Annual Report 2019

Handelsbanken

This is Handelsbanken

Handelsbanken was founded in 1871. The Bank has a nationwide branch network in Sweden, the UK, Norway, Denmark, Finland and the Netherlands. We have a decentralised way of working with a strong local presence and a long-term approach to our customer relations. Our goal is to have better profitability than the average of peer competitors in our home markets. We mainly achieve this goal by having more satisfied customers and lower costs.

Handelsbanken was founded in

1871

More **satisfied customers** than the sector average in all six of our home markets.*

Over **750** branches in our six home markets.

SATISFIED CUSTOMERS IN ALL SIX HOME MARKETS

Every year, EPSI Rating – which includes SKI (Swedish Quality Index) – carries out independent surveys of customer satisfaction. This year's surveys showed that Handelsbanken has more satisfied private and corporate customers than the average for the banking sector in all six of the Bank's home markets.

In addition, the survey shows that Handelsbanken's customers are significantly more loyal than the customers of other competitors, and that they give the Bank's digital services high marks. The fact that digital customer meetings are perceived positively is important for fostering long-term, strong customer relationships, and contributes to reinforcing the Bank's strong position in terms of customer satisfaction.

In Sweden, Handelsbanken has had the most satisfied private customers for 30 years running, according to SKI.*

HANDELSBANKEN'S CREDIT RATING IS TOP OF GLOBAL BANKS

No other bank in the world has a higher rating than Handelsbanken in terms of bank ratings from Fitch, Moody's and Standard & Poor's.

The Bank's newly formed UK subsidiary, Handelsbanken Plc, has been assigned the same high rating as Handelsbanken by Fitch and Standard & Poor's.

CONTINUED ORGANIC GROWTH

Satisfied customers result in more business. Which is why Handelsbanken is a growing bank. In total, the average volume of loans to the public increased by 5 per cent, while the average volume of deposits from the public increased by 6 per cent. Business volumes increased during the year in all six home markets: in the UK, lending grew by 5 per cent and deposits grew by 10 per cent; in Norway, the corresponding increases were 5 and 8 per cent, respectively; and in Denmark, 3 and 5 per cent, respectively. In Finland, lending rose by 4 per cent while deposits grew by 5 per cent, and in the Netherlands, the average volume of lending increased by 14 per cent while the average volume of deposits was up by 18 per cent. But it is not just in our home markets outside Sweden that Handelsbanken is growing.

In Sweden, where Handelsbanken was founded in 1871, 2019 was another year marked by growth and large inflows of new business volumes – in terms of both savings and lending. For the third consecutive year, Handelsbanken was the largest player for new savings on the mutual fund market in Sweden. New savings in the Bank's mutual funds in Sweden amounted to SEK 27 billion, equivalent to a market share of just over 21 per cent, to be viewed in the light of the Bank's share of the total managed volume in the Swedish mutual fund market, of 11.2 per cent. At the same time, Handelsbanken's market share of household deposits in Sweden increased.

* According to EPSI Rating/SKI (Swedish Quality Index). Since SKI surveys started in 1989, Handelsbanken has had the most satisfied private customers among the four major Swedish banks – Handelsbanken, Nordea, SEB and Swedbank.

Highlights of the year

Operating profit fell by 1 per cent to SEK 21,796 million (22,013). Adjusted for foreign exchange effects, non-recurring items and special items, operating profit grew by SEK 55 million.

Return on equity decreased to 11.9 per cent (12.8).

The period's profit after tax declined by 2 per cent to SEK 16,925 million (17,357).

Earnings per share decreased to SEK 8.65 (8.93).

Income grew by 2 per cent to SEK 44,564 million (43,770). Adjusted for foreign exchange effects and non-recurring items, income increased by 3 per cent.

Net interest income rose by 3 per cent to SEK 32,135 million (31,286).

Net fee and commission income rose by 4 per cent to SEK 10,697 million (10,247).

Expenses rose by 4 per cent to SEK -21,743 million (-20,890). Adjusted for foreign exchange effects, non-recurring items and special items, expenses grew by 5 per cent.

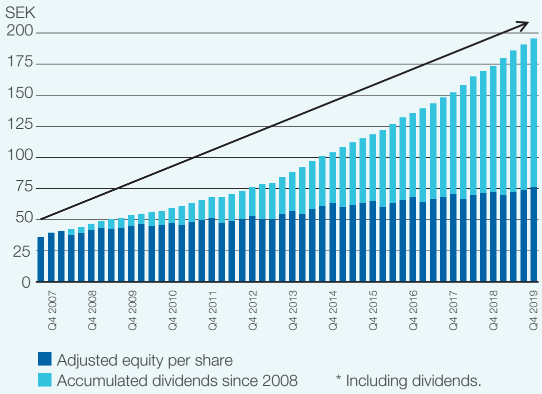
The C/I ratio rose to 48.8 per cent (47.7). Adjusted for foreign exchange effects, non-recurring items and special items, the C/I ratio was 48.3% (47.3).

The credit loss ratio was 0.04 per cent (0.04).

The common equity tier 1 ratio increased to 18.5 per cent (16.8).

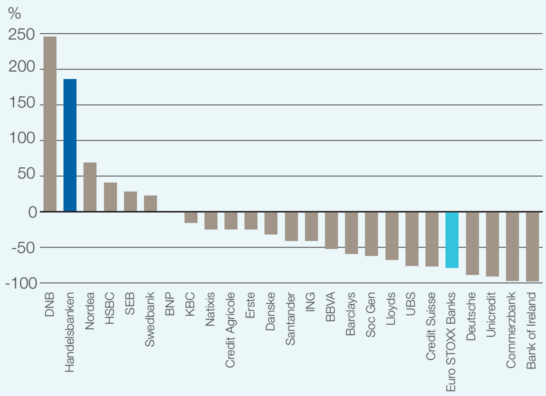
The Board proposes a dividend of SEK 5.50 per share (5.50), and that the existing mandate to repurchase shares is extended for a further year.

Average growth in equity 2007–2019*



* Including dividends.

Total return since the start of the financial crisis 30 June 2007–31 December 2019



Source: SNL, as at 31 December 2019 (dividends reinvested).

Brief information

Handelsbanken's Annual General Meeting 2020

Location: Grand Hôtel, Winter Garden, Stallgatan 4, Stockholm.
Time: Wednesday, 25 March 2020 at 9:30 a.m.

Notice of attendance

Shareholders wishing to attend the AGM must be entered in the register of shareholders kept by Euroclear Sweden AB, by Thursday, 19 March 2020 at the latest. Notice of attendance is to be made to handelsbanken.com/en/about-the-group/annual-general-meeting, telephone +46 8 701 19 84 or to Handelsbanken Group Governance, SE-106 70 Stockholm, Sweden, by Thursday, 19 March 2020 at the latest.

To be entitled to take part in the meeting, shareholders whose shares are nominee-registered must also request a temporary entry in the register of shareholders kept by Euroclear. Shareholder must inform the nominee of this well before Thursday, 19 March 2020, by which date this entry must have been effected.

Dividends

The Board proposes that the record day for the dividend be Friday, 27 March 2020, which means that Handelsbanken's shares will be traded ex-dividend on Thursday, 26 March 2020. If the meeting resolves in accordance with the proposal, Euroclear expects to distribute the dividend on Wednesday, 1 April 2020.

Financial calendar 2020

5 February	Highlights of Handelsbanken's Annual Report 2019
25 March	Annual General Meeting
22 April	Interim report January–March 2020
15 July	Interim report January–June 2020
21 October	Interim report January–September 2020

Financial information

The following reports can be downloaded or ordered from handelsbanken.com/ir:

- annual reports
- interim reports
- risk and capital management reports
- corporate governance reports
- fact books
- sustainability reports.

Distribution

The Annual Report can be ordered from Investor Relations, phone +46 (0)8 701 10 00 or at handelsbanken.com/ir.

Handelsbanken's Sustainability Report 2019

In addition to Handelsbanken's Annual Report 2019, Handelsbanken also publishes a separate Sustainability Report. The Sustainability Report is a separate publication covering activities and results in 2019. The report is prepared in accordance with the 'Core' level of the Global Reporting Initiative (GRI) Standards for sustainability reporting and has been examined by the Bank's external auditors. Handelsbanken reports the Group's sustainability activities annually, and the Sustainability Report provides information about the entire Group, unless otherwise stated.

The report constitutes Handelsbanken's Communication on Progress for the UN Global Compact.

Handelsbanken's statutory sustainability reporting can be found on pages 43 to 61 of this Annual Report. A more detailed report on the Bank's sustainability work and associated results is provided in Handelsbanken's separate Sustainability Report, which is available from handelsbanken.com/en/sustainability.

Contents

Svenska Handelsbanken AB (publ)
Corporate identity number: 502007-7862
Registered office: Stockholm
handelsbanken.com

In a time of change

- Handelsbanken's operating profit for 2019 was SEK 21,796 million, a one per cent decrease compared to the previous year.
- The trend of significantly increasing costs, seen for a number of years, slowed down in 2019. In 2018, expenses grew by 10 per cent, while in the past year the increase was only 4 per cent.
- In the summer of 2019, Handelsbanken started a major project to concentrate operations to the Bank's core business. This entails full focus on profitable products and services for the Bank's core customers.
- The change initially involves costs and in the past year, the profit was burdened with a restructuring cost of SEK 930 million.
- In the long run, however, the change to a more focused, concentrated bank is expected to lead to considerably improved potential for stable profits and growth.
- The Board proposes a dividend of SEK 5.50 per share (5.50).

For me, the 2020s started with skiing on New Year's Day, sparkling snow on the slopes, in the middle of Sweden. But just one hour by car to the south, the ground was bare. Here, not even snow guns could keep the pistes open at the ski resorts. While a snowless winter is definitely not one of humanity's greatest problems, it's a reminder of something that may very well become that: global climate change.

If the 2010s was the decade when more and more people became aware of the issue and started talking about it, I believe that the 2020s will be when we actually take action. This absolutely necessary transition to a society which is more sustainable in the long term will affect everything and everybody, what we do and how we do it. And of course this also applies to Handelsbanken.

Sometimes it's easy to get lost in what's happening at present. Here at Handelsbanken, we have spent the past year working very hard to step up the pace of our digitalisation. The main part of this is in new solutions for customers, new services and interfaces. But there is also integration with external systems and – particularly – new applications to speed up internal processes, business and control systems. A lot is happening, things are moving quickly, and over time there will be a major transition, both internally and for our customers.

At the same time, I don't believe that this transition is what we will remember when looking back at the 2020s. Instead, I hope that the decade ahead will be marked much more by how all of us – our customers, we employees of the Bank and the rest of the world's population – change from wastefulness and a short-term approach to more sustainable solutions for energy, water supply, transport solutions and more.

I'm very much of an optimist, both in terms of the wider community and Handelsbanken in particular. In fact, for our Bank, a long-term approach and sustainability are not new. On the contrary, they are very natural parts of our way of working. We have a simple, well-established idea of how to run our bank, with lower costs and more satisfied customers than our competitors.

The foundation of this is our highly decentralised working method, where each branch has a high degree of autonomy, with practically all important business decisions being made locally. Since every branch manager is responsible for their market and financial results, this creates commitment, good administrative order and good control of costs. Decentralisation also leads to strong local commitment, and consequently more satisfied customers. Our customers like meeting the person who makes the decision, someone who knows them well, knows their business and knows the local market.

Over the years, this has proved to be a very effective way of running a bank in terms of resources. The decisions don't have to go through time-consuming roundabout routes, and no more people than necessary are involved, which makes the decisions just that little bit better. Because of this, for a number of years, Handelsbanken has not only had more satisfied customers than the sector average, but also lower credit losses, particularly in times of financial turbulence.

Our zero tolerance of credit losses is not only a question of avoiding unnecessary costs. A personal tragedy often lies behind many credit losses, with major consequences for the individual. Credit losses also tie up large resources, both within and outside the Bank.

We started the 2010s in the aftermath of a global financial crisis, with great strain on the public economy. In Europe, not only banks, but also a couple of countries were at risk of financial collapse. Huge efforts were required both by governments and central banks. One of extremely few banks worldwide that didn't need support, either from central banks or its shareholders, was Handelsbanken.

This is why I think that our approach to granting credits, with a low risk tolerance, is also an important component in our ambition to run a bank that adopts a long-term approach to sustainability. This is also sustainability for us – that in bad times too, Handelsbanken will never be part of the problem. It will be part of the solution.

For many years, we have therefore built up stable finances with significant reserves that provide us with staying power over time, regardless of the market situation. The major rating agencies, independent judges of banks' financial endurance, also rank Handelsbanken as one of the world's strongest banks.

In other words, more satisfied customers, lower credit losses and strong finances that are sustainable in the long term are the actual result of an idea, consistently executed for almost half a century.

The idea that the independent local branch is the Bank, has sometimes been described as a bit old-fashioned – although strikingly often by people who tend to have a somewhat old-fashioned view of what a branch actually does. It doesn't reflect the actual situation.

In fact, Handelsbanken's branches are modern meeting places that support – and also initiate – local business. In many ways, the branch of

today is very different from a branch in the early 2010s. In the years ahead, this development will continue: staffing, skills and work tasks will change ever more rapidly. But with their unique knowledge of customers and the local market, our branches will continue to build long-term, personal customer relationships. I do not believe that personal meetings will ever become a thing of the past.

But various products and services may.

We have previously aimed to be a universal bank, offering all conceivable types of financial solutions to our customers. This ambition has become increasingly demanding of resources at a time when financial services are increasing in number and becoming more complex, while new regulations are making even more extensive demands. An obvious consequence is that trying to be best at everything is a surefire path towards failing to excel at anything. And just as important, let's not forget that there has been extremely little demand for some of our products and services.

So, in summer 2019, we decided to focus completely on the products and services that our customers actually want, with solutions and markets where we have good earnings and an acceptable level of risk, while closing down the parts with low demand, high risk or where we don't have a competitive offering. What remains is our core business, above all in lending and asset management, where we already have very high levels of skills and demand.

And of course our idea of how to run our bank with a decentralised work method remains. Our corporate goal is just as fixed: to attain higher profitability than the average of our competitors, with more satisfied customers and lower costs. Handelsbanken remains Handelsbanken, but just that bit more effective, and more focused on what we are really good at.

At the time we presented this, our costs were developing in a direction that we weren't happy with. So this focus on our core business could be perceived as part of a savings programme. But it isn't – even if all our key figures had been perfect, we would have done the same.

It's not difficult to justify this: in addition to the conditions for long-term, stable earnings, it also frees up resources, so that we can develop the Bank even more quickly.

Not only can more resources be devoted to digitalisation, but we can also concentrate our development efforts to a more streamlined selection of products and services. This gives us more time and more focus for each individual area, which will speed up the development of new solutions and boost the quality of existing ones. This applies particularly to adaptations and improvements using new technical solutions to be developed in the 2020s – which include 5G and artificial intelligence.

But not only are we moving away from products and services with low demand, high risk and poor earnings, we are also rejecting what we consider is not sustainable in the long term for other reasons. One example is our asset management, where in principle all Handelsbanken's funds are managed with what are known as enhanced exclusion criteria. This means that the funds don't invest in companies involved in, for example, arms manufacture, cannabis, tobacco or fossil fuels.

Throughout the Bank we are also working to identify the environmental consequences that our business operations might entail. In 2019, Handelsbanken endorsed the Principles for Responsible Banking (PRB). We are also working with and continue to support other international initiatives for corporate sustainability, such as the 2030 Agenda for Sustainable Development and the Sustainable Development Goals, the United Nations Global Compact and the Principles for Responsible Investment (PRI). We will also continue to expand our reporting in line with international frameworks and emerging standards, such as TCFD.

These are just a few examples among many. But we will need to do more – the 2020s will see all the necessary changes that must be carried out to create a more sustainable society. I believe we will be able to do this, since I think that people basically want to do the right thing.

I also work at a bank whose whole idea is based on that conviction. This is why we work in a decentralised way – if you give people trust and responsibility, they will do their utmost to meet expectations. And quite often exceed them. I see this every day, all around our Bank and I would therefore like to conclude by extending my warmest thanks to all employees of the Bank for the fantastic work you have done in 2019.

I would also like to thank all our shareholders and our customers for the trust you have placed in us. We will do our very best to live up to your expectations, or preferably exceed them.

Stockholm, February 2020

Carina Åkerström, President and Group Chief Executive

Administration report

CONTENTS

Concept

Through a decentralised way of working, digital solutions, stable finances and a low risk tolerance, Handelsbanken builds long-term customer relationships across networks of local branches.

Handelsbanken has well-defined business operations, which are continuously being adapted and developed to meet the expectations, needs and wants of the Bank's core customers.

Goal

Handelsbanken's goal is to have better profitability than the average of comparable competitors in its home markets.

One of the purposes of Handelsbanken's corporate goal is to offer shareholders long-term, high growth in value expressed in increasing earnings per share over a business cycle.

High and sustainable levels of profitability are crucial, not only because this attracts shareholders to invest in the Bank, but also because it makes the Bank an attractive employer, and creates the conditions for growth, a high rating and low funding costs, and for the Bank's lending capacity – meaning the Bank can function smoothly and support our customers' operations, whatever the prevailing business environment.

This goal is mainly to be achieved by having more satisfied customers and lower costs than those of competitors.

Goal achievement

Handelsbanken's goal is to have better profitability than the average of peer competitors in its home markets. This goal is mainly to be achieved by the Bank having more satisfied customers and lower costs than its competitors.

OVERALL GOAL

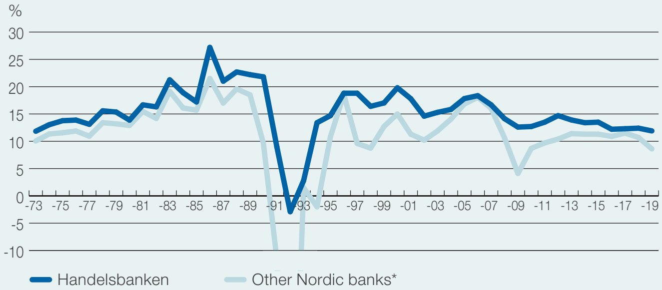
Corporate goal

Handelsbanken's goal is to have better profitability than the average of peer competitors in its home markets.

Goal achievement

Handelsbanken's return on equity was 11.9 per cent (12.8). Adjusted for non-recurring items and for the reversal, during the first quarter, of the preliminary provision for Oktogonen made in 2018, return on equity was 11.9 per cent (12.4). The corresponding figure for a weighted average of other major Nordic banks was 8.6 per cent (10.7). The corresponding figure for a weighted average of all peer competitors in the home markets is estimated at approximately 8.8 per cent (10.6). This means that for the 48th consecutive year, Handelsbanken met its corporate goal.

Return on equity 1973–2019



* Only Swedish banks are included for the period up to and including 2002.

