

Svenska Handelsbanken AB (publ)

March 3, 2025

This report does not constitute a rating action.

Ratings Score Snapshot

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.

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Credit Highlights

Overview

Key strengths

Conservative strategy and stable business model, reflected in sound profitability and exceptional asset quality.

Solid market position in household and corporate lending and deposits in Sweden.

Robust risk-adjusted capitalization (RAC).

Key risks

High concentration in the Nordic and U.K. real estate sectors.

High reliance on short-term wholesale funding.

Growth challenges at its U.K. subsidiary.

Recovering volume growth and steadily increasing fee and commission income to partly offset a decline in net interest margin.

We forecast Svenska Handelsbanken AB (Handelsbanken) will generate net operating income of Swedish krona (SEK) 21 billion-SEK23 billion (€1.8 billion-€2.0 billion) over 2025-2027, compared with SEK27.5 billion (€2.4 billion) in 2024. While this is a decline from the cyclical highs Handelsbanken has seen in recent years, we project profitability to remain sound, with return on average equity of 11%-13% (13.5% in 2024). This incorporates a gradual rebound in loan growth--anticipated to reach 2%-3% a year in 2027, compared with largely flat loan growth in 2024--on the back of the expected recovery in Sweden (see "Sweden's Economic Comeback Supports A Stable Banking Industry; BICRA Group Remains '2'," published Feb. 19, 2025, on RatingsDirect). In our view, this expansion in lending volume, continued inflow into Handelsbanken Fonder, and momentum in fee and commission income generation, will help ease the pressure from a narrowing net interest margin.

Renewed cost focus will boost bottom line over the next two years. Handelsbanken undertook several measures in 2024 to bring down costs and enhance internal efficiency. The efforts, including merging central functions of Handelsbanken Sweden into the group and reducing overlapping structures, resulted in a 5% decline in its workforce (including external resources) and a 4% reduction in other expenses. We expect Handelsbanken to continue to prioritise strict cost control over the next two years and therefore we forecast growth in operating expenses will be contained to 2% a year on average over 2025-2027. This translates into a solid, albeit increasing, cost-to-income ratio of 44%-46%, compared with 40.4% in 2024.

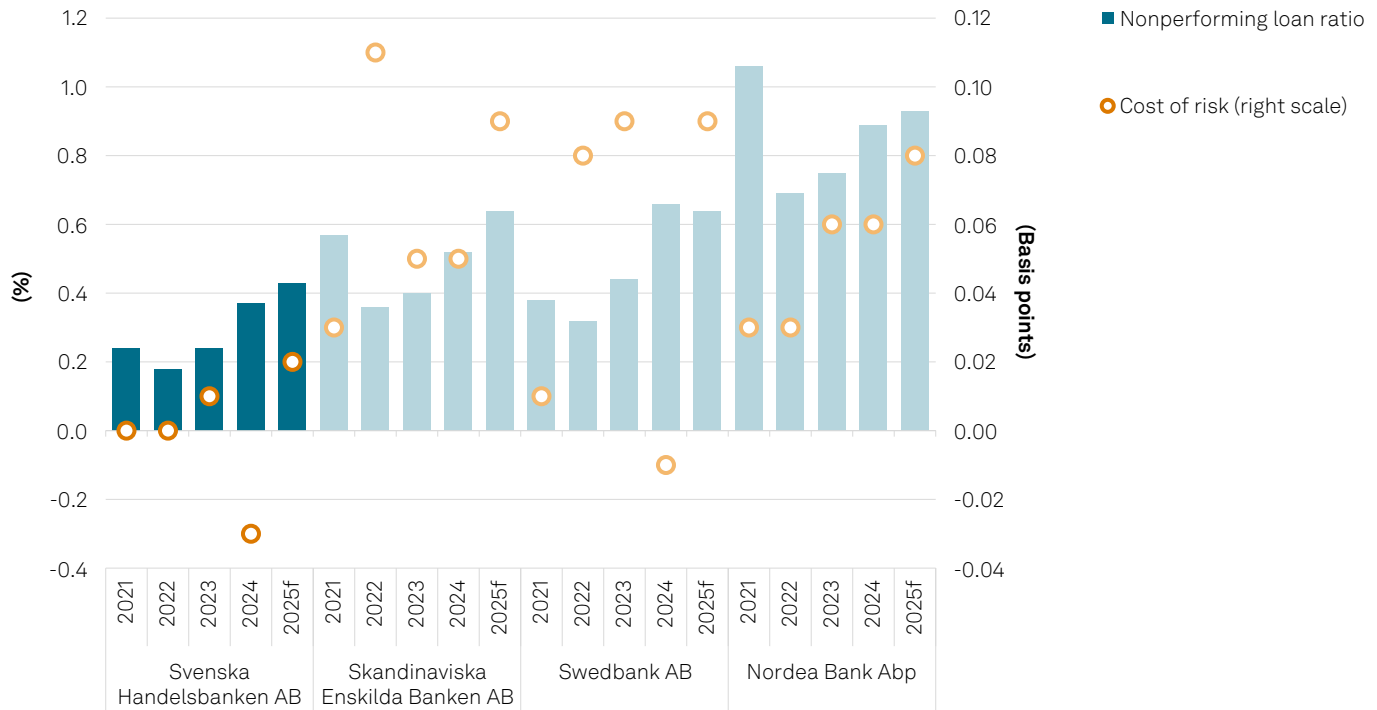
The strategic transformation has reduced complexity and investment needs but also

