term wholesale funding/total wholesale funding	54.5	52.5	51.5	53.0	48.7
Narrow liquid assets/3-month wholesale funding (x)	4.4	4.9	4.6	5.4	3.5

SEK--Sweden Krona. N/A--Not applicable.

Svenska Handelsbanken AB--Rating component scores

Issuer credit rating	**AA-/Stable/A-1+**
SACP	a+
Anchor	a-
Economic risk	2
Industry risk	3
Business position	Strong
Capital and earnings	Strong
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+1
ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022

- Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings , June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology , July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment Update: June 2023, June 30, 2023
- European Banks' Asset Quality: Tougher Times Ahead Require Extra Caution, April 20, 2023
- Credit Conditions Europe Q2 2023: Costs Rising To Cure Inflation, March 28, 2023
- European Banks Can Weather The Market Turmoil, March 21, 2023
- Svenska Handelsbanken AB, Dec. 16, 2022
- Swedish Banks Can Weather A Housing Market Correction; BICRA Group Remains '2', Nov. 10, 2022
- Banking Industry Country Risk Assessment: Sweden, Dec. 2, 2021

Ratings Detail (As Of July 13, 2023)*		
Svenska Handelsbanken AB		
Issuer Credit Rating		AA-/Stable/A-1+
Resolution Counterparty Rating		AA-/--/A-1+
Commercial Paper		A-1+
Junior Subordinated		BBB
Senior Subordinated		A
Senior Unsecured		AA-
Short-Term Debt		A-1+
Subordinated		A-
Issuer Credit Ratings History		
29-Mar-2017	*Foreign Currency*	AA-/Stable/A-1+
25-Sep-2013		AA-/Negative/A-1+
19-Jul-2013		AA-/Watch Neg/A-1+
29-Mar-2017	*Local Currency*	AA-/Stable/A-1+
25-Sep-2013		AA-/Negative/A-1+
19-Jul-2013		AA-/Watch Neg/A-1+
Sovereign Rating		
Sweden		AAA/Stable/A-1+

Ratings Detail (As Of July 13, 2023)*(cont.)	
Related Entities	
Handelsbanken PLC	
Issuer Credit Rating	AA-/Stable/A-1+
Resolution Counterparty Rating	AA-/--/A-1+
Stadshypotek AB	
Issuer Credit Rating	AA-/Stable/A-1+
Nordic Regional Scale	--/--/K-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	A-1+
Nordic Regional Scale	K-1
Senior Unsecured	AA-
Short-Term Debt	A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.