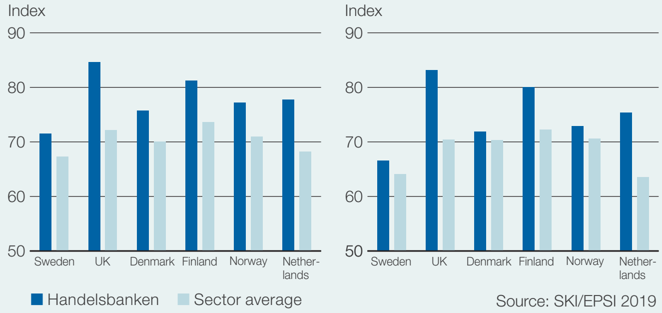
MOST SATISFIED CUSTOMERS

One of the ways in which Handelsbanken will achieve its profitability goal is by having more satisfied customers than its competitors. Quality and service must therefore at least meet customer expectations, and preferably exceed them.

Outcome

Handelsbanken has more satisfied private and corporate customers than the average for the banking sector in all six of the Bank's home markets. In this way, the Bank retains its strong and stable position regarding customer satisfaction. Satisfied customers are proof of the viability of Handelsbanken's method of working.

Customer satisfaction Private customers 2019 / **Customer satisfaction Corporate customers 2019**



Source: SKI/EPSI 2019

MOST COST-EFFECTIVE BANK

The profitability goal will also be achieved by having higher cost-effectiveness than peer competitors.

Outcome

Handelsbanken's costs in relation to income were 48.8 per cent (47.7). The corresponding figure for an average of other major Nordic banks was 53.0 per cent (48.1).

Costs/Income, excluding credit losses, 2002–2019

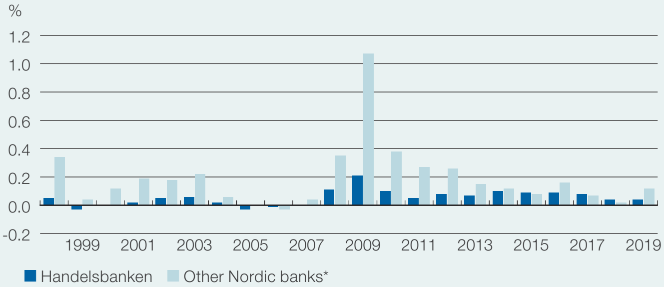
CREDIT QUALITY

Handelsbanken has a low risk tolerance. This means that the quality of credits must never be neglected in favour of achieving higher volume or a higher margin.

Outcome

Credit losses were SEK -1,045 million (-881). Credit losses as a proportion of lending were 0.04 per cent (0.04). For the past 10 years – that is, since 2010 – the Bank's average credit loss ratio has been 0.07 per cent. This can be compared with the average for the other major Nordic banks during the same period: 0.15 per cent.

Credit losses as a percentage of lending, 1998–2019



* Only Swedish banks for the period up to and including 2000.

RATING

Handelsbanken aims to have a high rating with the external rating agencies.

Outcome

No other bank in the world has a higher rating than Handelsbanken in terms of bank ratings from Fitch, Moody's and Standard & Poor's. During the year, Handelsbanken's short-term and long-term senior ratings with the rating agencies which monitor the Bank were unchanged.

Ratings of Nordic banks

	Moody's			Standard & Poor's		Fitch	
31 December 2019	Financial strength (BCA)*	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
Handelsbanken	a2	Aa2	P-1	AA-	A-1+	AA	F1+
Nordea	a3	Aa3	P-1	AA-	A-1+	AA-	F1+
Swedbank	a3	Aa2	P-1	AA-	A-1+	AA-	F1+
SEB	a3	Aa2	P-1	A+	A-1	AA-	F1+
DNB	a3	Aa2	P-1	AA-	A-1+		
Danske Bank	baa2	A2	P-1	A	A-1	A	F1

* Baseline Credit Assessment (BCA) is an indicator of the issuers' standalone intrinsic strength.

Source: SNL.

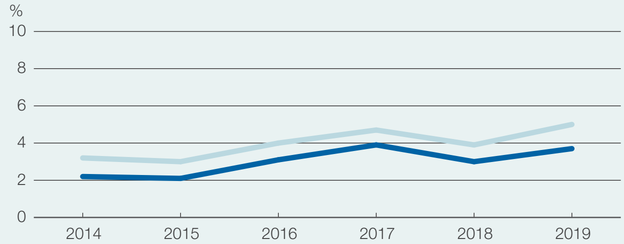
A LONG-TERM PERSPECTIVE

The Bank takes a long-term approach to relationships with customers and employees. It sees each recruitment as important and long term.

Outcome

External staff turnover continued to be low and was 5.0 per cent (3.9) in the Group and 3.7 per cent (3.0) in Sweden.

External staff turnover 2014–2019*



* Proportion of employees who have left the Bank (excluding retirements and deaths) in relation to the average number of employees.

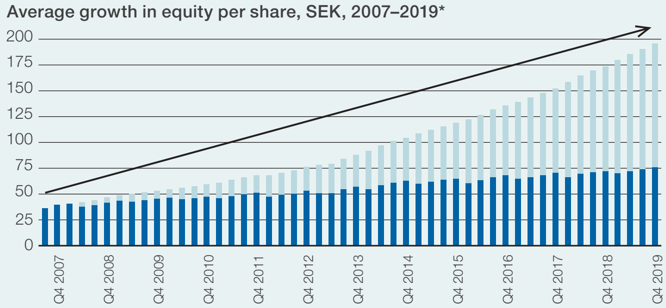
HIGH, STABLE VALUE GROWTH

Growth in equity, including dividends and share repurchases, is a measure of the financial value created.

Outcome

Average growth in equity, including dividends and share repurchases, has been 15 per cent each year for the past twelve years. The low variation between the quarters confirms the Bank's low risk tolerance and is a measure of the stability of the value creation.

Average growth in equity per share, SEK, 2007–2019*



Adjusted equity per share Accumulated dividends since 2008

* Including dividends.

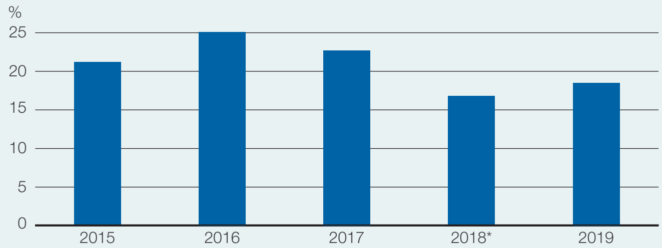
CAPITAL

The Bank's goal is that its common equity tier 1 ratio under normal circumstances should exceed by 1–3 percentage points the common equity tier 1 capital requirement communicated to the Bank by the Swedish Financial Supervisory Authority. Additionally, the Bank must fulfil any other capital requirements set by the regulators.

Outcome

At year-end, the common equity tier 1 ratio was 18.5 per cent (16.8). The Bank estimates that the Swedish Financial Supervisory Authority's common equity tier 1 capital requirement at that time was 15.8 per cent. The Bank's capitalisation was thus within the target range.

Common equity tier 1 ratio, CRD IV 2015–2019



* The common equity tier 1 ratio was affected when the Swedish Financial Supervisory Authority moved the risk weight floor for mortgage loans in Sweden to Pillar 1, at 31 December 2018.

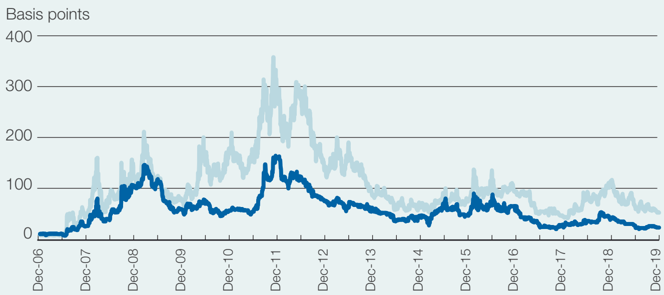
LIQUIDITY AND FUNDING

Handelsbanken must be able to manage for at least 12 months under stressed conditions without borrowing any new funds in the financial markets. Its funding cost must be lower than for peer banks.

Outcome

Handelsbanken's bond issues during the year were SEK 177 billion (247), consisting of SEK 144 billion (161) in covered bonds, SEK 28 billion (70) in senior bonds and SEK 5 billion in perpetual subordinated loans (16 in dated subordinated loans). The Bank has large volumes of liquid funds, mortgage loans and other assets that are not encumbered and therefore represent protection for the Bank's senior lenders. The Bank has a strong liquidity position. Cash funds and liquid assets deposited with central banks amounted to SEK 346 billion (351), while the volume of liquid bonds and other liquid assets totalled SEK 142 billion (176). During 2019 as well, Handelsbanken had lower funding costs than peer banks.

ITRAXX Financials 5-year and Handelsbanken's CDS spread 5-year



ITRAXX Financials 5-year SHB CDS 5-year

Source: Ecowin, Bloomberg.

Our concept

Handelsbanken has a decentralised way of working, digital solutions, stable finances and a low tolerance of risk. Through nationwide branch networks, we attach great significance to our local presence and personal meetings with our customers.

Availability, long-term customer relationships and low risk tolerance are key to us.

A LONG-TERM PERSPECTIVE

Handelsbanken has been conducting banking operations since 1871 and has the oldest listed share on the Stockholm stock exchange. Our goal is to have better profitability than the average of peer competitors on our home markets. The method is to have more satisfied customers and lower costs. In order to achieve the goal, we are constantly evolving and adapting our well-defined business, focusing on the areas where we have expert competence and improving these even further. Our model is particularly suited to customers with stable cash flows who want a long-term relationship with their bank. Just like the Bank, these customers – both private individuals and corporate enterprises – want to have a good, stable financial position over a long time, at low risk.

> "Customer surveys have shown that our customers have chosen us because they trust us and have confidence in the way we do banking."

Our idea of how we should run our bank is based on trust and respect for individuals. We firmly believe that all people can contribute and are convinced that every person wants to do a good job, to take responsibility and to develop. People like to meet other people: to co-operate, to find mutual solutions and to build relationships. For these reasons, we have adapted our organisation and our working methods to suit that our most valuable resource – people. Both employees and customers. This means that our staff are given a high degree of responsibility and authority to make decisions in all kinds of matters relating to customers. This leads to better, quicker decisions close to the customer and helps the Bank to gain more satisfied customers. Decentralisation and local commitment are the foundations of this approach.

Customer surveys have shown that our customers have chosen us because they trust us and have confidence in the way we do banking. A bank's entire business operations are founded on trust, but it is also fundamentally important that we are available, easy to deal with, and show understanding and care when interacting with customers.

Our method of building and running Handelsbanken is based on several different factors.

> "For us, it goes without saying that the customer should be able to do the same type of business with the Bank, regardless of the meeting place."

SATISFIED CUSTOMERS

Important business decisions should be made as close to the customer as possible. The fact that our customers are always able to meet the person who will make the decision is an ideal starting point for productive customer meetings, and results in better decisions and more satisfied customers. The customer's trust is built up over the long term, but is won and nurtured at every meeting. Therefore, meetings with customers are key to Handelsbanken's operations. To help customers in the best possible manner, the branches are supported by the Bank's Group units, business areas and regional head offices.

Availability

We want to be available to our customers, and this is a major component in Handelsbanken's method of banking. Our customers appreciate the fact that we are local, that we know them and the local market, and that we make our business decisions there, locally, together with the customer. But our customers also expect to be able to do their banking when and where they please.

By complementing our local presence with digital solutions, we aim to always offer personal customer meetings – regardless of whether the customer meets us at one of our local branches or seeks our assistance via our digital channels.

In the majority of the Bank's home markets, we offer our customers personal technical support 24 hours a day. When their branch is closed, our customers in Sweden can also receive personal service by phone in any of 20 different languages. Personal service by phone is also offered outside of office hours in other home markets.

Simplicity

Our customer relationships are often initiated at the local branch, but in most cases continue more in the digital sphere. For us, it goes without saying that the customer should be able to do the same type of business with the Bank, regardless of the meeting place. That is why we are constantly developing and improving the Bank's digital solutions, so that customers can move freely between our meeting places and do their banking business when and where it suits them best.

> "The development of our meeting places is dictated by the needs and desires of our customers."

Care

The development of our meeting places is dictated by the needs and desires of our customers. Our task is to make it simple for customers to access our services, and to offer advice and assistance that is characterised by care and attention to detail. That's why we always focus on the needs of the customer, while finding effective solutions to everyday matters.

Decentralised decisions

Handelsbanken's decentralised way of working means that the local branches always assume the responsibility for customers, regardless of how, where and when the customer comes into contact with the Bank.

The branches' independence enables them to have a very strong local presence, leading to long-term customer relationships. Short decision paths make it possible to adapt more quickly to changes in local markets and make the most of new business opportunities.

> "The branches' independence enables them to have a very strong local presence, leading to long-term customer relationships."

Skilled staff

The Bank takes a long-term approach to relationships with customers and employees. It sees each recruitment as important and long term. Employees with broad knowledge and experience from many parts of the Bank make a vital contribution to the Bank having satisfied customers. For an employee to stay at Handelsbanken, the right conditions must exist for development in their work, while the Bank must also have the flexibility to meet the employee's needs during different phases of their life. These long-term relationships with our employees are reinforced by the Oktogonen profit-sharing scheme. Instead of short-term bonus systems, Oktogonen creates a long-term and similar incentive for all employees of the Bank, regardless of their position, form of employment or work duties. Furthermore, the employees are one of the largest owners of the Bank via Oktogonen, since it mainly invests the employees' units in shares in Handelsbanken. Some 98 per cent of the Group's employees are covered by Oktogonen.

External staff turnover in the Group during the year was 5.0 per cent.

Our best advice

For many years, Handelsbanken has successfully run its operations on the foundations of local presence, long-term relationships and strong, local decision-making power. With its business model as a foundation, the Bank's offering is focused primarily on private customers, property companies and other owner-managed companies. Customers mainly require financing, savings and various types of payment solutions. The Bank has significant ambitions in terms of strengthening its offering and improving its profitability, while maintaining a low level of risk. Through the ongoing simplification and digitalisation of processes, employees at the branches have improved opportunities to engage in proactive customer work with a high added value. For all product areas, the Bank is integrating sustainability into customer relationships and customer offerings.

Regardless of the meeting place, we always offer the customer our best advice, without looking at what is the most profitable product for Handelsbanken in the short term.

By giving our best advice, we build trusting relationships with every customer.

> "We are certain that our close customer relationships also serve to improve the Bank's digital presence."

PROFITABILITY BEFORE VOLUME

Our employees who meet customers are paid no variable remuneration – neither in the form of bonuses nor commissions – and therefore have no financial incentive to convince the customer that a particular service or product suits them best. Nor does the Bank have requirements regarding volumes, budgets or centrally determined sales targets. Instead, the Bank measures its success in terms of customer satisfaction, cost-effectiveness and profitability.

ORGANIC GROWTH

For Handelsbanken to maintain high profitability in the long term, growth is necessary. Handelsbanken is growing mainly because our branches are doing more business – with new customers and with all the customers with whom we have had a relationship for years. The Bank's organic growth model enables us to achieve growth coupled with low risk and good cost control. Our focus on digitalisation means that branches are being given better opportunities to meet customers' demands for availability, flexibility and user-friendliness. We are certain that our close customer relationships also serve to improve the Bank's digital presence.

Stable finances

Stable finances are essential for the Bank to be able to do all the business that we and our customers wish to do – on favourable terms. Stable finances not only provide freedom of action but also reduce funding costs and thus contribute to better profitability.

Handelsbanken builds its stable finances on entirely commercial terms, and is one of the few banks in its home markets that has not sought financial support from the government, central banks or shareholders during periods of turbulence in the financial markets.

LOW RISK TOLERANCE

The Bank's strict approach to risk means that it deliberately avoids high-risk transactions, even if the remuneration is high at the time. This low risk tolerance is maintained through a strong risk culture that is sustainable in the long term and applies to all areas of the Group.

It is important to the Bank that granting credits is based on an assessment of each customer's repayment capacity.

Organisation and working methods

Our customers themselves choose where and when they would like to meet us – whether this is locally at the branch or via a digital meeting place.

Our geographical organisation is based on local presence, long-term relationships and strong, local decision-making power. This gives us a foundation from which to create the best possible conditions for good relationships with customers.

OUR HOME MARKETS

Handelsbanken has significant ambitions for its well-defined business, in terms of strengthening its offering and improving its profitability, while maintaining a low level of risk.

Through concentrating resources to the home markets and core business areas, the Bank is increasing its potential for better growth and sustainable profitability.

Handelsbanken's home markets are Sweden, the UK, Norway, Denmark, Finland and the Netherlands. Each home market has its own national organisation with responsibility for the profitability of the branch operations in that country. The Bank also has a presence in other markets, to be able to support customers from the home markets.

> "Every branch is led by a manager who is responsible for all operations in his or her branch's local area of operations."

EFFICIENT GEOGRAPHICAL STRUCTURE

Our geographical structure is decentralised and cost-effective, with short, clear decision paths. Every local branch has its own area of operations, with its own profit responsibility. An 'area of operations' is a geographically delimited area that constitutes the branch's local market.

Branches in a larger geographical area form a regional bank, providing joint administrative resources, regional expertise and specialists to support the branches' business.

The regional bank is part of, or in turn forms, a national organisation that may include several regional banks, depending on how many local branches there are in that particular country and where they are located.

Handelsbanken has more than 750 branches across its home markets, each of which contributes to the Group's profits.

The Bank's geographical structure means that it has a distinct local presence in all the home markets where the Bank operates. Product specialists in the Bank's business areas are responsible for the products and services that local branches offer. But the responsibility for a customer always belongs to the local branch, which makes all credit decisions for customers in its geographical area of operations, for example.

All income and expenses are allocated to the individual branches.

INDEPENDENT LOCAL BRANCHES

Handelsbanken's geographical structure ensures a local presence and provides access to local information in the markets where we operate. This helps create satisfied and loyal customers.

Every branch is led by a manager who is responsible for all operations in his or her branch's local area of operations. We are convinced that those who work closest to the customer will make the most sensible decisions, from the customer's and from the Bank's point of view. With this in mind, our branch managers are given a very high degree of autonomy.

Branch managers are responsible for staffing and organising their branches to align with the business that the branch chooses to do in its local market. Making important business decisions in discussions with the customer is a sound basis for creating and maintaining strong, long-term customer relationships. This engenders trust and increases customer satisfaction.

The branch and its branch manager are always deeply committed to the local community, and have broad, extensive knowledge of the local market conditions. For this reason, the branch is trusted with the ultimate customer and credit responsibility, but where necessary it receives support from the regional head office and central departments.

Local presence also creates a sound basis for rapid access to local information when assessing credit risks, for example. This means that lending has a strong local involvement, where the close relationship with the customer promotes low credit risks. At the same time, it increases the branch's knowledge of its customers and their local situation; it also enables better personal service and a basis for decisions that is adapted individually to our customers.