Handelsbanken's geographic diversification. Handelsbanken narrowed its branch network and geographic distribution through the strategic streamlining of its operations, which started in 2020. After divesting its Danish operations in 2022, the bank completed the sale of its retail, small and midsize enterprises, and insurance business in Finland in 2024. In our view, the strategic decisions have led to leaner operations, and reduced regulatory complexity and long-term investment needs, but also lowered the bank's geographic diversification by assets and revenue compared with pan-Nordic and large European peers. In 2024, Handelsbanken generated close to three quarters of pre-tax profit in the domestic Swedish market, where the bank maintains significant shares in lending and deposits (19.8% and 18.9%, respectively). Handelsbanken generates its remaining income from international operations in the U.K., Norway, and the Netherlands, focusing on more affluent private customers, property companies, and other owner-led companies.

We expect Handelsbanken's conservative underwriting and prudent risk management to continue to result in lower-than-peer credit losses.

In our base case, we project nonperforming assets (stage 3 loans) to remain contained at 0.35%-0.45% over 2025-2027, compared with 0.37% as of Dec. 31, 2024. We therefore foresee a limited provisioning need of 1 basis point-3 basis points (bps) a year over the forecast horizon. Our view is underpinned by Handelsbanken's focus on collateralized lending (more than 90% of total loans), active portfolio management, and unparalleled loan loss track record.

Handelsbanken's Asset Quality Compares Favourably To That Of Peers



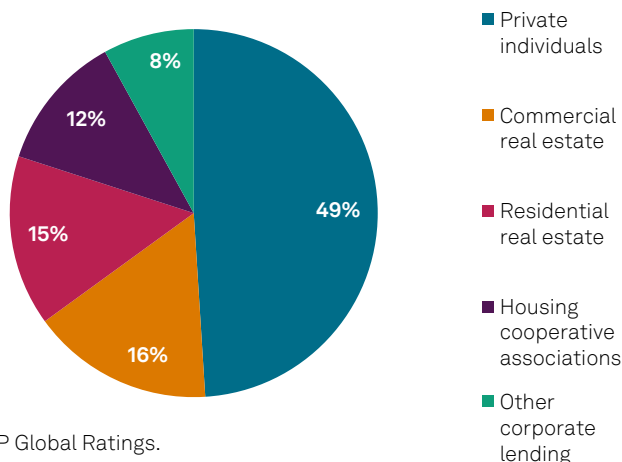
f--Forecast. Source: S&P Global Ratings.

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We also expect improving real wages and easing financing conditions to continue to lessen pressure on borrowers over the next two years. Still muted economic activity and high geopolitical uncertainty continue to pose downside risks. Segments more vulnerable and reliant on the anticipated economic recovery are, in our view, small and midsize enterprises, and commercial real estate (CRE) companies with balance sheet restructuring needs. While the Swedish CRE sector (accounting for 7% of Handelsbanken's loan book) has benefited from declining interest rates and regained firmer funding access, vacancy levels indicate medium-term challenges persist. In a downside scenario, we see Handelsbanken's long track record of lending to the sector, demonstrated conservatism in underwriting, and low loan-to-value ratios in its CRE portfolio (averaging 48.4% as of year-end 2024) as mitigating factors.