At the central level, Handelsbanken establishes policies, rules, guidelines and instructions in a number of different areas. Among the most important of these is our view of equality, which is that we believe in everyone's equal worth, and have zero tolerance of bullying or any other form of harassment. We have a credit policy, which takes our low risk tolerance as its starting point. Together with our sustainability policy, this serves as a cornerstone for a bank that aims to have better profitability than the average of peer competitors in its home markets.

Within the parameters of these central frameworks, and in line with the Bank's corporate culture, the local branches make decisions based on local information.

> "At Handelsbanken, the local branch always has customer responsibility, regardless of how, where or when the customer contacts the Bank."

The Bank's decentralised structure has been constantly developed and refined since the beginning of the 1970s, in order to increase customer satisfaction and the Bank's efficiency.

Local, decentralised decision-making reduces the Bank's need for central functions. But it also requires a well-defined business model, a strong corporate culture and a robust system for business control. Handelsbanken has applied this work method and these functions for a long time, and strives to have good cost-effectiveness in the Group.

THE BRANCH IS THE BANK

At Handelsbanken, the local branch always has customer responsibility, regardless of how, where or when the customer contacts the Bank. There are several different ways that the customer can meet the branch – digitally, by telephone or via a physical visit to the branch – and many of our customer relationships begin with a face-to-face meeting at the local branch. Although our customers consider personal meetings to be important, such one-on-one encounters are no longer the most common way for customers to meet the Bank. Nonetheless, all methods of contact, whether digital or physical, lead back to the branch.

In step with rapid digitalisation, Handelsbanken is constantly developing new meeting places where customers can meet the branch. One such example can be found in Norway, where a growing number of new customers have been using the alternative possibility of becoming a customer through our digital process. In the majority of the Bank's home markets, we offer our customers personal technical support 24 hours a day. Customers in Sweden can also receive personal service by phone in any of 20 different languages.

The development of our meeting places is dictated by the needs and desires of our customers. Our task is to make it simple for customers to access the branch when it suits them best, and with the greatest possible freedom of action. This has long been how we work. By doing so, we ensure that our customers have high accessibility to their local branches.

Technical development and increased digitalisation contribute to greater customer benefits. They also lead to greater efficiency, so that branch costs decrease.

Customer needs are always in focus, which means that Handelsbanken always wants to enable the customer to do the same type of business with the Bank, regardless of the meeting place. The Bank continues to simplify and digitalise its processes. For example, we are constantly expanding our apps with new functions and making them even more available and user-friendly.

"Customer needs are always in focus, which means that Handelsbanken always wants to enable the customer to do the same type of business with the Bank, regardless of the meeting place."

New, and improved technology is constantly creating new methods for the customer to contact Handelsbanken. But in parallel with the high-tech environment of today, Handelsbanken continues to have a nationwide branch network with decentralised local decision-making powers and personal service in all six of our home markets – simply because that is what our customers want.

This is how we are organised

Handelsbanken's way of working is best depicted by an arrow where all operations focus on the customer. The branches are closest to the customer and are responsible for the Bank's customers in their local market. Each home market has its own national organisation with responsibility for the profitability of the branch operations in that country. For our customer offering to be of the highest quality, we have a number of joint business areas for the Group where product owners design and develop our products and solutions. The central head office also has joint units and staff functions with overarching responsibility for various functions at the Bank.

Enhanced focus – refined offering

Handelsbanken has taken the first steps on a journey. The goal remains what it has always been – better profitability than the average of peer competitors. The method is also unchanged – lower costs and more satisfied customers. Our guiding principles have not changed. Handelsbanken continues to be Handelsbanken.

But if we are to achieve our goal, we need to change tack slightly. The new direction is clearly plotted out – we will be focusing on the areas where we have expert competence and improving these even further.

The idea of being a full-service bank and trying to do everything, for everybody, is now in the past. This idea could only work in a time when it was less expensive to run a bank than it is today. Instead, we are concentrating on our core customers and our core business areas, where our earnings are stable and risk remains low. These are the hallmarks of our core business. As a more focused bank, we can create an even higher quality customer offering, which will benefit sustainable profitability and capital efficiency.

> “As a more focused bank, we can create an even higher quality customer offering, which will benefit sustainable profitability and capital efficiency.”

THE WAY FORWARD

We start from a position of strength. The Bank has an excellent reputation and enjoys high levels of customer satisfaction in all of our home markets, in Sweden, the UK, Norway, Denmark, Finland and the Netherlands. As a result, customer expectations are high, which means that the Bank's ambitions need to be equally high. Our customers should perceive us to be an even more attractive bank when we so clearly choose to concentrate our resources on the areas they demand.

Handelsbanken's model, with local presence, long-term customer relationships and strong local decision-making power, is particularly suited to customers with stable cash flows who want a long-term relationship with their bank. Just like the Bank, our private and corporate customers want to have a good, stable financial position over a long period, at low risk.

With its business model as a foundation, the Bank's offering is focused primarily on private customers, property companies and other owner-managed companies. The local branches provide advice and personal service. The customers' main demands are various kinds of financing, such as mortgage loans, corporate financing and capital market financing, and risk management. They also demand offerings within savings, such as asset management, pensions and insurance, private banking and various security solutions.

The breakdown of products and services varies between the different branches and between the home markets. However, one thing that they all have in common is that they are associated with high customer satisfaction and good profitability.

The constant adjustments we implement to meet the demands of our customers are made easier by the fact that our customers are both loyal and demanding. Every day, our branches meet customers who do business with us, and who clearly explain what they would like us to do better. The customers know that we always take a long-term approach and have their best interests in mind. This gives a sound basis for mutually trusting customer relationships.

INCREASED DIGITALISATION

The Bank's local, personal service at the branches is valued highly, but our customers also say that we should be even more accessible digitally. The Bank's streamlined focus creates improved conditions for further increasing the pace of digitalisation. The proportion of development investments put into digital customer solutions has steadily grown. At the same time, we also need to ensure that we deliver top-class digital tools to the branches, so that they can devote their time to customers and business rather than administration, thereby improving efficiency across the branch network.

It must be simple to be a customer of Handelsbanken – and it must be simple for our employees to take care of our customers.

Simplified and digitalised processes give employees at the branches more time for proactive customer work that creates a high added value. At its core, it is a matter of reducing complexity.

PERSONAL CUSTOMER RELATIONS

The world is going digital, but this does not lessen the need for personal service and good advice – quite the opposite, in fact. For Handelsbanken, it is a matter of improving and deepening personal, long-term customer relationships, regardless of meeting place. These relationships are what makes the Bank unique, and are an indisputable competitive advantage.

All meeting places must be easily accessible, and developed from an understanding of the customers' needs. A positive customer experience should be inextricably linked with our bank, regardless of whether we meet the customer via their mobile, the internet, at the branch or by phone.

CONCENTRATED GEOGRAPHY

We have conducted a thorough review during the year, assessing the customer offering, internal efficiency and the Bank's geographical presence outside the home markets.

Similarly to how Handelsbanken will no longer do everything, we will also no longer be everywhere. To this end, we have therefore distilled our operations outside our home markets to Luxembourg and New York.

The path that we have chosen to embark on means that we will be refining our customer offering even further, while reducing, or removing completely, the parts of the operations that do not support the business.

Doing so will give the Bank major potential for growth with improved, sustainable profitability, while maintaining low risk.

STRONG MORTGAGE LOAN POSITION

Handelsbanken's position in the mortgage loan market is strong, and we will continue to be the leading operator in Sweden. We have increased the visibility of our offering at more meeting places during the year, while expanding it with such options as green mortgages, which will contribute to improving the attractiveness of environmentally certified housing and will accelerate the rate of energy efficiency enhancements in properties. We are also developing the digital mortgage loan process, in order to facilitate quicker turnarounds for our committed loan offers and more digitalised mortgage loans for those customers who prefer this.

> "The customers know that we always take a long-term approach and have their best interests in mind. This gives a sound basis for mutually trusting customer relationships."

For many years, Handelsbanken has had a strong position within the financing of property companies and housing co-operative associations with stable cash flows and well-managed properties in desirable locations. We are also a leading corporate bank. Our various research products, advisory services in the areas of, for example, sustainability and procurement of capital, risk management, acquisitions and divestments will remain important parts of our offering. Through additional collaborations with suppliers of business services, the Bank is continuing to develop its advisory capabilities and business in digital meeting places.

THE SAVINGS BUSINESS AREA IS GROWING

Our professional and personal advisory services, good digital support, and successful sustainable asset management create good conditions for our growth in the market to continue. In recent years, the Bank has improved its offering and strengthened its position within several asset management services, in both Sweden and other home markets. This has resulted in increased growth, high customer satisfaction and good levels of loyalty. We are currently the leading bank within sustainable asset management. The majority of the fund volume is now managed with enhanced sustainability criteria, attracting ever more new customers. Performance within the area of occupational pension is also good, and contributes significantly to increasing the volumes of assets managed within the Group.

Based on these conditions, the Bank is continuing to invest additional resources on savings services for both private and corporate customers. One example is the digital savings guide in Sweden. This is a first-step tool for fund savings which we are developing so that it can be integrated with other customer applications.

In the past decade, the Bank's share of net inflows to the Swedish fund market has been more than 20 per cent. The increased investment in our customer offering is expected to result in continued good growth in this area.

> "It must be simple to be a customer of Handelsbanken – and it must be simple for our employees to take care of our customers."

Our offering within insurance solutions is being co-ordinated to become an integral part of our advisory services. Research provided by the Bank has been made even more visible so that it more clearly supports customers in the area of savings and the Bank's advisory services in various meeting places.

The Bank's profile as a natural private banking operator provides the conditions for growth, particularly in Sweden, where there is huge potential.

TRUST LEADS TO SUCCESS

Our excellent reputation and high levels of customer satisfaction put us in a strong position for our journey of change. But Handelsbanken's success also depends on the trust of our customers and the community at large. We must continually earn this trust so that we continue to be successful. Availability, simplicity and care are – and will continue to be – important guiding principles on the journey ahead.

Financial overview 2019

- Operating profit fell by 1 per cent to SEK 21,796 million (22,013). Adjusted for foreign exchange effects, non-recurring items and special items, operating profit grew by SEK 55 million.
- Return on equity decreased to 11.9 per cent (12.8).
- The period's profit after tax declined by 2 per cent to SEK 16,925 million (17,357).
- Earnings per share decreased to SEK 8.65 (8.93).
- Income grew by 2 per cent to SEK 44,564 million (43,770). Adjusted for foreign exchange effects and non-recurring items, income increased by 3 per cent.
- Net interest income rose by 3 per cent to SEK 32,135 million (31,286).
- Net fee and commission income rose by 4 per cent to SEK 10,697 million (10,247).
- Expenses rose by 4 per cent to SEK -21,743 million (-20,890). Adjusted for foreign exchange effects, non-recurring items and special items, expenses grew by 5 per cent.
- The C/I ratio rose to 48.8 per cent (47.7). Adjusted for foreign exchange effects, non-recurring items and special items, the C/I ratio was 48.3% (47.3).
- The credit loss ratio was 0.04 per cent (0.04).
- The common equity tier 1 ratio increased to 18.5 per cent (16.8).
- The Board proposes a dividend of SEK 5.50 per share (5.50), and that the existing mandate to repurchase shares is extended for a further year.

Review of operations

The Group's operating profit went down by 1 per cent to SEK 21,796 million (22,013). Foreign exchange effects had a positive effect of SEK 146 million on operating profit. The underlying operating profit increased by SEK 55 million. Profit for the year was burdened during the second and third quarters by restructuring costs amounting to SEK -930 million (-). The previous year's preliminary provision for the Oktogonen profit-sharing scheme, amounting to SEK 829 million (-859), was reversed during the first quarter.

Return on equity decreased to 11.9 per cent (12.8). Excluding non-recurring items and special items, return on equity was 11.9 per cent (12.4). The period's profit after tax fell by 2 per cent to SEK 16,925 million (17,357) and earnings per share declined to SEK 8.65 (8.93). The C/I ratio was 48.8 per cent (47.7). The common equity tier 1 ratio rose to 18.5 per cent (16.8).

INTRODUCTION

The Bank carried out a strategic review of its operations in 2019, aiming to sharpen its focus and facilitate profitable growth while maintaining low risk, as well as to improve efficiency and enhance its efforts within sustainability. The Bank will continue to set itself high ambitions from a sustainability perspective in 2020.

The Bank's offering is still directed towards customers with stable cash flows who want a long-term relationship with their bank, and is now primarily focused on private customers, property companies and owner-managed companies. A further decision made on the basis of the review was to concentrate the Bank's geographical presence outside its home markets, and to further streamline the product portfolio to ensure that it primarily supports the needs of core customers. These changes to the Bank's strategic direction will also facilitate improvements in internal efficiency and will further reduce the risk level at the Bank.

A number of initiatives were put into action during the second half of the year following on from the review. These included the Bank's decision to reduce certain exposures in segments not considered part of the core customer business. This downsizing resulted in a decline of the risk exposure amount in the fourth quarter, contributing to the further strengthening of the Bank's capitalisation. The average credit quality in the credit portfolio continued to improve as a result of the enhanced focus.

In 2019, procedures, control activities and systems were further reinforced to protect the Bank and its stakeholders against being utilised for financial crime. The direct costs for this work at central departments and regional head offices amounted to almost SEK 1.2 billion, and the Bank expects similar costs to be incurred as these efforts continue in 2020. In addition, there are costs associated with the work undertaken at the local branches for the same reason.

The measures initiated at the Bank during the second half of 2019 also contributed to further reducing the risk that the Bank is utilised for financial crime. This effect is achieved due to both the geographical concentration of the operations outside the home markets and the streamlining of the product offering. The Bank is adjusting its offering within certain payment services, where the associated risk can be considered to be elevated.

At the same time, the work to improve internal efficiency at the Bank has intensified. This work is being undertaken in parallel to the strengthening of the offering to core customers, with improvements being made to achieve the Bank's major ambitions in terms of customer benefit and customer relations. The work to digitalise internal processes, while also enhancing digital availability for customers, continued, and will be further escalated in 2020.

Within fund management, a distinct sustainability profile has contributed to continued positive performance. In 2019, the Bank's share of the net incoming flows in Sweden was again significantly larger than its existing market share of the fund management market.

The efficiency enhancement measures initiated during the second half of the year did not have sufficient time to manifest themselves on the Bank's cost level in 2019. The first visible cost effects are expected to be seen in Q1 2020. It is estimated that the measures, which the Bank has announced previously, will result in a total reduction of the Bank's annual cost level of around SEK 1.5 billion by 2022, all else being equal. Two-thirds of this effect is expected to have been achieved by late 2020.

NON-RECURRING ITEMS AND SPECIAL ITEMS IN THE OPERATING PROFIT

SEK m	Full year 2019	Full year 2018
Non-recurring items		
Restructuring costs	-930	-
Impairment of discontinued IT systems	-29	-
Dividend from VISA Sweden	55	198
Capital gains from the sale of shares in UC AB	-	837
Changed pension plan in Norway & UK	-	167
Total non-recurring items	**-904**	**1 202**
Special items		
The profit-sharing scheme Oktogonen		
Provision/reversal previous year	829	-32
Provision current year	-	-827
Total special items	**829**	**-859**
Total	**-75**	**343**

INCOME

SEK m	Full year 2019	Full year 2018	Change
Net interest income	32 135	31 286	3%
of which government fees	*-2 165*	*-2 771*	*-22%*
Net fee and commission income	10 697	10 247	4%
Net gains/losses on financial trans.	1 299	908	43%
Other	433	1 329	-67%
Total income	**44 564**	**43 770**	**2%**

INCOME

Income climbed by 2 per cent to SEK 44,564 million (43,770). Adjusted for the dividend income of SEK 55 million (198) which the Bank received from VISA Sweden in the second quarter 2019 and fourth quarter 2018, as well as last year's sale of the Bank's shares in UC, which had a positive earnings impact of SEK 837 million, income increased by 4 per cent.

Foreign exchange effects had a positive impact on income of SEK 502 million and, adjusted for this, the underlying growth in income was 3 per cent.

Net interest income grew by 3 per cent, or SEK 849 million, to SEK 32,135 million (31,286). Foreign exchange effects positively affected net interest income by SEK 397 million, and larger business volumes contributed SEK 1,534 million. The net effect of changes to margins and funding costs was a reduction of net interest income amounting to SEK -1,031 million, of which SEK -531 million was attributable to Sweden and the remainder to the home markets outside Sweden. In Sweden, the majority of the negative impact of increased expenses was attributable to funding-related derivatives, when the short-term market interest rates moved from negative levels up towards zero.

Lower government fees had a positive impact of SEK 606 million on net interest income, which is explained by a SEK 635 million reduction in the fee to the Swedish Resolution Fund, amounting to SEK -1,856 million (-2,491). The resolution fee for 2019 is 0.09 per cent (0.125) of the basis of calculation, and for 2020 the fee will be down to 0.05 per cent of the basis of calculation. Including fees for various deposit guarantees, government fees amounted to a total of SEK -2,165 million (-2,771). The remainder of the development of net interest income is attributable to a SEK -346 million drop to net interest income in the liquidity portfolio, the transition to IFRS 16 – which burdened net interest income in an amount of SEK -75 million – and other funding effects. The downturn in net interest income in the liquidity portfolio was offset by an equivalent increase in net gains/losses on financial transactions.

Net fee and commission income went up by 4 per cent, or SEK 450 million, to SEK 10,697 million (10,247). Foreign exchange effects positively affected net fee and commission income by SEK 94 million. Fund management, custody account management and other asset management commissions increased by SEK 301 million, or 6 per cent, to SEK 5,036 million (4,735). Brokerage income decreased by 9 per cent to SEK 625 million (690), while advisory commissions increased to SEK 255 million (214). Lending and deposit commissions rose by 5 per cent to SEK 1,401 million (1,340), while net payment commissions increased by 2 per cent to SEK 2,024 million (1,975). Net fee and commission income from card operations grew by 5 per cent to SEK 1,310 million (1,247).

Net gains/losses on financial transactions grew by 43 per cent to SEK 1,299 million (908). The increase was mainly due to positive effects in the Bank's liquidity portfolio, which corresponded to the negative effects in net interest income, and improved activity in customer-driven fixed income trading also contributed positively.

Other income amounted to SEK 433 million (1,329), with the figure for the previous year including the effect on profit of the sale of shares in UC for SEK 837 million.

EXPENSES

SEK m	Full year 2019	Full year 2018	Change
Staff costs	-13 549	-13 465	1%
of which restructuring costs	*-759*	-	
of which Oktogonen	*829*	*-859*	
of which pension plan, Norway & UK	-	*167*	
Other expenses	-6 524	-6 712	-3%
of which restructuring costs	*-171*	-	
of which rental costs	*-192*	*-828*	
Depreciation and amortisation	-1 670	-713	134%
of which right-of-use assets	*-725*	-	
Total expenses	**-21 743**	**-20 890**	**4%**

DEVELOPMENT COSTS

SEK m	Full year 2019	Full year 2018	Change
Development spend	-2 730	-2 526	8%
of which staff costs	*-1 281*	*-1 118*	*15%*
of which other costs	*-1 449*	*-1 408*	*3%*
Capitalised costs	1 120	786	42%
Development spend after capitalised costs	**-1 610**	**-1 740**	**-7%**
Amortisation and impairment	-449	-276	63%
Development costs	**-2 059**	**-2 016**	**2%**

DEVELOPMENT COSTS – BY CATEGORY

SEK m	Full year 2019	Full year 2018	Change
Regulatory compliance	-660	-881	-25%
Technical development	-1 097	-846	30%
Business development	-702	-543	29%
UK & The Netherlands	-269	-256	5%
Other	-2	-	
Total development spend	**-2 730**	**-2 526**	**8%**

Total expenses rose by 4 per cent to SEK -21,743 million (-20,890). Foreign exchange effects increased expenses by SEK -343 million. Profit for the year was burdened by restructuring costs amounting to SEK -930 million, which were recognised in the second and third quarters. The previous year's preliminary provision for the Oktogonen profit-sharing scheme, amounting to SEK 829 million (-859), was reversed during the first quarter. A non-recurring item during the comparison year, resulting from the changes to pension plans in the UK and Norway, positively affected staff costs in the amount of SEK 167 million. Adjusted for foreign exchange effects, non-recurring items and special items, the underlying increase in expenses was 5 per cent. The increase was primarily attributable to the further strengthening of the work to protect the Bank and its stakeholders from financial crime, together with increased pension costs.

Development costs, including amortisation, rose by 2 per cent to SEK -2,059 million (-2,016). Total expenses for the Bank's development amounted to SEK -2,730 million (-2,526). Capitalised costs grew to SEK 1,120 million (786). The rise in development costs is primarily due to technological developments and increased business development. For the full year 2020, the Bank's estimation remains that development costs will be at the same level as for 2019. Development costs related to compliance with regulations have accounted for a smaller proportion of total development costs, giving the Bank more flexibility to adapt the level of total development initiatives.

The expenses incurred by the Bank for its work to prevent financial crime increased to SEK -1,155 million (-615), a figure which refers to the expenses incurred at central units and regional head offices, but which does not include expenses relating to the work conducted at the local branches. For 2020, total costs related to financial crime prevention are expected to be on a par with 2019.

Staff costs increased by 1 per cent to SEK -13,549 million (-13,465). A total of SEK -738 million of the restructuring cost which affected profit in the third quarter was comprised of staff costs. During the second quarter, the Bank reserved an amount of SEK -21 million for the planned discontinuation of the branches in the Baltic States.

A non-recurring item during the comparison period, resulting from the changes to pension plans in the UK and Norway, positively affected staff costs in the amount of SEK 167 million. The reversal of the preliminary provision for Oktogonen for 2018 amounted to SEK 829 million, and no provision has been made for 2019. The preliminary provision during the corresponding period in 2018 was SEK -859 million. Foreign exchange effects increased staff costs by SEK 211 million. The underlying increase in staff costs, adjusted for the above items, was 5 per cent.

Total pension costs increased to SEK -1,939 million (-1,397), with the period of comparison including the aforementioned positive one-off effect. Staff costs relating to the Bank's IT development increased to SEK -1,281 million (-1,118), with the increase partly due to the replacement of consultants with employed staff. The average number of employees grew by 2 per cent to 12,548 (12,307). The increase is primarily attributable to IT development, the continued expansion of the head office function in the UK, together with the continued strengthening of the Bank's work to prevent financial crime.

Other expenses fell by 3 per cent to SEK -6,524 million (-6,712). The amount includes restructuring costs of SEK -171 million. Foreign exchange effects increased other expenses by SEK -121 million.

Other costs attributable to the Bank's development amounted to SEK -1,449 million (-1,408).

Depreciation and amortisation rose to SEK -1,670 million (-713). In accordance with IFRS 16, the majority of rental costs for premises have been replaced with depreciation charges starting in 2019. The depreciation of right-of-use assets for rented premises amounted to SEK -725 million (-). Amortisation linked to development was SEK -449 million (-276).

Foreign exchange effects increased depreciation and amortisation by SEK -11 million.

Adjusted for foreign exchange effects and the restructuring cost, the sum total of other expenses, depreciation and amortisation grew by 6 per cent.

CREDIT LOSSES

SEK m	Full year 2019	Full year 2018	Change
Net credit losses	-1 045	-881	-164
Credit loss ratio as % of loans	0.04	0.04	

Credit losses were SEK -1,045 million (-881). The majority of the credit losses was attributable to a single exposure in Sweden. The credit loss ratio was 0.04 per cent (0.04).

Taxes

The tax rate for the full year 2019 was 22.3% (21.2). As of 2019, the corporate tax rate in Sweden is 21.4% (22.0). The fact that interest expenses on subordinated loans are not tax-deductible had an impact of 1.4 percentage points on the tax rate, compared with the corporate tax rate.

BUSINESS DEVELOPMENT

Just as in previous years, EPSI Rating and Swedish Quality Index (SKI) stated that Handelsbanken has more satisfied customers than the average for the sector – in both the private and corporate markets, in all home markets.

The average volume of loans to the public grew by 5 per cent, or SEK 110 billion, to SEK 2,284 billion (2,174), of which SEK 22 billion was due to foreign exchange effects. Household lending increased by 5 per cent to SEK 1,194 billion (1,139), and corporate lending also grew by 5 per cent to SEK 1,090 billion (1,035).

Average volumes of deposits and borrowing rose by 6 per cent, or SEK 60 billion, to SEK 1,143 billion (1,083). Foreign exchange effects had a positive impact of SEK 16 billion on average volumes. The average volume of household deposits went up by 9 per cent to SEK 509 billion (466), while corporate deposits increased by 3 per cent to SEK 634 billion (617).

The total volume of assets under management in the Group at year-end amounted to SEK 767 billion (619). The net inflow to the Bank's mutual funds was SEK 28.3 billion (21.2) during the year, of which SEK 1.0 billion (8.2) came from the home markets outside Sweden.

FUNDING AND LIQUIDITY

Bond issues during the year amounted to SEK 177 billion (247), consisting of SEK 144 billion (161) in covered bonds, SEK 28 billion (70) in senior bonds and SEK 5 billion in perpetual subordinated loans (16 in dated subordinated loans).

The Bank has large volumes of liquid funds, mortgage loans and other assets that are not encumbered and therefore represent protection for the Bank's senior lenders. At the end of the year, the ratio of non-encumbered assets to all unsecured market funding was 238 per cent (232 at the end of Q3 2019).

The Bank has a strong liquidity position. Cash funds and liquid assets deposited with central banks amounted to SEK 346 billion (361 at the end of Q3 2019), while the volume of liquid bonds and other liquid assets totalled SEK 142 billion (210 at the end of Q3 2019).

At the end of the period, the Group's liquidity coverage ratio, (LCR), calculated according to the European Commission's delegated regulation, was 147 per cent (149 at the end of Q3 2019). At the end of the period, the net stable funding ratio (NSFR) according to CRR2 was 113 per cent (112 at the end of Q3 2019).

CAPITAL

The Bank's capital goal is that its common equity tier 1 ratio should, under normal circumstances, exceed the common equity tier 1 capital requirement communicated to the Bank by the Swedish Financial Supervisory Authority by 1–3 percentage points.

At the end of the fourth quarter, the common equity tier 1 ratio was 18.5 per cent. In the Bank's assessment, the Supervisory Authority's common equity tier 1 capital requirement at the same date was 15.8 per cent (SEK 113 billion), of which 3.9 percentage points (SEK 28 billion) comprises the common equity tier 1 capital requirement in Pillar 2. The Bank's capitalisation was thus within the target range.

On 28 January 2020, the Swedish Financial Supervisory Authority published its memorandum regarding higher capital requirements on lending with collateral in commercial properties in Sweden. The Bank's assessment is that, on implementation, which is anticipated in Q3 2020, the common equity tier 1 capital requirement will rise by around 0.4 percentage points through an addition in Pillar 2.

In Norway, the authorities have decided to introduce a higher capital requirement on lending with collateral in commercial properties. This will be introduced in Pillar 1 in late 2020, which will increase the Bank's risk exposure amount. The Bank's view is that the effect will be that the buffer against the common equity tier 1 capital requirement will, on introduction, decrease by approximately 0.4 percentage points.

Capital for consolidated situation 31 December 2019 compared with 31 December 2018

SEK m	31 Dec 2019	31 Dec 2018	Change
Common equity tier 1 ratio, CRR	18.5%	16.8%	1.7
Total capital ratio, CRR	23.2%	21.0%	2.2
Risk exposure amount, CRR	716 462	707 579	1%
Common equity tier 1 capital	132 731	118 810	12%
Total own funds	166 060	148 659	12%

Own funds were SEK 166 billion (149), and the Bank's total capital ratio amounted to 23.2 per cent (21.0).

The common equity tier 1 capital was SEK 133 billion (119), while the common equity tier 1 ratio was 18.5 per cent (16.8).

Earnings during the last 12-month period raised the common equity tier 1 capital ratio by 0.8 percentage points, after a deduction for the proposed dividend.

Conversions of the outstanding personnel convertible bond contributed an amount of 0.4 percentage points. Higher exposure volumes reduced the common equity tier 1 ratio by 0.1 percentage point.

The net effect of customer and volume migration had a positive effect of 0.1 percentage point. The change in net pensions had a positive impact of 0.5 percentage points. The discount rate for Swedish pension obligations, based on a basket of bonds, was 1.7 per cent (2.0). The assets in the pension system were rebalanced during the year, with the result that volatility in the system was reduced. Foreign exchange effects were neutral, and the introduction of IFRS 16 contributed -0.1 percentage point. Other effects (net) contributed 0.1 percentage point.

Economic capital and available financial resources

The Bank's internal assessment of its need for capital is based on the Bank's capital requirement, stress tests, and the Bank's model for economic capital (EC). This is measured in relation to the Bank's available financial resources (AFR). The Board stipulates that the AFR/EC ratio for the Group must exceed 120 per cent. At the end of Q4, Group EC totalled SEK 57.2 billion (61.4), while AFR was SEK 179.9 billion (181.1). Thus, the ratio between AFR and EC was 314 per cent (295). For the consolidated situation, EC totalled SEK 27.4 billion (31.1), and AFR was SEK 176.1 billion (178.4).

RATING

	Long-term	Short-term	Counter-party risk rating
Standard & Poor's	AA-	A-1+	AA-
Fitch	AA	F1+	
Moody's	Aa2	P-1	Aa1
DBRS	AA (low)		

During the year, Handelsbanken's long-term and short-term senior ratings with the rating agencies which monitor the Bank were unchanged (see table). The outlook for all ratings is stable.

HANDELSBANKEN'S AGM ON 25 MARCH

The Board is proposing that the AGM resolve on a dividend of SEK 5.50 per share (5.50). The Board proposes that the record day for the dividend be 27 March 2020, which means that the Handelsbanken share will be traded ex-dividend on 26 March 2020, and that the dividend is then expected to be disbursed by Euroclear on 1 April 2020. The Board is also proposing that the existing repurchase programme of a maximum of 120 million shares be extended for a further year. In addition, the Board proposes that the annual general meeting authorise the Board to be able to issue convertible debt instruments in the form of AT1 bonds, in order to adapt the Bank's capital structure to capital requirements prevailing at any time.

Five-year overview, Group

Consolidated income statement SEKm	2019	2018	2017	2016	2015
Net interest income	32 135	31 286	29 766	27 943	27 740
Net fee and commission income	10 697	10 247	9 718	9 156	9 320
Net gains/losses on financial transactions	1 299	908	1 271	3 066	2 608
Risk result – insurance	145	106	142	142	157
Other dividend income	113	218	591	228	281
Share of profit of associates	32	0	14	25	17
Other income	143	1 005	172	203	213
Total income	**44 564**	**43 770**	**41 674**	**40 763**	**40 336**
Staff costs	-13 549	-13 465	-12 472	-12 542	-12 581
Other expenses	-6 524	-6 712	-5 889	-5 401	-5 203
Depreciation, amortisation and impairment of property, equipment and intangible assets	-1 670	-713	-619	-495	-487
Total expenses	**-21 743**	**-20 890**	**-18 980**	**-18 438**	**-18 271**
Profit before credit losses	**22 821**	**22 880**	**22 694**	**22 325**	**22 065**
Net credit losses	-1 045	-881	-1 683	-1 724	-1 597
Gains/losses on disposal of property, equipment and intangible assets	20	14	14	32	7
Operating profit	**21 796**	**22 013**	**21 025**	**20 633**	**20 475**
Taxes	-4 871	-4 656	-4 923	-4 401	-4 277
Profit for the year from continuing operations	**16 925**	**17 357**	**16 102**	**16 232**	**16 198**
Profit for the year pertaining to discontinued operations, after tax	-	-	-	13	145
Profit for the year	**16 925**	**17 357**	**16 102**	**16 245**	**16 343**
attributable to					
Shareholders in Svenska Handelsbanken AB	16 922	17 354	16 099	16 244	16 342
Non-controlling interest	3	3	3	1	1
Earnings per share, continuing operations, SEK	8.65	8.93	8.28	8.42	8.49
after dilution	8.58	8.84	8.20	8.30	8.32
Earnings per share, discontinued operations, SEK	-	-	-	0.01	0.08
after dilution	-	-	-	0.01	0.07
Earnings per share, total operations, SEK	8.65	8.93	8.28	8.43	8.57
after dilution	8.58	8.84	8.20	8.31	8.39

A five-year overview for the parent company is shown on page 197–198.

During the past five years, Handelsbanken has continued increasing its profits, strengthened its balance sheet, expanded its operations and boosted customer satisfaction.

Creating shareholder value

During the past five years – since 31 December 2014 – Handelsbanken has generated positive shareholder value of SEK 25 billion. Market capitalisation has decreased by SEK 33 billion, while the Bank has paid out SEK 58 billion in dividends to shareholders.

Lower risk

During the past five years, Handelsbanken's total credit losses amounted to SEK 6.9 billion, which corresponds to an average annual credit loss ratio of just under 0.07 per cent. The corresponding figure for the other major Nordic banks was 0.15 per cent.

More satisfied customers

Since SKI (Swedish Quality Index) started its customer satisfaction surveys in 1989, every year for private customers and every year but one for corporate customers, Handelsbanken has come out on top among the four major banks when assessing which has the most satisfied customers in Sweden. During the past five years, Handelsbanken has extended its lead over the other three major banks in terms of customer satisfaction, among both private and corporate customers. In the Bank's other five home markets, Handelsbanken also had significantly more satisfied customers than the sector average.

Continued organic growth

Satisfied customers result in more business. Which is why Handelsbanken is a growing bank. In total, the average volume of loans to the public increased by 5 per cent, while the average volume of deposits from the public increased by 6 per cent. Business volumes increased during the year in all six home markets: in the UK, lending grew by 5 per cent and deposits grew by 10 per cent; in Norway, the corresponding increases were 5 and 8 per cent, respectively; and in Denmark, 3 and 5 per cent, respectively. In Finland, lending rose by 4 per cent while deposits grew by 5 per cent, and in the Netherlands, the average volume of lending increased by 14 per cent while the average volume of deposits was up by 18 per cent. But it is not just in our home markets outside Sweden that Handelsbanken is growing.

In Sweden, where Handelsbanken was founded in 1871, 2019 was another year marked by growth and large inflows of new business volumes – in terms of both savings and lending. For the third consecutive year, Handelsbanken was the largest player for new savings on the mutual funds market in Sweden. New savings in the Bank's mutual funds in Sweden amounted to SEK 27 billion, equivalent to a market share of just over 21 per cent, to be viewed in the light of the Bank's share of the total managed volume in the Swedish mutual fund market, of 11.2 per cent. At the same time, Handelsbanken's market share of household deposits in Sweden increased.

Consolidated statement of comprehensive income SEKm	**2019**	**2018**	**2017**	**2016**	**2015**
Profit for the year	16 925	17 357	16 102	16 245	16 343
Other comprehensive income					
Items that will not be reclassified to the income statement					
Defined benefit pension plans	4 262	-4 405	3 919	3 993	-3 152
Equity instruments measured at fair value through other comprehensive income	372	-188			
Tax on items that will not be reclassified to the income statement	-931	978	-864	-876	688
of which defined benefit pension plans	*-910*	*977*	*-864*	*-876*	*688*
of which equity instruments measured at fair value through other comprehensive income	*-21*	*1*			
Total items that will not be reclassified to the income statement	**3 703**	**-3 615**	**3 055**	**3 117**	**-2 464**
Items that may subsequently be reclassified to the income statement					
Cash flow hedges	3 741	768	-2 350	-3 145	-501
Debt instruments measured at fair value through other comprehensive income	7	-12			
Available-for-sale instruments (IAS 39)			-470	-1 160	682
Translation difference for the year	1 072	-188	-2 241	1 183	-1 713
of which hedges of net investments in foreign operations	*-1 509*	*-850*	*-1 509*	*-142*	*-394*
Tax on items that may subsequently be reclassified to the income statement	-480	38	844	833	215
of which cash flow hedges	*-801*	*-159*	*517*	*692*	*110*
of which debt instruments measured at fair value through other comprehensive income	*-2*	*3*			
of which available-for-sale instruments (IAS 39)			*-5*	*110*	*18*
of which hedges of net investments in foreign operations	*323*	*194*	*332*	*31*	*87*
Total items that may subsequently be reclassified to the income statement	**4 340**	**606**	**-4 217**	**-2 289**	**-1 317**
Total other comprehensive income	**8 043**	**-3 009**	**-1 162**	**828**	**-3 781**
Total comprehensive income for the year	**24 968**	**14 348**	**14 940**	**17 073**	**12 562**
attributable to					
Shareholders in Svenska Handelsbanken AB	24 965	14 345	14 940	17 072	12 562
Non-controlling interest	3	3	0	1	0

Consolidated balance sheet SEKm	**2019**	**2018**	**2017**	**2016**	**2015**
Assets					
Cash and central banks	347 505	350 774	265 234	224 889	236 748
Loans to the public	2 292 603	2 189 092	2 065 761	1 963 622	1 866 467
Loans to other credit institutions	17 939	22 137	20 250	31 347	49 656
Interest-bearing securities	146 027	172 989	178 607	161 114	119 290
Other assets	265 593	243 182	237 125	246 608	249 972
Total assets	**3 069 667**	**2 978 174**	**2 766 977**	**2 627 580**	**2 522 133**
Liabilities and equity					
Deposits and borrowing from the public	1 117 825	1 008 487	941 967	829 336	753 855
Due to credit institutions	147 989	194 082	174 820	178 781	163 770
Issued securities	1 384 961	1 394 647	1 276 595	1 261 765	1 245 367
Subordinated liabilities	35 546	51 085	32 896	33 400	34 216
Other liabilities	223 514	187 612	199 095	187 917	196 657
Equity	159 832	142 261	141 604	136 381	128 268
Total liabilities and equity	**3 069 667**	**2 978 174**	**2 766 977**	**2 627 580**	**2 522 133**