Handelsbanken's Loan Book Is Heavily Skewed Towards Property Lending

Share of total loans, Dec. 31, 2024



Source: S&P Global Ratings.

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Handelsbanken to maintain robust capitalization and additional loss-absorbing capacity. We project Handelsbanken's risk-adjusted capital (RAC) ratio at 12.0%-13.0% over the next two years, compared with an estimated 12.2% as of year-end 2024, assuming annual capital distribution of 70%-80% of net profit. As of Dec. 31, 2024, Handelsbanken's regulatory common equity Tier 1 ratio stood at 18.9%, including proposed ordinary and special dividends equivalent to 108% of its net earnings in 2024. This is about 400 bps above the regulatory requirement and in excess of the bank's long-term target of 100 bps-300 bps. Over the next two years, in the absence of adverse developments, we expect the bank to gradually steer its capitalization into the targeted range. We project Handelsbanken to continue issuing subordinated debt and maintain its additional loss absorbing capacity (ALAC) buffer--at 8.2% of our estimated S&P risk-weighted assets as of year-end 2024--sufficiently above our 3% threshold for ALAC uplift.

Broad market access, especially to domestic covered bonds, ensures funding stability and mitigates the high share of short-term funding. Deposit volumes were largely stable in 2024, up by a mere 1%, underpinned by household deposits that grew by 4%. In line with the market trend, Handelsbanken has, over the past five years expanded its deposit base, accounting for around 44% of total funding as of Dec. 31, 2024, from 38% in 2019. Still, this figure is lower than the levels recorded by larger Swedish peers (close to 60%) and reflective of Handelsbanken's broader funding profile. This includes extensive use of covered bond issuances (23% of funding base), and a greater reliance on shorter-dated market instruments--notably its U.S. commercial paper program that accounted for 21% of the funding base as of Dec. 31, 2024. This, in our view, is partly mitigated by the bank's cash-flow matching, high-quality liquid buffers, and access to contingent liquidity, thanks to a large share of unencumbered assets eligible for the cover pool and repurchase agreements.

Outlook

The stable outlook reflects our expectation that Handelsbanken will maintain sound profitability and strong capitalization over the next two years, despite a challenging macroeconomic picture in its home markets. Owing to its resilient revenues, high operating efficiency, and financial flexibility, we believe Handelsbanken can absorb credit losses substantially beyond our base-

case expectation--while keeping its RAC ratio comfortably above 10%. In addition, we anticipate that Handelsbanken will sustain ALAC above our 3% threshold for a one-notch rating uplift.

Downside scenario

We could take a negative rating action if, contrary to our expectations, the operating environment in Handelsbanken's home markets deteriorates materially beyond our expectations, weakening the bank's asset quality, performance, or capitalization.

Upside scenario

We consider an upgrade unlikely, given that our ratings on the bank are now among the highest for rated commercial banks globally. We also do not see Handelsbanken as a positive outlier compared with these banks.

Key Metrics

Svenska Handelsbanken AB (publ)--Key ratios and forecasts

(%)	2023a	2024a	2025f	2026f	2027f
Growth in operating revenue	26.5	0.2	(7.5)-(9.1)	(2.5)-(3.1)	2.2-2.7
Growth in customer loans	(1.2)	0.2	1.8-2.2	2.7-3.3	2.7-3.3
Growth in total assets	2.4	0.0	0.8-1.0	1.4-1.7	1.8-2.2
Net interest income/average earning assets (NIM)	1.9	1.8	1.6-1.7	1.5-1.6	1.5-1.6
Cost-to-income ratio	37.2	40.4	43.0-45.2	45.1-47.4	44.9-47.2
Return on average common equity	14.5	13.2	11.0-12.2	10.7-11.9	10.7-11.8
Return on assets	0.9	0.8	0.6-0.8	0.6-0.7	0.6-0.7
New loan loss provisions/average customer loans	0.0	0.0	0.0-0.0	0.0-0.0	0.0-0.0
Gross nonperforming assets/customer loans	0.2	0.4	0.4-0.5	0.4-0.4	0.3-0.4
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	12.5	12.2	12.0-13.0	12.0-13.0	12.0-13.0

All figures include S&P Global Ratings' adjustments. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Environmental, Social, And Governance

ESG factors are a neutral consideration in our credit rating analysis of Handelsbanken. This reflects our view that ESG considerations do not have a material bearing on the bank's creditworthiness.