Key figures per year

Key figures for the Handelsbanken Group	2019	2018	2017	2016	2015
Profit before credit losses, continuing operations, SEK m	22 821	22 880	22 694	22 325	22 065
Net credit losses, SEK m	-1 045	-881	-1 683	-1 724	-1 597
Operating profit, continuing operations, SEK m	21 796	22 013	21 025	20 633	20 475
Profit for the year, continuing operations, SEK m	16 925	17 357	16 102	16 232	16 198
Profit for the year, discontinued operations, SEK m	-	-	-	13	145
Profit for the year, total operations, SEK m	16 925	17 357	16 102	16 245	16 343
Total assets, SEK m	3 069 667	2 978 174	2 766 977	2 627 580	2 522 133
Equity, SEK m	159 832	142 261	141 604	136 381	128 268
Return on equity, total operations, %	11.9	12.8	12.3	13.1	13.5
Return on equity, continuing operations, %	11.9	12.8	12.3	13.1	13.4
Return on capital employed, %	0.55	0.58	0.56	0.58	0.58
Cost/income ratio, continuing operations, %	48.8	47.7	45.5	45.2	45.3
Cost/income ratio, continuing operations, incl. credit losses, %	51.1	49.7	49.6	49.5	49.3
Credit loss ratio, %	0.04	0.04			
Credit loss ratio (IAS 39), %			0.08	0.09	0.09
Impaired loans reserve ratio, %			64.9	59.9	54.5
Proportion of impaired loans, %			0.13	0.16	0.21
Earnings per share, SEK	8.65	8.93	8.28	8.43	8.57
after dilution	8.58	8.84	8.20	8.31	8.39
Ordinary dividend per share, SEK	5.50[1]	5.50	5.50	5.00	4.50
Total dividend per share, SEK	5.50[1]	5.50	7.50	5.00	6.00
Adjusted equity per share, SEK	78.60	72.90	72.90	69.28	65.14
No. of shares as at 31 December, millions	1 980.0	1 944.2	1 944.2	1 944.2	1 907.0
of which outstanding	1 980.0	1 944.2	1 944.2	1 944.2	1 907.0
Average number of outstanding shares, millions	1 956.8	1 944.2	1 944.2	1 927.1	1 907.0
after dilution	1 976.9	1 974.5	1 974.3	1 972.7	1 971.9
Common equity tier 1 ratio, % according to CRR	18.5	16.8	22.7	25.1	21.2
Tier 1 ratio, % according to CRR	20.7	18.6	25.0	27.9	23.8
Total capital ratio, % according to CRR	23.2	21.0	28.3	31.4	27.2
Average number of employees	12 548	12 307	11 832	11 759	11 819
No. of branches in Sweden	383	390	420	435	474
No. of branches in the UK	207	208	208	207	198
No. of branches in Norway	47	49	49	50	50
No. of branches in Denmark	56	56	57	57	57
No. of branches in Finland	36	36	45	45	46
No. of branches in the Netherlands	29	29	28	25	23
No. of branches in other countries	11	11	12	13	13

For definitions of alternative key figures, see page 254 and, for the calculation of these key figures, see the Fact Book which is available at handelsbanken.com/ir.

[1] Dividend as recommended by the Board.

Quarterly performance

Quarterly performance for the Handelsbanken Group SEKm	2019:4	2019:3	2019:2	2019:1	2018:4
Interest income	13 366	13 429	13 839	13 761	12 914
Interest expenses	-5 276	-5 382	-5 775	-5 827	-5 042
Net interest income	**8 090**	**8 047**	**8 064**	**7 934**	**7 872**
Fee and commission income	3 304	3 227	3 229	3 002	3 124
Fee and commission expenses	-538	-503	-534	-490	-513
Net fee and commission income	**2 766**	**2 724**	**2 695**	**2 512**	**2 611**
Net gains/losses on financial transactions	413	271	355	260	303
Risk result – insurance	48	15	48	34	40
Other dividend income	20	0	84	9	201
Share of profit of associates	1	10	10	11	-3
Other income	38	46	28	31	59
Total income	**11 376**	**11 113**	**11 284**	**10 791**	**11 083**
Staff costs	-3 405	-4 143	-3 485	-2 516	-3 464
Other expenses	-1 729	-1 692	-1 608	-1 495	-1 889
Depreciation, amortisation and impairment of property, equipment and intangible assets	-420	-447	-411	-392	-171
Total expenses	**-5 554**	**-6 282**	**-5 504**	**-4 403**	**-5 524**
Profit before credit losses	**5 822**	**4 831**	**5 780**	**6 388**	**5 559**
Net credit losses	-130	-192	-435	-288	-276
Gains/losses on disposal of property, equipment and intangible assets	3	2	5	10	5
Operating profit	**5 695**	**4 641**	**5 350**	**6 110**	**5 288**
Taxes	-1 314	-1 070	-1 133	-1 354	-1 272
Profit for the period	**4 381**	**3 571**	**4 217**	**4 756**	**4 016**
attributable to					
Shareholders in Svenska Handelsbanken AB	4 380	3 570	4 217	4 755	4 015
Non-controlling interest	1	1	0	1	1
Earnings per share, SEK	2.21	1.82	2.17	2.45	2.07
after dilution	2.21	1.81	2.14	2.42	2.05

Business segments

Segment reporting 2019	Home markets									
SEKm	Sweden	UK	Norway	Denmark	Finland	The Netherlands	Capital Markets	Other	Adjustments and eliminations	Total
Net interest income	17 503	6 029	3 957	1 666	1 386	800	437	357		32 135
Net fee and commission income	4 152	777	415	516	572	151	4 122	-8		10 697
Net gains/losses on financial transactions	485	222	63	98	46	37	1 044	-696		1 299
Risk result – insurance							145			145
Share of profit of associates								32		32
Other income	52	1	9	8	17	-2	12	159		256
Total income	**22 192**	**7 029**	**4 444**	**2 288**	**2 021**	**986**	**5 760**	**-156**		**44 564**
Staff costs	-3 429	-2 384	-884	-768	-446	-400	-1 795	-3 209	-234	-13 549
Other expenses	-849	-962	-190	-140	-193	-86	-696	-3 408		-6 524
Internal purchased and sold services	-3 743	-758	-443	-403	-399	-142	-1 178	7 066		
Depreciation, amortisation and impairment of property, equipment and intangible assets	-297	-246	-94	-49	-70	-55	-85	-774		-1 670
Total expenses	**-8 318**	**-4 350**	**-1 611**	**-1 360**	**-1 108**	**-683**	**-3 754**	**-325**	**-234**	**-21 743**
Profit before credit losses	**13 874**	**2 679**	**2 833**	**928**	**913**	**303**	**2 006**	**-481**	**-234**	**22 821**
Net credit losses	-1 069	10	-99	3	103	-3	9	1		-1 045
Gains/losses on disposal of property, equipment and intangible assets	6	1	6	6	-1	0	0	2		20
Operating profit	**12 811**	**2 690**	**2 740**	**937**	**1 015**	**300**	**2 015**	**-478**	**-234**	**21 796**
Profit allocation	2 012	42	124	72	175	2	-2 427			
Operating profit after profit allocation	**14 823**	**2 732**	**2 864**	**1 009**	**1 190**	**302**	**-412**	**-478**	**-234**	**21 796**
Internal income	138	-1 549	-3 596	-240	-185	-366	-2 560	8 358		
C/I ratio, %	34.4	61.5	35.3	57.6	50.5	69.1	112.6			48.8
Credit loss ratio, %	0.08	-0.01	0.02	-0.01	-0.09	0.01	-0.02	-0.17		0.04
Assets	1 921 187	444 290	285 175	131 170	212 594	71 342	313 829	2 261 013	-2 570 933	3 069 667
Liabilities	1 835 508	426 997	264 894	124 060	205 113	69 144	307 637	2 261 013	-2 584 531	2 909 835
Allocated capital	85 679	17 293	20 281	7 110	7 481	2 198	6 192		13 598	159 832
Return on allocated capital, %	14.0	13.3	12.0	12.0	13.3	11.8	-6.2			11.9
The year's investments in non-financial non-current assets	165	208	48	1	81	6	148	1 021		1 678
The year's investments in associated companies								-		-
Average number of employees	3 841	2 361	699	600	506	317	990	3 234		12 548

Applied principles for segment reporting and a description of the items shown in the Other and Adjustments and eliminations columns are explained further in note G44.

Segment reporting 2018	Home markets									
SEKm	Sweden	UK	Norway	Denmark	Finland	The Netherlands	Capital Markets	Other	Adjustments and eliminations	Total
Net interest income	16 988	5 555	3 832	1 713	1 315	675	440	768		31 286
Net fee and commission income	3 995	704	413	478	502	160	3 968	27		10 247
Net gains/losses on financial transactions	626	210	88	103	45	21	802	-987		908
Risk result – insurance							106			106
Share of profit of associates								0		0
Other income	55	7	7	10	16	2	17	1 109		1 223
Total income	**21 664**	**6 476**	**4 340**	**2 304**	**1 878**	**858**	**5 333**	**917**		**43 770**
Staff costs	-3 428	-1 970	-824	-782	-437	-355	-1 791	-3 808	-70	-13 465
Other expenses	-1 036	-881	-250	-214	-195	-103	-781	-3 252		-6 712
Internal purchased and sold services	-3 616	-786	-460	-364	-365	-117	-789	6 497		
Depreciation, amortisation and impairment of property, equipment and intangible assets	-65	-72	-17	-8	-21	-17	-28	-485		-713
Total expenses	**-8 145**	**-3 709**	**-1 551**	**-1 368**	**-1 018**	**-592**	**-3 389**	**-1 048**	**-70**	**-20 890**
Profit before credit losses	**13 519**	**2 767**	**2 789**	**936**	**860**	**266**	**1 944**	**-131**	**-70**	**22 880**
Net credit losses	-202	-125	-413	5	-172	14	10	2		-881
Gains/losses on disposal of property, equipment and intangible assets	5	-1	4	5	0	-	0	1		14
Operating profit	**13 322**	**2 641**	**2 380**	**946**	**688**	**280**	**1 954**	**-128**	**-70**	**22 013**
Profit allocation	1 883	32	127	70	183	2	-2 297			
Operating profit after profit allocation	**15 205**	**2 673**	**2 507**	**1 016**	**871**	**282**	**-343**	**-128**	**-70**	**22 013**
Internal income	-632	-1 086	-2 572	-209	-157	-296	-2 772	7 724		
C/I ratio, %	34.6	57.0	34.7	57.6	49.4	68.8	111.6			47.7
Credit loss ratio, %	0.02	0.06	0.17	-0.01	0.14	-0.03	-0.02	-0.23		0.04
Assets	1 831 844	384 417	262 164	122 915	193 618	54 684	277 159	2 160 503	-2 309 130	2 978 174
Liabilities	1 746 592	369 536	244 395	116 451	186 931	52 861	272 734	2 160 503	-2 314 090	2 835 913
Allocated capital	85 252	14 881	17 769	6 464	6 687	1 823	4 425		4 960	142 261
Return on allocated capital, %	14.4	14.7	11.5	12.7	10.4	12.9	-5.9			12.8
The year's investments in non-financial non-current assets	106	145	12	4	1	42	417	473		1 200
The year's investments in associated companies								-		-
Average number of employees	3 985	2 230	697	615	518	300	1 076	2 886		12 307

During the first quarter of 2019 a reorganisation was implemented which has meant that certain operations in the Handelsbanken Sweden and Handelsbanken Capital Markets business segments have been moved over to Group IT and the newly formed unit Group Products and Services. Income and expenses relating to Group IT and Group Products and Services are reported within Other units. Due to this the comparison figures have been adjusted. At the same time, the model for the internal capital allocation to the business segments has been adjusted somewhat.

[1] Internal income which is included in total income comprises income from transactions with other operating segments and Other. Since interest income and interest expense are reported net as income, this means that internal income includes the net amount of the internal funding cost among segments and Other.

Handelsbanken Sweden

Handelsbanken Sweden comprises branch operations in five regional banks, as well as the operations of Handelsbanken Finans, Ecster and Stadshypotek in Sweden. At Handelsbanken, the branches are the base of all operations, with responsibility for all customers of the Bank. The regional banks offer banking services at 383 branches throughout Sweden.

Quarterly performance Handelsbanken Sweden

SEKm	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Total 2019	Total 2018	Change, %
Net interest income	4 349	4 369	4 429	4 356	17 503	16 988	3
Net fee and commission income	1 129	1 068	1 021	934	4 152	3 995	4
Net gains/losses on financial transactions	143	117	120	105	485	626	-23
Other income	10	26	6	10	52	55	-5
Total income	**5 631**	**5 580**	**5 576**	**5 405**	**22 192**	**21 664**	**2**
Staff costs	-856	-840	-858	-875	-3 429	-3 428	0
Other expenses	-281	-176	-134	-258	-849	-1 036	-18
Internal purchased and sold services	-946	-967	-928	-902	-3 743	-3 616	4
Depreciation, amortisation and impairment of property, equipment and intangible assets	-85	-70	-129	-13	-297	-65	357
Total expenses	**-2 168**	**-2 053**	**-2 049**	**-2 048**	**-8 318**	**-8 145**	**2**
Profit before credit losses	**3 463**	**3 527**	**3 527**	**3 357**	**13 874**	**13 519**	**3**
Net credit losses	-142	-231	-434	-262	-1 069	-202	429
Gains/losses on disposal of property, equipment and intangible assets	2	1	2	1	6	5	20
Operating profit	**3 323**	**3 297**	**3 095**	**3 096**	**12 811**	**13 322**	**-4**
Profit allocation	513	531	506	462	2 012	1 883	7
Operating profit after profit allocation	**3 836**	**3 828**	**3 601**	**3 558**	**14 823**	**15 205**	**-3**
Internal income	54	95	104	-115	138	-632	
C/I ratio, %	35.3	33.6	33.7	34.9	34.4	34.6	
Credit loss ratio, %	0.03	0.07	0.13	0.08	0.08	0.02	
Assets	1 921 187	1 928 397	1 917 591	1 890 524	1 921 187	1 831 844	5
Liabilities	1 835 508	1 845 379	1 836 551	1 802 880	1 835 508	1 746 592	5
Allocated capital	85 679	83 018	81 040	87 644	85 679	85 252	1
Return on allocated capital, %	14.1	14.5	14.0	12.7	14.0	14.4	
Average number of employees	3 725	3 956	3 845	3 839	3 841	3 985	-4
Number of branches	383	383	384	386	383	390	-2

Business volumes, Sweden

Average volumes, SEK bn	2019	2018	Change, %
Loans to the public[1]	**1 387**	**1 339**	**4**
of which households	*859*	*828*	*4*
of which mortgage loans	*814*	*780*	*4*
of which companies	*528*	*511*	*3*
of which mortgage loans	*329*	*301*	*9*
Deposits from the public	**647**	**592**	**9**
of which households	*375*	*346*	*8*
of which companies	*272*	*246*	*11*

[1] Excluding loans to the National Debt Office.

FINANCIAL PERFORMANCE

Operating profit decreased by 4 per cent to SEK 12,811 million (13,322) due to higher credit losses. Profit before credit losses grew by 3 per cent. Return on allocated capital fell to 14.0 per cent (14.4). The C/I ratio was 34.4 per cent (34.6).

Net interest income rose by 3 per cent, or SEK 515 million, to SEK 17,503 million (16,988). Government fees went down by SEK 261 million to SEK -1,101 million (-1,362), mainly due to the lower fee to the Resolution Fund. Higher lending volumes increased net interest income by SEK 665 million, while higher deposit volumes contributed SEK 162 million. The remainder of the change in net interest income is mainly due to the negative contribution from the net amount of changed margins and funding costs, amounting to SEK -531 million.

Net fee and commission income grew by 4 per cent or SEK 157 million to SEK 4,152 million (3,995), where mutual fund commissions increased by SEK 75 million to SEK 915 million (840). Commission income from custody accounts and other asset management rose by SEK 25 million. Insurance commissions went up by SEK 3 million. Net fee and commission income from payments increased by SEK 31 million.

Total expenses rose by 2 per cent to SEK -8,318 million (-8,154). Staff costs were largely unchanged at SEK -3,429 million (-3,428). The average number of employees fell by 4 per cent to 3,841 (3,985). In accordance with IFRS 16, the majority of rental costs for premises are now recognised as depreciation charges.

Credit losses amounted to SEK -1,069 million (-202). The majority of the losses were attributable to a single exposure. The credit loss ratio was 0.08 per cent (0.02).

BUSINESS DEVELOPMENT

Handelsbanken was the largest player for new lending in the Swedish mortgage market during the year, with a market share of 16.8 per cent. For the third consecutive year, the Bank was the largest player for net inflows in the mutual fund market in Sweden, with a market share of 21 per cent. Also as regards new household savings in bank accounts in Sweden, the Bank was the largest player during the year, with a market share of 24.3 per cent.

Just as in previous years, the major Swedish Quality Index (SKI) survey found that Handelsbanken is "Best among the major banks". For private customers, Handelsbanken's index value was 71.5, as compared with the other major banks, all of which recorded scores in the 59.6–67.5 range. For corporate customers, Handelsbanken's index value was 66.5, as compared with the other major banks, all of which recorded scores in the 58.8–63.9 range.

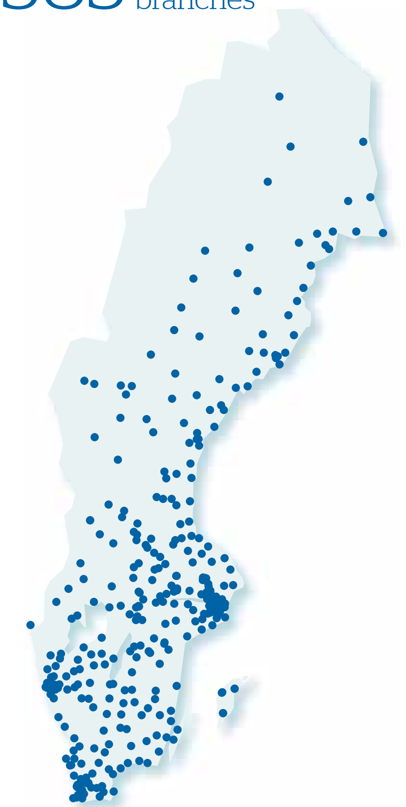
Finansbarometern's annual survey, where companies with fewer than 20 employees rank their banks, again named Handelsbanken Sweden's Small Enterprise Bank – for the eighth year running. One finding in the survey was that Handelsbanken "has succeeded in establishing e-services to a degree that customers appreciate".