Handelsbanken is committed to responsible and sustainable lending and financing and is involved in numerous initiatives and collaborations to promote the transition. In 2024, the volume of green and sustainability-linked loans increased by 39% to SEK267 billion (€23.3 billion or 12% of loan portfolio). Additionally, the bank has developed sustainable asset management strategies within fund offerings, with 96% of funds in Handelsbanken Fonder reported in the highest categories (articles 8 and 9) under the Sustainable Finance Disclosures Regulation.

Handelsbanken is mainly exposed to environmental risks via its lending and securities portfolios, although its bias for retail lending limits these transition risks to some extent.

However, the bank's large exposure to real estate mortgages, extreme events, and the market's preference for energy-efficient housing could push down asset value and hurt credit quality.

In addition to its deep entrenchment in the local economy, Handelsbanken has not experienced any large-scale cases of misselling to retail clients. It strengthened its know-your-customer checks, financial crime control measures, and compliance processes following a 2015 finding from the Swedish regulator. Similarly, comments from the U.K. regulator on a Handelsbanken's branch 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 a strong track record 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, in line with our group methodology.

Stadshypotek is Handelsbanken's institute for qualifying Nordic mortgages and covered bond issuances. 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.

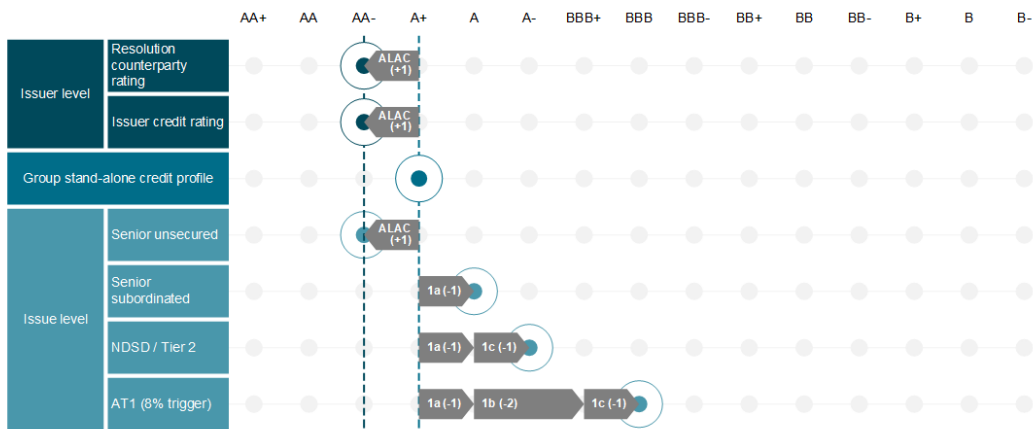
We believe that U.K.-based Handelsbanken PLC remains an integral part of Handelsbanken's overall business strategy, and therefore benefits from material ongoing and extraordinary support from senior group management at all times. This is underpinned by an ongoing funding agreement, a contingency funding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

With a deposit surplus and ample deposit margin, Handelsbanken PLC's profitability has improved markedly over the past two years. The bank has, at the same time, continued to struggle with declining loan volumes. While we continue to see potential for Handelsbanken PLC to expand its targeted niche base of affluent retail customers and property companies over time, we expect the saturated U.K. market to remain challenging. Notably, in fourth-quarter 2024, the U.K. business recorded lending growth for the first time in close to five years. (Please see "Handelsbanken PLC" published Oct. 18, 2024.)