As part of the Bank's sustainability work, the customer offering was expanded with the addition of the Green Mortgage in the fourth quarter. Customers with an energy-efficient or environmentally certified home are able to apply for a discounted interest rate on their mortgage. In order to qualify for a Green Mortgage, the customer's home must be in energy class A or B, be Nordic Swan Eco-labelled, or be categorised as either Gold or Silver according to the Sweden Green Building Council's standards.

The average volume of mortgage loans to private individuals rose by 4.4 per cent to SEK 814 billion (780), while household deposits increased by 8.4 per cent to SEK 375 billion (346). The Bank thus continued to increase its share of the household deposits market. The average volume of corporate lending went up by 3.3 per cent to SEK 528 billion (511), while corporate deposits increased by 10.6 per cent to SEK 272 billion (246).

New savings in the Bank's mutual funds in Sweden totalled SEK 27.3 billion (13.0), corresponding to a market share of 21 per cent (24), to be viewed in the light of the Bank's share of the Swedish mutual fund market of 11 per cent. Thus, as was the case last year, the Bank was the largest player for new savings on the Swedish mutual fund market.

383 branches



Handelsbanken UK

Handelsbanken UK comprises branch operations in five regional banks and the asset management company Heartwood. At Handelsbanken, the branches are the base of all operations, with responsibility for all customers of the Bank. The regional banks offer banking services at 207 branches throughout the UK.

Quarterly performance Handelsbanken UK SEKm	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Total 2019	Total 2018	Change, %
Net interest income	1 558	1 490	1 508	1 473	6 029	5 555	9
Net fee and commission income	214	189	193	181	777	704	10
Net gains/losses on financial transactions	71	50	54	47	222	210	6
Other income	1	0	0	0	1	7	-86
Total income	**1 844**	**1 729**	**1 755**	**1 701**	**7 029**	**6 476**	**9**
Staff costs	-620	-581	-596	-587	-2 384	-1 970	21
Other expenses	-228	-273	-221	-240	-962	-881	9
Internal purchased and sold services	-193	-187	-196	-182	-758	-786	-4
Depreciation, amortisation and impairment of property, equipment and intangible assets	-57	-69	-91	-29	-246	-72	242
Total expenses	**-1 098**	**-1 110**	**-1 104**	**-1 038**	**-4 350**	**-3 709**	**17**
Profit before credit losses	**746**	**619**	**651**	**663**	**2 679**	**2 767**	**-3**
Net credit losses	5	22	-2	-15	10	-125	
Gains/losses on disposal of property, equipment and intangible assets	-4	0	0	5	1	-1	
Operating profit	**747**	**641**	**649**	**653**	**2 690**	**2 641**	**2**
Profit allocation	13	12	8	9	42	32	31
Operating profit after profit allocation	**760**	**653**	**657**	**662**	**2 732**	**2 673**	**2**
Internal income	-365	-367	-411	-406	-1 549	-1 086	-43
C/I ratio, %	59.1	63.8	62.6	60.7	61.5	57.0	
Credit loss ratio, %	-0.01	-0.05	0.00	0.02	-0.01	0.06	
Assets	444 290	424 513	404 304	406 026	444 290	384 417	16
Liabilities	426 997	408 051	388 245	391 046	426 997	369 536	16
Allocated capital	17 293	16 462	16 059	14 980	17 293	14 881	16
Return on allocated capital, %	13.8	12.5	12.9	13.8	13.3	14.7	
Average number of employees	2 419	2 390	2 326	2 307	2 361	2 230	6
Number of branches	207	207	207	207	207	208	0

Business volumes, UK **Average volumes,** GBP m	2019	2018	Change, %
Loans to the public	**21 380**	**20 284**	**5**
of which households	*6 674*	*6 544*	*2*
of which companies	*14 706*	*13 740*	*7*
Deposits from the public	**15 264**	**13 825**	**10**
of which households	*4 787*	*4 612*	*4*
of which companies	*10 477*	*9 213*	*14*

FINANCIAL PERFORMANCE

Operating profit increased by 2 per cent, or SEK 49 million, to SEK 2,690 million (2,641). During the first quarter of 2018, a change was made to the pension plan in the UK, which caused a one-off positive effect of SEK 141 million. Adjusted for this, together with positive foreign exchange effects of SEK 72 million, operating profit grew by 5 per cent, or SEK 118 million. Return on allocated capital was 13.3 per cent (14.7). The C/I ratio rose to 61.5 per cent (57.0).

Income grew by 9 per cent, or SEK 553 million, to SEK 7,029 million (6,476). Expressed in local currency, income rose by 4 per cent.

Net interest income improved by 9 per cent, or SEK 474 million, to SEK 6,029 million (5,555). Foreign exchange effects increased net interest income by SEK 214 million, and expressed in local currency, net interest income grew by 4 per cent. Larger business volumes had a positive impact of SEK 346 million. The net amount of changed margins and funding costs decreased net interest income by SEK 159 million. The UK operations were no longer affected by fees for the Swedish deposit guarantee (SEK -19 million), and government fees amounted to a total of SEK -163 million (-232). From the year 2020, fees to the Swedish Resolution Fund will also no longer negatively affect profit in the UK.

Net fee and commission income increased by 10 per cent to SEK 777 million (704), mainly due to a 8 per cent rise, to SEK 345 million (319), in asset management and advisory commissions at Heartwood Wealth Management. The volume of assets under management in Heartwood Wealth Management totalled GBP 4.0 billion (3.5).

Expenses increased by 17 per cent to SEK -4,350 million (-3,709). Expressed in local currency, expenses increased by 13 per cent.

Staff costs went up by SEK 414 million to SEK -2,384 million (-1,970). The appreciation of sterling accounted for SEK 107 million of this increase. Adjusted for the aforementioned change to the pension plan during the previous year, and for foreign exchange effects, staff costs increased by 8 per cent. The average number of employees grew by 6 per cent to 2,361 (2,230).

Other expenses rose by SEK 81 million to SEK -962 million (-881). The rise in expenses is primarily attributable to the establishment of Handelsbanken plc, combined with the continued work to prevent financial crime.

In accordance with IFRS 16, the majority of rental costs for premises are now recognised as depreciation charges.

Credit losses consisted of net reversals, and totalled SEK 10 million (-125). The credit loss ratio was -0.01 per cent (0.06).

BUSINESS DEVELOPMENT

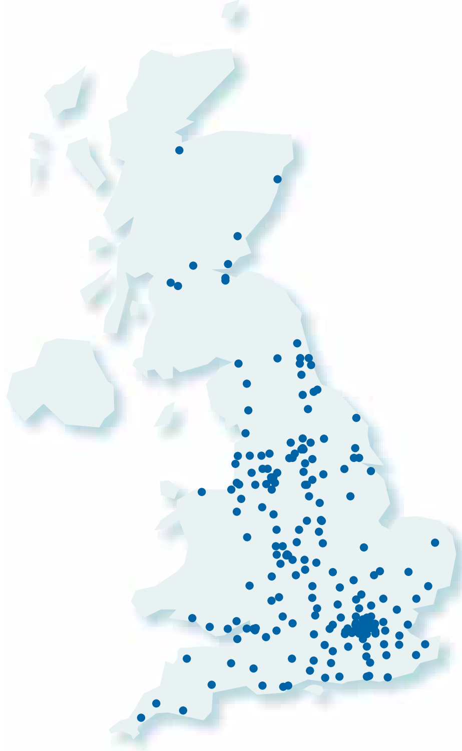
The EPSI annual customer satisfaction survey showed that Handelsbanken once again had the most satisfied customers among banks in United Kingdom. Private customers gave the Bank a score of 84.6, compared to the sector average of 72.1. On the corporate side, the score was 83.1, compared to the sector average of 70.4.

In August, the UK Competition and Markets Authority (CMA) published the results of its independent service quality survey for business banking. Handelsbanken was in first place in four of the survey's five criteria.

Business volumes continued to grow. The average volume of household deposits increased by 4 per cent, while household lending grew by 2 per cent. Overall, the average volume of lending increased by 5 per cent to GBP 21.4 billion, while total deposits went up by 10 per cent to GBP 15.3 billion.

The net inflow to Heartwood Wealth Management during the year totalled GBP 120 million (229).

207 branches



Handelsbanken Norway

Handelsbanken Norway consists of the branch operations in Norway, which are organised as a regional bank, as well as Stadshypotek's operations in Norway. At Handelsbanken, the branches are the base of all operations, with responsibility for all customers of the Bank. The regional bank offers banking services at 47 branches throughout Norway.

Quarterly performance Handelsbanken Norway SEKm	**Q4 2019**	**Q3 2019**	**Q2 2019**	**Q1 2019**	**Total 2019**	**Total 2018**	**Change, %**
Net interest income	1 019	1 008	973	957	3 957	3 832	3
Net fee and commission income	101	110	106	98	415	413	0
Net gains/losses on financial transactions	12	15	21	15	63	88	-28
Other income	-1	1	8	1	9	7	29
Total income	**1 131**	**1 134**	**1 108**	**1 071**	**4 444**	**4 340**	**2**
Staff costs	-218	-223	-221	-222	-884	-824	7
Other expenses	-53	-34	-29	-74	-190	-250	-24
Internal purchased and sold services	-113	-110	-115	-105	-443	-460	-4
Depreciation, amortisation and impairment of property, equipment and intangible assets	-23	-23	-44	-4	-94	-17	453
Total expenses	**-407**	**-390**	**-409**	**-405**	**-1 611**	**-1 551**	**4**
Profit before credit losses	**724**	**744**	**699**	**666**	**2 833**	**2 789**	**2**
Net credit losses	-18	-18	-55	-8	-99	-413	-76
Gains/losses on disposal of property, equipment and intangible assets	2	1	1	2	6	4	
Operating profit	**708**	**727**	**645**	**660**	**2 740**	**2 380**	**15**
Profit allocation	41	32	27	24	124	127	-2
Operating profit after profit allocation	**749**	**759**	**672**	**684**	**2 864**	**2 507**	**14**
Internal income	-859	-996	-933	-808	-3 596	-2 572	-40
C/I ratio, %	34.7	33.4	36.0	37.0	35.3	34.7	
Credit loss ratio, %	0.04	0.03	0.01	0.01	0.02	0.17	
Assets	285 175	288 496	287 856	279 380	285 175	262 164	9
Liabilities	264 894	269 647	269 452	261 973	264 894	244 395	8
Allocated capital	20 281	18 849	18 404	17 407	20 281	17 769	14
Return on allocated capital, %	11.6	12.6	11.5	12.3	12.0	11.5	
Average number of employees	692	710	697	698	699	697	0
Number of branches	47	47	49	49	47	49	-4

Business volumes, Norway **Average volumes,** NOK bn	**2019**	**2018**	**Change, %**
Loans to the public	**261.2**	**249.7**	**5**
of which households	*96.2*	*91.4*	*5*
of which companies	*165.0*	*158.3*	*4*
Deposits from the public	**69.1**	**64.0**	**8**
of which households	*21.6*	*20.6*	*5*
of which companies	*47.5*	*43.4*	*9*

FINANCIAL PERFORMANCE

Operating profit increased by 15 per cent to SEK 2,740 million (2,380). The depreciation of the Swedish krona had a positive effect of SEK 11 million on operating profit. Return on allocated capital was 12.0 per cent (11.5). The C/I ratio was 35.3 per cent (34.7).

Income grew by 2 per cent to SEK 4,444 million (4,340), with foreign exchange movements accounting for SEK 21 million of this amount. Expressed in local currency, income growth was 2 per cent.

Net interest income increased by SEK 125 million, or 3 per cent, to SEK 3,957 million (3,832). Foreign exchange effects positively affected net interest income by SEK 19 million. Larger business volumes had a positive impact of SEK 159 million. The net amount of changed margins and funding costs decreased net interest income by SEK 117 million. The negative effect was partially a result of the fact that hikes to customer interest rates carried out by the Bank in Norway did not become effective until a certain period after they had been announced, in accordance with Norwegian law. Fees for the Swedish Resolution Fund decreased by SEK 78 million and, together with the deposit guarantee, government fees burdened net interest income in the amount of SEK -209 million (-283).

Net fee and commission income grew marginally to SEK 415 million (413), with foreign exchange movements providing a positive contribution of SEK 2 million.

Net gains/losses on financial transactions totalled SEK 63 million (88).

Staff costs increased by 7 per cent, or SEK 60 million, to SEK -884 million (-824), of which SEK 5 million was due to foreign exchange movements. In the fourth quarter of 2018, staff costs declined by SEK 26 million as a result of the transition to a defined contribution pension plan in the Norwegian operations. Adjusted for both of these effects, staff costs increased by 3 per cent. The average number of employees was unchanged at 699 (697).

In accordance with IFRS 16, the majority of rental costs for premises are now recognised as depreciation charges.

Credit losses were SEK -99 million (-413), and the credit loss ratio was 0.02 per cent (0.17).

BUSINESS DEVELOPMENT

EPSI's annual customer satisfaction survey showed that Handelsbanken once again had customers that were more satisfied than the average for banks in Norway. Private customers gave Handelsbanken a score of 77.2, compared to the sector average of 70.9. Corporate customers gave the Bank a score of 72.9, compared to the sector average of 70.6.

Work on efficiency enhancements and digitalisation continued. For example, Handelsbanken Insight, a financial portal that provides corporate customers with a clear overview of credits, payments, currencies and liquidity, was launched in the fourth quarter.

Another example is "Digital on-boarding". Of the Bank's new private customers during the period, 68 per cent used the digital self-service channel to become a customer at the Bank. In tandem with more efficient processes, this has freed up time for branch employees through a substantial reduction in administrative work. The time freed up has instead been devoted to, among other things, improving the availability of advisory services within private banking.

Around 100 private banking advisors have received training, ensuring that the Bank now has at least one such advisor at each branch. Handelsbanken's private banking offering has major potential in Norway – almost a fifth of Handelsbanken's private customers have a gross income in excess of NOK 1 million.

Both the average volume of lending to and deposits from households increased by 5 per cent. Overall, the average volume of lending increased by 5 per cent to NOK 261.2 billion, while total deposits went up by 8 per cent to NOK 69.1 billion.

New savings in the Bank's mutual funds in Norway during the period totalled SEK 0.7 billion (2.0).

47 branches

Handelsbanken Denmark

Handelsbanken Denmark consists of the branch operations in Denmark, which are organised as a regional bank, as well as Stadshypotek's operations in Denmark. At Handelsbanken, the branches are the base of all operations, with responsibility for all customers of the Bank. The regional bank offers banking services at 56 branches throughout Denmark.

Quarterly performance Handelsbanken Denmark SEKm	**Q4 2019**	**Q3 2019**	**Q2 2019**	**Q1 2019**	**Total 2019**	**Total 2018**	**Change, %**
Net interest income	413	427	414	412	1 666	1 713	-3
Net fee and commission income	138	126	134	118	516	478	8
Net gains/losses on financial transactions	23	28	25	22	98	103	-5
Other income	2	2	2	2	8	10	-20
Total income	**576**	**583**	**575**	**554**	**2 288**	**2 304**	**-1**
Staff costs	-190	-197	-191	-190	-768	-782	-2
Other expenses	-34	-36	-25	-45	-140	-214	-35
Internal purchased and sold services	-99	-105	-105	-94	-403	-364	11
Depreciation, amortisation and impairment of property, equipment and intangible assets	-13	-11	-23	-2	-49	-8	
Total expenses	**-336**	**-349**	**-344**	**-331**	**-1 360**	**-1 368**	**-1**
Profit before credit losses	**240**	**234**	**231**	**223**	**928**	**936**	**-1**
Net credit losses	3	7	-1	-6	3	5	-40
Gains/losses on disposal of property, equipment and intangible assets	2	0	2	2	6	5	20
Operating profit	**245**	**241**	**232**	**219**	**937**	**946**	**-1**
Profit allocation	20	18	17	17	72	70	3
Operating profit after profit allocation	**265**	**259**	**249**	**236**	**1 009**	**1 016**	**-1**
Internal income	-1	-84	-79	-76	-240	-209	-15
C/I ratio, %	56.4	58.1	58.1	58.0	57.6	57.6	
Credit loss ratio, %	-0.02	-0.03	0.00	0.03	-0.01	-0.01	
Assets	131 170	132 623	132 124	126 947	131 170	122 915	7
Liabilities	124 060	125 938	125 708	120 627	124 060	116 451	7
Allocated capital	7 110	6 685	6 416	6 320	7 110	6 464	10
Return on allocated capital, %	11.7	12.2	12.2	11.7	12.0	12.7	
Average number of employees	587	593	607	611	600	615	-2
Number of branches	56	56	56	56	56	56	0

Business volumes, Denmark **Average volumes,** DKK bn	**2019**	**2018**	**Change, %**
Loans to the public	**77.8**	**75.5**	**3**
of which households	*47.6*	*46.4*	*3*
of which companies	*30.2*	*29.1*	*4*
Deposits from the public	**35.6**	**34.0**	**5**
of which households	*15.5*	*13.9*	*12*
of which companies	*20.1*	*20.1*	*0*

FINANCIAL PERFORMANCE

Operating profit went down by 1 per cent, or SEK 9 million, to SEK 937 million (946). The depreciation of the Swedish krona increased operating profit by SEK 26 million, but expressed in local currency, operating profit declined by 4 per cent. Return on allocated capital was 12.0 per cent (12.7). The C/I ratio was 57.6 per cent (57.6).

Net interest income decreased by 3 per cent, or SEK 47 million, to SEK 1,666 million (1,713), and increased by SEK 49 million due to the weakening of the Swedish krona. In local currency, net interest income decreased by 6 per cent. Larger business volumes had a SEK 55 million positive impact on net interest income. The net amount of changed margins and funding costs decreased net interest income by SEK 153 million. The fee for the Swedish Resolution Fund was SEK 27 million lower than the previous year and, together with the deposit guarantees, government fees burdened net interest income in the amount of SEK -84 million (-109).

Net fee and commission income rose by 8 per cent to SEK 516 million (478). Foreign exchange movements had a positive impact of SEK 15 million and, expressed in local currency, net fee and commission income climbed by 5 per cent, thanks to high levels of activity in practically all business areas.

Net gains/losses on financial transactions totalled SEK 98 million (103).

Expenses fell by 1 per cent to SEK -1,360 million (-1,368). Foreign exchange movements increased expenses by SEK 41 million and, expressed in local currency, expenses fell by 4 per cent. Staff costs decreased by 2 per cent to SEK -768 million (-782) but, expressed in local currency, the decrease was 5 per cent. In 2018, profit was burdened by non-recurring staff costs amounting to SEK -42 million. The average number of employees fell by 2 per cent to 600 (615).

In accordance with IFRS 16, the majority of rental costs for premises are now recognised as depreciation charges.

Credit losses consisted of marginal net reversals and amounted to SEK 3 million (5). The credit loss ratio was -0.01 per cent (-0.01).