Ratings on hybrid instruments

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

Svenska Handelsbanken AB: Notching



Key to notching

- Issuer credit rating
- Group stand-alone credit profile
- RC Resolution counterparty liabilities (senior secured debt)
- 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 Feb. 10, 2025.
 AT1-Additional Tier 1. NDSD-Non-deferrable subordinated debt. NVCC-nonviability contingent capital.
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Resolution Counterparty Ratings (RCRs)

The 'AA-/A-1+' resolution counterparty ratings (RCR) reflect our jurisdiction assessment on Sweden and our review of its relevance for Handelsbanken. RCR present 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

Svenska Handelsbanken AB Key Figures

Mil. SEK	2024	2023	2022	2021	2020
Adjusted assets	3,242,763	3,284,305	3,232,329	3,102,681	2,926,735
Customer loans (gross)	2,281,510	2,276,799	2,305,355	2,151,722	2,261,443
Adjusted common equity	151,026	151,508	152,117	145,293	139,187
Operating revenues	62,345	62,250	49,191	42,939	44,248
Noninterest expenses	25,209	23,182	21,047	19,774	21,613
Core earnings	29,392	30,197	22,424	18,696	16,919

SEK--Swedish krona.

Svenska Handelsbanken AB Business Position

(%)	2024	2023	2022	2021	2020
Loan market share in country of domicile	19.8	20	20.2	20.2	20.4
Deposit market share in country of domicile	18.9	19.1	19.3	19.2	19.3
Total revenues from business line (currency in millions)	62,592	63,479	50,554	44,056	44,250
Commercial & retail banking/total revenues from business line	74.8	75.0	72.4	66.7	71.4
Trading and sales income/total revenues from business line	5.0	4.2	2.2	3.9	2.3
Corporate finance/total revenues from business line	0.3	0.4	0.4	0.5	0.5
Brokerage/total revenues from business line	0.2	0.3	0.5	0.8	0.9
Insurance activities/total revenues from business line	1.2	1.1	1.6	1.8	2.2
Agency services/total revenues from business line	-	-	-	-	-
Payments and settlements/total revenues from business line	2.9	2.8	3.4	3.4	3.8
Asset management/total revenues from business line	11.4	10.3	12.6	15.3	12.2
Other revenues/total revenues from business line	4.1	6.1	7.0	7.6	6.6
Investment banking/total revenues from business line	5.3	4.6	2.6	4.4	2.9
Return on average common equity	13.2	14.5	11.4	11.1	9.4

Svenska Handelsbanken AB Capital And Earnings

(%)	2024	2023	2022	2021	2020
Tier 1 capital ratio	20.2	20.6	21.5	21.1	21.9
S&P Global Ratings RAC ratio before diversification	N/A	12.5	12.2	12.4	12.5
Adjusted common equity/total adjusted capital	93.2	91.0	90.7	91.5	92.0
Net interest income/operating revenues	75.1	76.4	74.4	68.5	71.4
Fee income/operating revenues	18.8	17.9	22.6	26.7	24.4
Market-sensitive income/operating revenues	5.0	4.3	3.2	4.1	3.5
Cost to income ratio	40.4	37.2	42.8	46.1	48.9
Provision operating income/average assets	1.1	1.1	0.8	0.7	0.7
Core earnings/average managed assets	0.8	0.9	0.7	0.6	0.6

Svenska Handelsbanken AB--Risk-adjusted capital framework data

(Mil. SEK)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government & central banks	777,435.0	9,332.0	1.0	8,115.0	1.0
Of which regional governments and local authorities	21,659.0	1,460.0	7.0	688.0	3.0
Institutions and CCPs	55,691.0	13,249.0	24.0	7,649.0	14.0
Corporate	963,192.0	332,740.0	35.0	697,237.0	72.0
Retail	1,572,429.0	350,310.0	22.0	394,953.0	25.0
Of which mortgage	1,527,803.0	330,417.0	22.0	369,122.0	24.0
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	13,741.0	11,619.0	85.0	12,509.0	91.0
Total credit risk	3,382,487.0	717,250.0	21.0	1,120,463.0	33.0

Svenska Handelsbanken AB--Risk-adjusted capital framework data

(Mil. SEK)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Credit valuation adjustment					
Total credit valuation adjustment	--	2,463.0	--	0.0	--
Market Risk					
Equity in the banking book	7,412.0	18,428.0	249.0	64,857.0	875.0
Trading book market risk	--	23,475.0	--	35,213.0	--
Total market risk	--	41,903.0	--	100,070.0	--
Operational risk					
Total operational risk	--	75,200.0	--	109,760.0	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings' RWA	% of S&P Global Ratings' RWA
Diversification adjustments					
RWA before diversification	--	836,815.0	--	1,330,292.0	100.0
Total Diversification/ Concentration Adjustments	--	--	--	42,084.0	3.0
RWA after diversification	--	836,815.0	--	1,372,376.0	103.0
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings' RAC ratio (%)
Capital ratio before adjustments	--	172,603.0	20.6	166,534.0	12.5
Capital ratio after adjustments‡	--	172,603.0	20.6	166,534.0	12.1

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. SEK -- Sweden Krona. Sources: Company data as of 'Dec. 31 2023', S&P Global Ratings.

Svenska Handelsbanken AB Risk Position

(%)	2024	2023	2022	2021	2020
Growth in customer loans	0.2	(1.2)	7.1	(4.9)	(1.1)
Total diversification adjustment/S&P Global Ratings RWA before diversification	3.16	3.16	5.25	3.05	2.24
Total managed assets/adjusted common equity (x)	23.4	23.4	22.7	23.0	22.5
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	0.4	0.2	0.2	0.2	0.3
Loan loss reserves/gross nonperforming assets	18.9	43.2	43.8	42.7	49.4

Svenska Handelsbanken AB Funding And Liquidity

(%)	2024	2023	2022	2021	2020
Core deposits/funding base	44.1	44.13	45.4	46.7	45.5
Customer loans (net)/customer deposits	173.9	175.2	174.7	168.0	184.6
Long-term funding ratio	74.1	73.1	73.0	74.1	72.6
Stable funding ratio	96.9	90.5	87.3	81.4	89.1

Svenska Handelsbanken AB Funding And Liquidity

Short-term wholesale funding/funding base	27.7	28.9	28.9	27.7	29.2
Regulatory net stable funding ratio	124.0	120.0	114.0	114.0	--
Broad liquid assets/short-term wholesale funding (x)	1.0	0.9	0.8	0.6	0.8
Broad liquid assets/total assets	22.3	21.0	18.6	13.2	18.9
Broad liquid assets/customer deposits	60.3	57.1	48.7	34.5	48.4
Net broad liquid assets/short-term customer deposits	(12.9)	(36.9)	(147.2)	(624.4)	(416.2)
Regulatory liquidity coverage ratio (LCR) (x)	207.0	210.0	163.0	152.0	158.0
Short-term wholesale funding/total wholesale funding	49.3	51.2	52.5	51.5	53.0
Narrow liquid assets/3-month wholesale funding (x)	6.1	6.5	4.9	4.6	5.4

Rating Component Scores

SACP	a+
Anchor	a-
Business Position	Strong (+1 notch)
Capital and Earnings	Strong (+1 notch)
Risk Position	Adequate (no impact)
Funding and Liquidity	Adequate/Adequate (no impact)
Current Credit Rating	
Foreign Currency Issuer Credit Rating	AA-/Stable/A-1+
Local Currency Issuer Credit Rating	AA-/Stable/A-1+

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, 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 Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Sweden's Economic Comeback Supports A Stable Banking Industry; BICRA Group Remains '2', Feb. 19, 2025
- Banking Industry Country Risk Assessment Update: January 2025, Jan. 30, 2025
- Nordic Banking Outlook 2025: Ample Resilience Amid Lingering Uncertainty, Jan. 24, 2025
- European Banks Will Pull Multiple Levers To Protect Operating Performance In 2025-2026, Nov. 25, 2024
- Svenska Handelsbanken AB, Aug. 23, 2024
- Handelsbanken 'AA-/A-1+' Ratings Affirmed On Solid Performance Despite Ongoing Macroeconomic Challenges; Outlook Stable, March 8, 2024
- Banking Industry Country Risk Assessment: Sweden, Oct. 17, 2023

Ratings Detail (as of February 27, 2025)*

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	<i>Foreign Currency</i>	AA-/Stable/A-1+
25-Sep-2013		AA-/Negative/A-1+
19-Jul-2013		AA-/Watch Neg/A-1+
29-Mar-2017	<i>Local Currency</i>	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+
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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+
<i>Nordic Regional Scale</i>	--/--/K-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	A-1+

Svenska Handelsbanken AB (publ)

Ratings Detail (as of February 27, 2025)*

<i>Nordic Regional Scale</i>	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.

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