BUSINESS DEVELOPMENT

EPSI's annual customer satisfaction survey showed that Handelsbanken once again had customers that were more satisfied than the average for banks in Denmark. Private customers gave the Bank a score of 75.7, compared to the sector average of 70.0. On the corporate side, the score was 71.9, compared to the sector average of 70.3.

Work on simplification, efficiency enhancements, digitalisation and improvements to the customer experience continued, with one initiative being improved systems support for both private and corporate customers. New launches included expanded digital signature capabilities and improved functionality in the "My Money" app, which is aimed at children. As previously announced, new functions were also released for a digital investment advice guide for private individuals in the first half of the year.

During the quarter, a digital solution was launched for the management of card investigations, as was automatic connection to secure email for all private customers.

An increased focus on the Private Banking segment resulted in good growth during the year and the number of customers increased by 18 per cent.

The Bank continued to have a stable inflow of new volumes and customers. The average volume of household deposits rose by 12 per cent, while household lending grew by 3 per cent. Overall, the average volume of lending increased by 3 per cent to DKK 77.8 billion, while total deposits went up by 5 per cent DKK 35.6 billion.

New savings in the Bank's mutual funds in Denmark totalled SEK -0.2 billion (1.4).

56 branches

Handelsbanken Finland

Handelsbanken Finland consists of the branch operations in Finland, which are organised as a regional bank, as well as Handelsbanken Finans's and Stadshypotek's operations in Finland. At Handelsbanken, the branches are the base of all operations, with responsibility for all customers of the Bank. The regional bank offers banking services at 36 branches throughout Finland. Handelsbanken Finans offers finance company services and works through the Bank's branches.

Quarterly performance
Handelsbanken Finland

SEKm	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Total 2019	Total 2018	Change, %
Net interest income	351	366	332	337	1 386	1 315	5
Net fee and commission income	146	152	141	133	572	502	14
Net gains/losses on financial transactions	9	9	14	14	46	45	2
Other income	3	5	2	7	17	16	6
Total income	**509**	**532**	**489**	**491**	**2 021**	**1 878**	**8**
Staff costs	-111	-110	-115	-110	-446	-437	2
Other expenses	-56	-42	-38	-57	-193	-195	-1
Internal purchased and sold services	-116	-99	-101	-83	-399	-365	9
Depreciation, amortisation and impairment of property, equipment and intangible assets	-18	-18	-30	-4	-70	-21	233
Total expenses	**-301**	**-269**	**-284**	**-254**	**-1 108**	**-1 018**	**9**
Profit before credit losses	**208**	**263**	**205**	**237**	**913**	**860**	**6**
Net credit losses	21	31	52	-1	103	-172	
Gains/losses on disposal of property, equipment and intangible assets	0	-1	0	0	-1	0	
Operating profit	**229**	**293**	**257**	**236**	**1 015**	**688**	**48**
Profit allocation	45	47	42	41	175	183	-4
Operating profit after profit allocation	**274**	**340**	**299**	**277**	**1 190**	**871**	**37**
Internal income	35	-73	-77	-70	-185	-157	-18
C/I ratio, %	54.3	46.5	53.5	47.7	50.5	49.4	
Credit loss ratio, %	-0.18	-0.08	-0.12	0.01	-0.09	0.14	
Assets	212 594	213 144	201 027	195 857	212 594	193 618	10
Liabilities	205 113	205 974	194 245	189 119	205 113	186 931	10
Allocated capital	7 481	7 170	6 782	6 738	7 481	6 687	12
Return on allocated capital, %	11.5	14.9	13.9	12.8	13.3	10.4	
Average number of employees	501	514	514	496	506	518	-2
Number of branches	36	36	36	36	36	36	0

Business volumes,
Finland

Average volumes, EUR m	2019	2018	Change, %
Loans to the public	**13 872**	**13 340**	**4**
of which households	*4 334*	*4 195*	*3*
of which companies	*9 538*	*9 145*	*4*
Deposits from the public	**4 610**	**4 395**	**5**
of which households	*1 707*	*1 579*	*8*
of which companies	*2 903*	*2 816*	*3*

FINANCIAL PERFORMANCE

Operating profit rose by 48 per cent to SEK 1,015 million (688), mainly due to lower credit losses. The depreciation of the Swedish krona increased operating profit by SEK 19 million, and expressed in local currency, operating profit improved by 43 per cent. Profit before credit losses grew by 6 per cent, and expressed in local currency, profit before credit losses increased by 3 per cent. Return on allocated capital was 13.3 per cent (10.4). The C/I ratio was 50.5 per cent (49.4).

Income increased by 8 per cent to SEK 2,021 million (1,878) and was positively affected by foreign exchange movements in the amount of SEK 57 million. Expressed in local currency, income growth was 4 per cent.

Net interest income rose by 5 per cent, or SEK 71 million, to SEK 1,386 million (1,315). Foreign exchange movements represented SEK 38 million of this increase and, expressed in local currency, net interest income grew by 2 per cent. Larger business volumes had a SEK 47 million positive impact on net interest income. The net amount of changed margins and funding costs decreased net interest income by SEK 55 million. The fee for the Swedish Resolution Fund was SEK 27 million lower than during the period of comparison and, together with the deposit guarantees, government fees burdened net interest income in the amount of SEK -107 million (-132).

Net fee and commission income rose by 14 per cent to SEK 572 million (502), principally due to higher income from payments and to lending and deposit commissions. Adjusted for foreign exchange movements, net fee and commission income rose by 10 per cent.

Total expenses increased by 9 per cent, or SEK 90 million, to SEK -1,108 million (-1,018). The depreciation of the Swedish krona accounted for SEK 32 million of this increase. Expressed in local currency, expenses were up by 6 per cent. A project to update the core banking system in Finland was initiated in late 2018, which explains some of the increase in expenses. Staff costs rose by 2 per cent to SEK -446 million (-437), but expressed in local currency, staff costs decreased by 1 per cent.

Other expenses fell by 1 per cent to SEK -193 million (-195). The average number of employees fell by 2 per cent to 506 (518). In accordance with IFRS 16, the majority of rental costs for premises are now recognised as depreciation charges.

Credit losses consisted of net reversals and amounted to SEK 103 million (-172). The credit loss ratio was -0.09 per cent (0.14).

BUSINESS DEVELOPMENT

In the annual customer satisfaction survey in Finland, EPSI concluded that "Handelsbanken has the most satisfied corporate customers". Customer satisfaction among private customers also increased compared to the previous year. At no point in the last 15 years has the lead that Handelsbanken enjoys over the sector average been as large as it currently is. Private customers gave Handelsbanken a score of 81.2, compared to the sector average of 73.6. Corporate customers gave the Bank a score of 80.0, as compared with the sector average of 72.2.

The development of the advisory tool continues, and it now supports advisors in taking into account customers' sustainability preferences.

During the first half of the year, the option of buying and selling mutual funds, and arranging monthly savings in the mobile banking app, was launched. In December, 23 per cent of all new monthly savings deposits in mutual funds were made through the mobile app.

Handelsbanken Finland has introduced a new mortgage loan tool for the branches. This tool is an important part of providing full advisory services in the mortgage loan discussion, and also includes savings advice.

The average volume of household deposits rose by 8 per cent, while household lending grew by 3 per cent. Corporate lending grew by 4 per cent and corporate deposits grew by 3 per cent. Overall, the average volume of lending rose by 4 per cent to EUR 13.9 billion, while total deposits grew by 5 per cent to EUR 4.6 billion.

New savings in the Bank's mutual funds in Finland totalled SEK 1.3 billion (5.4).

36 branches

Handelsbanken the Netherlands

Handelsbanken the Netherlands consists of the branch operations in the Netherlands, which are organised as a regional bank, as well as asset management operations in Optimix Vermogensbeheer. The regional bank offers banking services at 29 branches throughout the Netherlands.

Quarterly performance Handelsbanken the Netherlands

SEKm	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Total 2019	Total 2018	Change, %
Net interest income	212	206	196	186	800	675	19
Net fee and commission income	42	35	36	38	151	160	-6
Net gains/losses on financial transactions	23	3	3	8	37	21	76
Other income	-3	0	0	1	-2	2	-200
Total income	**274**	**244**	**235**	**233**	**986**	**858**	**15**
Staff costs	-99	-99	-102	-100	-400	-355	13
Other expenses	-28	-19	-13	-26	-86	-103	-17
Internal purchased and sold services	-39	-36	-37	-30	-142	-117	21
Depreciation, amortisation and impairment of property, equipment and intangible assets	-15	-15	-20	-5	-55	-17	
Total expenses	**-181**	**-169**	**-172**	**-161**	**-683**	**-592**	**15**
Profit before credit losses	**93**	**75**	**63**	**72**	**303**	**266**	**14**
Net credit losses	-1	-1	0	-1	-3	14	
Gains/losses on disposal of property, equipment and intangible assets	-	-	0	-	0	-	
Operating profit	**92**	**74**	**63**	**71**	**300**	**280**	**7**
Profit allocation	1	1	-1	1	2	2	0
Operating profit after profit allocation	**93**	**75**	**62**	**72**	**302**	**282**	**7**
Internal income	-69	-102	-101	-94	-366	-296	-24
C/I ratio, %	65.8	69.0	73.5	68.8	69.1	68.8	
Credit loss ratio, %	0.01	0.01	0.00	0.01	0.01	-0.03	
Assets	71 342	71 032	65 532	65 851	71 342	54 684	30
Liabilities	69 144	68 966	63 596	63 959	69 144	52 861	31
Allocated capital	2 198	2 066	1 936	1 892	2 198	1 823	21
Return on allocated capital, %	13.4	11.3	10.2	11.8	11.8	12.9	
Average number of employees	313	315	319	319	317	300	6
Number of branches	29	29	29	29	29	29	0

Business volumes, The Netherlands

Average volumes, EUR m	2019	2018	Change, %
Loans to the public	**5 023**	**4 419**	**14**
of which households	*2 916*	*2 403*	*21*
of which companies	*2 107*	*2 016*	*5*
Deposits from the public	**1 347**	**1 140**	**18**
of which households	*197*	*132*	*49*
of which companies	*1 150*	*1 008*	*14*

FINANCIAL PERFORMANCE

Operating profit improved by 7 per cent to SEK 300 million (280). Foreign exchange effects had a positive effect of SEK 8 million on operating profit. In local currency, operating profit increased by 4 per cent. Return on allocated capital was 11.8 per cent (12.9). The C/I ratio was 69.1 per cent (68.8).

Net interest income increased by 19 per cent to SEK 800 million (675). Foreign exchange movements represented SEK 21 million of this increase and, expressed in local currency, net interest income grew by 15 per cent. Larger business volumes had a SEK 101 million positive impact on net interest income. The net amount of changed margins and funding costs had a marginally positive impact. The fee for the Swedish Resolution Fund was SEK 3 million lower than during the period of comparison and, together with the deposit guarantees, government fees burdened net interest income in the amount of SEK -34 million (-36).

Net fee and commission income decreased by 6 per cent to SEK 151 million (160) due to lower brokerage and mutual fund commissions. The asset management company Optimix contributed SEK 132 million (141). Foreign exchange effects positively affected net fee and commission income by SEK 5 million. Assets under management at Optimix totalled EUR 1.6 billion at the end of the period, including the company's own mutual funds (1.6).

Expenses rose by 15 per cent to SEK -683 million (-592). In local currency, expenses were up by 12 per cent, mainly as the result of continued expansion and IT development. The average number of employees went up by 6 per cent to 317 (300).

In accordance with IFRS 16, the majority of rental costs for premises are now recognised as depreciation charges.

Credit losses, all of which arise from Stage 1 and Stage 2 provisions, amounted to SEK -3 million (14). The credit loss ratio was 0.01 per cent (-0.03).

BUSINESS DEVELOPMENT

EPSI's annual customer satisfaction survey showed that Handelsbanken had the most satisfied customers – both private and corporate – of all banks in the Netherlands. Private customers gave the Bank a score of 77.7, compared to the sector average of 68.2. Corporate customers gave Handelsbanken a score of 75.3, compared to the sector average of 63.5.

The average volume of household deposits rose by 49 per cent, while household lending grew by 21 per cent. The average volume of corporate lending increased by 5 per cent, while corporate deposits grew by 14 per cent. Overall, the average volume of lending increased by 14 per cent to EUR 5 billion, while total deposits went up by 18 per cent to EUR 1.3 billion.

29 branches

Handelsbanken Capital Markets

Handelsbanken Capital Markets consists of the four business areas: Markets, Asset Management, Pension & Life, and International.

A large part of the income from Handelsbanken Capital Markets' products, including asset management commissions and income from currency conversions, is reported directly in branch operations at the branch with customer responsibility, and is thus not included in the income statement below.

Quarterly performance Handelsbanken Capital Markets SEKm	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Total 2019	Total 2018	Change, %
Net interest income	109	109	106	113	437	440	-1
Net fee and commission income	996	1 045	1 070	1 011	4 122	3 968	4
Net gains/losses on financial transactions	216	255	324	249	1 044	802	30
Risk result – insurance	48	15	48	34	145	106	37
Other income	4	2	3	3	12	17	-29
Total income	**1 373**	**1 426**	**1 551**	**1 410**	**5 760**	**5 333**	**8**
Staff costs	-408	-446	-478	-463	-1 795	-1 791	0
Other expenses	-162	-159	-183	-192	-696	-781	-11
Internal purchased and sold services	-307	-309	-288	-274	-1 178	-789	49
Depreciation, amortisation and impairment of property, equipment and intangible assets	-21	-16	-41	-7	-85	-28	204
Total expenses	**-898**	**-930**	**-990**	**-936**	**-3 754**	**-3 389**	**11**
Profit before credit losses	**475**	**496**	**561**	**474**	**2 006**	**1 944**	**3**
Net credit losses	2	-2	4	5	9	10	-10
Gains/losses on disposal of property, equipment and intangible assets	0	-	0	0	0	0	
Operating profit	**477**	**494**	**565**	**479**	**2 015**	**1 954**	**3**
Profit allocation	-633	-641	-599	-554	-2 427	-2 297	6
Operating profit after profit allocation	**-156**	**-147**	**-34**	**-75**	**-412**	**-343**	**20**
Internal income	-755	-713	-577	-515	-2 560	-2 772	8
C/I ratio, %	121.4	118.5	104.0	109.3	112.6	111.6	
Credit loss ratio, %	-0.02	-0.01	-0.02	-0.03	-0.02	-0.02	
Assets	313 829	361 501	323 567	339 662	313 829	277 159	13
Liabilities	307 637	355 687	319 070	335 231	307 637	272 734	13
Allocated capital	6 192	5 814	4 497	4 431	6 192	4 425	40
Return on allocated capital, %	-8.0	-7.9	-2.4	-5.3	-6.2	-5.9	
Average number of employees	959	994	997	1 011	990	1 076	-8

Assets under management SEK bn	2019	2018
Mutual funds, excl. PPM and unit-linked insurance	458	365
PPM	44	33
Unit-linked insurance	139	107
of which external funds	*-2*	*-2*
Total mutual funds	**639**	**503**
Structured products	7	9
Portfolio bond insurance	30	25
of which in Handelsbanken mutual funds and structured products	*-13*	*-10*
Traditional insurance	7	8
of which in Handelsbanken mutual funds and structured products	*-7*	*-1*
Discretionary and Institutional assets, excl. insurance[1]	284	233
of which in Handelsbanken mutual funds and structured products	*-180*	*-148*
Total assets under management, excl. securities in custody	**767**	**619**
Securities in custody accounts, excl. mutual funds	417	333
Securities in custody accounts, excl. mutual funds, for foundations associated with Handelsbanken	50	47

[1] Including the entire volume managed by Heartwood, of which SEK 36bn (29) in Heartwood's mutual funds.

FINANCIAL PERFORMANCE

Operating profit increased by 3 per cent to SEK 2,015 million (1,954). Income grew by 8 per cent to SEK 5,760 million (5,333). Total expenses rose by 11 per cent to SEK -3,754 million (-3,389).

Net fee and commission income increased by 4 per cent to SEK 4,122 million (3,968), which was due to rising mutual fund volumes and an increase in advisory and insurance-related commissions.

Net gains/losses on financial transactions rose to SEK 1,044 million (802), although the increase is explained by a change in the principle for profit allocation, and is offset on the expense side by higher distribution remuneration.

Staff costs were largely unchanged at SEK -1,795 million (-1,791). Profit during the second quarter was negatively affected by one-off expenses of SEK 21 million in connection with the closure of the branches in Estonia, Latvia and Lithuania. Adjusted for this and for foreign exchange effects, staff costs decreased by 3 per cent. The average number of employees decreased by 8 per cent to 990 (1,076).

Other expenses fell by 11 per cent to SEK -696 million (-781). Internal purchased and sold services increased by SEK 389 million to SEK -1,178 million (-789), mainly due to higher distribution remuneration to the branch operations.

Credit losses consisted of net reversals, and totalled SEK 9 million (10). The credit loss ratio was -0.02 per cent (-0.02).

BUSINESS DEVELOPMENT

Markets

Handelsbanken Markets offers products and services linked to risk management, securities, derivatives, research, debt capital markets and corporate finance.

Markets is currently carrying out extensive change work to provide a foundation for the development and extension of the investment banking business, with the aim of creating more value centred on the Bank's core customer base.

Markets' offering to the Bank's core customers is being developed in close co-operation with the branch operations. The branches' local presence and decision-making power will be combined even more distinctly with Markets' strong specialist support. The offering should be perceived as straightforward and relevant, and should be aligned with the Bank's ambitions to advance development within the field of sustainability.

Through a more focused approach to this work, and by offering long-term, trusted advice, the goal is to have the most satisfied customers in the customer segments that the Bank has decided to focus on.

Foreign exchange business developed at a slightly weaker rate than the previous year, while fixed income business was slightly stronger. Corporate Finance continued to perform well and, according to the market research company Mergermarket, the Bank was the second largest Nordic player as regards mergers and acquisitions of Swedish companies in 2019. The Bank's business volumes in terms of capital market funding also showed a strong performance, with an arranged volume of EUR 12.1 billion spread over 115 bond issues. The Bank has seen that interest in sustainable funding remains high. The Bank has provided extensive sustainable funding throughout the year, in the form of both loans and bonds, within forestry, property and wind power.

Asset management

Asset Management offers a full range of products and services linked to asset management, as well as co-ordinating the Bank's offering in the savings area.

Asset management operations continued to show a strong performance and net savings in Handelsbanken's mutual funds in Sweden during 2019 amounted to SEK 27.3 billion (13.0), meaning that the Bank was the largest player with a market share of 21 per cent of the net flow. Over the last ten years, the Bank has had the largest share of net savings during eight of those years and the second largest during the other two.

Total net savings in the Group's funds amounted to SEK 28.3 billion (21.2). The total fund volume, including exchange-traded funds, increased during the year by 27 per cent to SEK 639 billion (503). Both the fund volume in Sweden and the aggregated fund volume in the other Nordic markets are the highest ever. Total assets under management in the Group rose during the year by 24 per cent to SEK 767 billion (619), also to the highest volume ever.

The market research company Kantar Sifo Prospera ranked Handelsbanken as the number one "External Asset Manager" in Sweden in its 2019 survey. Morningstar, a mutual fund research company, also ranked Handelsbanken Fonder highest of the Nordic banks when it evaluated the 30 largest fund managers on the Swedish market

During the year, work on introducing enhanced sustainability requirements to the Bank's funds has continued, as a result of which the majority of the Bank's mutual funds are now managed according to these requirements. At year-end 2018, 44 per cent of the total mutual fund volume was managed according to the enhanced sustainability requirements. During the year, this proportion grew further, to the extent that 90 per cent of the total mutual fund volume was managed according to the enhanced sustainability requirements. Morningstar also ranked the Bank as Europe's fifth largest manager of sustainability-focused funds in 2019.

Pension & Life

Pension & Life comprises the Handelsbanken Liv subsidiary and offers pension solutions and other insurance solutions for private and corporate customers.

The Pension & Life business area performed well and the total premium volume increased by 12 per cent compared to the previous year. Occupational pensions performed well and the total premium flows increased by SEK 336 million, or 11 per cent, compared to the previous year. The number of customers transferring their pension capital to Handelsbanken Liv continues to rise, and net transferred capital increased by 61 per cent during the year. Assets under management at Handelsbanken Liv increased by 27 per cent during the year to SEK 176 billion (139), the highest volume ever.

International

Handelsbanken International encompasses the Bank's branches and representative offices outside the Bank's home markets, as well as the units for Financial Institutions (global banking collaborations) and Transaction Banking.

As previously announced, International will be concentrating its operations to the branches in Luxembourg and New York. The Luxembourg branch will also be the base for the business operations in France and Spain. Increased regulatory requirements and investment needs, combined with changes to customer behaviour – with customers centralising their administration and decision-making to fewer units, such as Treasury Centres – have resulted in the Bank making the decision to gradually wind down its operations in Asia. The Bank also intends to gradually discontinue its operations in Germany. As previously announced, the Bank decided during the second quarter to close its branches in Tallinn, Riga, Vilnius and Warsaw.

The average volume of deposits in Handelsbanken International increased by 4 per cent during the year, to SEK 62.8 billion (60.1). Lending decreased by 7 per cent to SEK 29.6 billion (31.7).

The Handelsbanken share and shareholders

Handelsbanken's share was first traded on the Stockholm stock exchange in 1871, making it the oldest listed share on the exchange

There are two classes of Handelsbanken's share: class A and class B. Class A shares are by far the most common and represent more than 98 per cent of all shares, both in terms of the number of shares and the turnover. Class A shares each carry one vote, while class B shares have one-tenth of a vote. Each share represents SEK 1.55 of the share capital. At year-end, there were a total of 1980,028,494 shares (1,944,175,160). The share capital was SEK 3,069 million (3,013).

STOCK EXCHANGE TRADING

Handelsbanken's shares are traded on several different marketplaces. Turnover is largest on Nasdaq Stockholm, but for the past couple of years, the shares have also been traded on other exchanges. In 2019, an average of 4.0 million class A shares in Handelsbanken (4.0) shares were traded each day on Nasdaq Stockholm. The Handelsbanken share is in the group of the most traded shares on the Stockholm stock exchange. Handelsbanken's share was first traded on the Stockholm stock exchange in 1871, making it the oldest listed share on the exchange. For many years, the share has been included in numerous sustainability indexes.

DIVIDENDS

Where dividends are concerned, Handelsbanken's policy is that the dividend level must not lead to the capital ratios falling below a level of one percentage point above the requirements communicated by the Swedish Financial Supervisory Authority.

The Board is proposing that the 2020 AGM resolve on an ordinary dividend of SEK 5.50 per share (5.50). The complete proposal on share dividends is presented on page 189.

CREATING SHAREHOLDER VALUE

During the past five-year period, Handelsbanken has generated a positive shareholder value of SEK 25 billion. Market capitalisation has decreased by SEK 33 billion, while the Bank has paid out SEK 58 billion in dividends.

SHARE PRICE PERFORMANCE

As at 31 December 2019, Handelsbanken's market capitalisation was SEK 200 billion (191). The Swedish stock market (OMX Stockholm 30 index) grew by 26 per cent during the year. The Stockholm stock exchange's bank index fell by 7 per cent. Handelsbanken's class A shares closed at SEK 100.90, a rise of 3 per cent, but including the dividends paid, amounting to SEK 5.50, the total return was 8 per cent.

Handelsbanken's shares	2019	2018	2017	2016	2015
Earnings per share, SEK	8.65	8.93	8.28	8.43	8.57
after dilution	8.58	8.84	8.20	8.31	8.39
Ordinary dividend per share, SEK	5.50[1]	5.50	5.50	5.00	4.50
Total dividend per share, SEK	5.50[1]	5.50	7.50	5.00	6.00
Dividend growth, ordinary dividend, %	0[1]	0	10	11	8
Price of class A share, 31 December, SEK	100.90	98.30	112.20	126.60	112.90
Price of class B share, 31 December, SEK	103.40	101.20	113.00	123.40	116.30
Highest share price during year, SEK	106.75	118.30	135.70	134.60	142.00
Lowest share price during year, SEK	82.66	95.28	109.10	92.00	108.40
Share price performance, %	3	-12	-11	12	-8
Total return, %	8	-6	-7	17	-3
Dividend yield, %	5,5[1]	5.6	4.9	3.9	4.0
Adjusted equity per share, SEK	78.60	72.90	72.90	69.28	65.14
Stock exchange price/equity, %	128	135	154	183	173
Average daily turnover on Nasdaq OMX (no. of shares)					
Class A	4 039 413	3 950 419	3 320 334	3 856 880	3 425 715
Class B	51 217	45 415	41 655	37 222	60 342
P/E ratio	11.7	11.0	13.5	15.0	13.2
Market capitalisation, SEK bn	200	191	218	246	215
No. of converted shares from the convertible subordinated loan issued in 2008, millions	0.0	0.0	0.0	0.0	0.0
No. of converted shares from the convertible subordinated loan issued in 2011, millions				37.1	
No. of converted shares from the convertible subordinated loan issued in 2014, millions	35.8				
No. of shares as at 31 December, millions	1 980.0	1 944.2	1 944.2	1 944.2	1 907.0
Holding of repurchased own shares, millions	-	-	-	-	-
Holding of own shares in trading book, millions	-	-	-	-	-
Number of outstanding shares as at 31 December, millions	1 980.0	1 944.2	1 944.2	1 944.2	1 907.0
Dilution effect, end of period, millions	0.0	32.7	30.3	30.1	65.7
Number of outstanding shares after dilution, millions	1 980.0	1 976.9	1 974.5	1 974.3	1 972.7
Average number of outstanding shares, millions	1 956.8	1 944.2	1 944.2	1 927.1	1 907.0
after dilution	1 976.9	1 974.5	1 974.3	1 972.7	1 971.9

[1] Dividend as recommended by the Board.

REPURCHASE OF SHARES

At the AGM in March 2019, the Board received a mandate to repurchase a maximum of 120 million shares during the period until the AGM in March 2020. This mandate was not used in 2019.

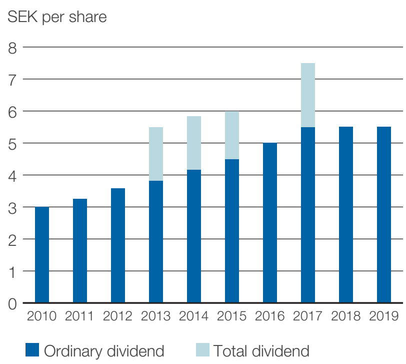
CONVERTIBLE LOAN

In spring 2014, the Bank issued a subordinated convertible loan for SEK 3.2 billion on market terms directed at the Group's employees. Holders could convert these to class A shares in Handelsbanken between 1 May 2019 and 30 November 2019. The Bank could also demand conversion. During the period, a total of 35.9 million new class A shares were converted and reported to the stock exchange for admission to trade.

OWNERSHIP STRUCTURE

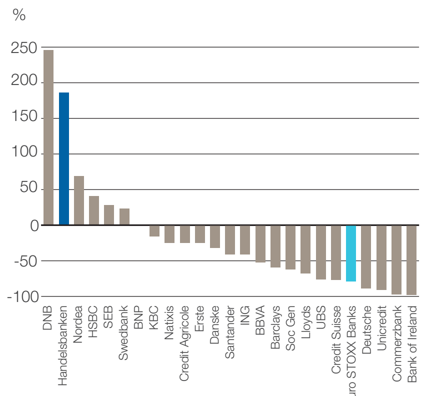
In recent years, the proportion of non-Swedish shareholders has increased, from 30 per cent at the end of 2008, to 48 per cent (46) at year-end. Handelsbanken has more than 120,000 shareholders. Slightly over two thirds of these owned fewer than 1,001 shares. Just over two per cent of the shareholders owned more than 20,001 shares each, and together they held 91 per cent of the share capital. Two shareholders own more than 10 per cent of the shares: the Oktogonen Foundation and Industrivärden.

Share dividends in the past 10 years



2010 according to Board proposal. A 3:1 stock split was carried out in May 2015. Historical dividends have been adjusted for this.

Total return for the period 30 June 2007–31 December 2019



Source: SNL, as at 31 December 2019 (dividends reinvested).

The largest Swedish shareholders 31 December 2019	Number of shares	% of capital	% of votes
Industrivärden	204 900 000	10.5	10.3
Oktogonen Foundation	201 225 141	10.3	10.2
Lundberg-gruppen	72 075 000	3.7	3.6
Handelsbanken funds	47 454 653	2.4	2.4
Swedbank Robur funds	40 528 572	2.1	2.0
Alecta	23 044 000	1.2	1.2
Didner & Gerge funds	15 191 365	0.8	0.8
3rd National Swedish Pension Fund	13 945 547	0.7	0.7
Folksam	13 706 986	0.7	0.7
SPP funds	13 620 508	0.7	0.7
J. Wallanders & T. Hedelius stiftelse,T. Browaldhs stiftelse	13 000 000	0.7	0.7
SEB funds	11 844 555	0.6	0.6
AFA Försäkring	10 138 320	0.5	0.5
Avanza Funds	9 672 393	0.5	0.5
1st National Swedish Pension Fund	9 618 657	0.5	0.5

Shareholdings per shareholder 31 December 2019		Shareholdings				
Number of shares		Number of Shareholders	Number of class A shares	Number of class B shares	% of share capital	% of votes
1–500	shares	63 433	7 257 040	3 065 573	0.5	0.4
501–1,000	shares	17 756	10 642 308	3 010 980	0.7	0.5
1,001–5,000	shares	29 277	59 358 090	9 541 554	3.5	3.1
5,001–20,000	shares	8 893	74 504 567	8 233 904	4.2	3.9
20,001–	shares	2 197	1 793 015 160	11 399 318	91.1	92.1
Total		**121 556**	**1 944 777 165**	**35 251 329**	**100.0**	**100.0**

Shares divided into share classes 31 December 2019 **Share class**	Number	% of capital	% of votes	Average prices/ repurchased amount	Share capital
Class A	1 944 777 165	98.22	99.82		3 014 404 605
Class B	35 251 329	1.78	0.18		54 639 560
Total	**1 980 028 494**	**100.00**	**100.00**		**3 069 044 165**


VENSKA HANDELSBANKE

Sustainability report

This is Handelsbanken's statutory sustainability report for 2019. This report provides information about the entire Group, unless otherwise stated, and any restrictions in the reporting are clearly stated. The statutory sustainability report focuses on Handelsbanken's most material sustainability topics and the sustainability information stipulated in the Swedish Annual Accounts Act.

CONTENTS

Sustainability at Handelsbanken

The Bank's business opportunities and successes depend on customers, employees, the general public, investors and public authorities having confidence in the Bank. A condition for this confidence is that the Bank's operations are subject to high ethical standards and responsible actions.

A SUSTAINABLE BUSINESS MODEL

Sustainability is completely integrated into Handelsbanken's corporate culture and working methods, permeating the Group's operations in all markets. As a bank, we aim to contribute to sustainable development, chiefly through our business operations, and our products and services.

How we contribute

Long-term business relationships, low risk-taking and cost-awareness are cornerstones of Handelsbanken's business culture. Consequently, sustainability has long been a natural part of Handelsbanken's business operations. Stable finances are fundamental to the Bank's sustainability efforts. Thanks to our strict approach to risk, over time we have successfully kept our credit losses at a low level. Our financial strength helps us to avoid becoming a burden on society when times get tough. Instead, we can positively contribute by being financially stable and a responsible taxpayer. Handelsbanken's greatest opportunities to assist and influence sustainable development are in our business operations – when we finance our customers' projects and businesses and are entrusted to manage customers' assets.

A decentralised working method

We always want to be close to the community where we operate, so we believe in a decentralised business model where the local branch is the hub of the customer relationship, based on personal meetings coupled with digital services and solutions. Our role as a responsible employer is based on our fundamental belief in the willingness and ability of individuals to make the right decisions. Managers and employees are together responsible for seeing the opportunities in one another's differences and treating each other with respect. Gender equality, diversity and an inclusive corporate culture are therefore part of Handelsbanken's core values.

GRI reporting

A more detailed report of the Bank's sustainability work and associated results is provided in Handelsbanken's separate Sustainability Report, which is prepared according to the Core level of the GRI Standards and which represents the Group's Communication on Progress for the UN-Global Compact. The complete Sustainability Report is available at handelsbanken.com/sustainability.

In-depth sustainability information

Sustainability is well integrated in Handelsbanken's working methods, and there are several central bodies that co-ordinate the work at Group level and in the subsidiaries. Various processes, such as the ongoing stakeholder dialogues, also exist to support our work with sustainability. This part of the report, which deals with sustainability management, provides more detailed information.

SUMMARY OF CORPORATE GOVERNANCE

Corporate governance concerns how the owners directly or indirectly control the Bank, and how rights and obligations are allocated among the Bank's bodies, in accordance with prevailing laws and regulations.

Handelsbanken's Corporate Governance Report is based on a shareholder perspective. However, there are other stakeholders interested in Handelsbanken's corporate governance upon whose trust the Bank depends. These include customers, employees, the Bank's lenders as well as the community at large.

PRINCIPLES FOR CORPORATE GOVERNANCE AT HANDELSBANKEN

Handelsbanken's shareholders elect the Board, and the Board appoints the Group Chief Executive (CEO). One way in which the Board exercises its governance of the Bank is by issuing policies and instructions. It is partly through the issued policies that the Board takes decisions regarding Handelsbanken's overall risk tolerance and ensures the Bank's financial stability. Through the policies, the Board also decides on the Bank's approach in several essential sustainability issues relating to prevention of financial crime, the environment, remuneration, ethical standards and corruption. The CEO also exercises governance by issuing various policy documents. The CEO issues guidelines, some of which provide more detailed directions to complement and clarify the Board's policies, and also issues instructions to the managers who report directly to her. These policy documents are revised every year but can be adjusted more often when necessary.

However, the foundation of functioning corporate governance is not only formal documents but also the Bank's corporate culture, corporate goal, working methods and remuneration system. These are integral with the principles, strategies, limits and targets described in policy documents and instructions.

RECRUITMENT AND DIVERSITY-RELATED WORK BY THE BOARD

Handelsbanken's Board has adopted a policy to promote diversity on the Board. The policy stipulates that, to promote independent opinions and critical questioning, it is desirable that the Board should be characterised by sufficient diversity in terms of age, gender, geographical origin, and educational and professional background. The proportion of women on the Board of the Bank is 45 per cent, and the proportion of members of a nationality other than the country where Handelsbanken is domiciled is 36 per cent.

Composition of the Board after election at the AGM

	2019	2018	2017	2016	2015
Total number of Board members	11	11	11	11	10
of which men	*6*	*7*	*6*	*6*	*7*
of which women	*5*	*4*	*5*	*5*	*3*
Nationality other than Swedish	4	4	4	5	5

INTERNAL CONTROL

All managers at all levels in the Bank have a responsibility for internal control and the Bank's regulatory compliance. Consequently, fit-for-purpose instructions and procedures for the operation must be in place, and compliance with the procedures is monitored regularly.

Group Compliance is an independent unit with functional responsibility for compliance in the Group and provides advice and support in regulatory matters. Internal control and compliance work are subject to internal and external risk-based auditing.

Handelsbanken has an established whistle-blowing system provided by an external supplier. This means that an employee who suspects internal fraud or other irregularities can report these to a body outside the employee's own unit. Anonymous reports are also acted upon.

Selection of policy documents established by the Board:
- Credit policy
- Policy for operational risk
- Capital policy
- Financial policy
- Information policy
- Policy for sustainability
- Policy for ethical standards
- Policy against corruption
- Policy for management of conflicts of interest
- Policy for remuneration
- Policy for suitability assessment
- Policy for risk control
- Policy for compliance
- Policy on measures against financial crime
- Policy for complaints management.

A summary of these policies can be found in the Bank's Corporate Governance Report and at handelsbanken.com.

Selection of guidelines established by the Bank's Group Chief Executive:
- Guidelines regarding the environment and climate change
- Guidelines regarding human rights and working conditions
- Guidelines regarding business relations with the armaments and defence industry
- Guidelines regarding business relations in forestry and farming
- Guidelines regarding the tobacco industry
- Guidelines for managing taxes.

A selection of policy documents that the boards of Handelsbanken's subsidiaries have decided on:
- Policy for shareholder engagement and responsible investment at Handelsbanken Fonder
- Policy for shareholder engagement and responsible investment at Xact Kapitalförvaltning
- Policy for responsible investment at Handelsbanken Liv
- Policy for sustainability at Handelsbanken Liv
- Policy for sustainability at Stadshypotek
- Policy against corruption at Stadshypotek.

Selection of guidelines in the HR area:
- Guidelines on alcohol, drugs and gambling
- Guidelines for the prevention of victimisation and harassment
- Guidelines on bribery and improper influence
- Guidelines on gender equality, diversity and inclusion.

More information

More information about Handelsbanken's corporate governance is also available at handelsbanken.com. The site includes the following information:
- previous corporate governance reports from 2006 onwards
- Articles of Association
- information about the nomination committee
- minutes from shareholders' meetings from 2008 onwards.

ORGANISATIONAL STRUCTURE FOR SUSTAINABILITY

Handelsbanken's sustainability work is decentralised and carried out where the Bank's business and operational decisions are made. The work is co-ordinated by a Group-wide specialist function. As of January 2020, the Bank's Group Communications and the Sustainability Officer is a member of the Bank's executive management and as such has the overall responsibility for sustainability matters. The Bank also has a Sustainability Committee, formed in 2010. The Committee is chaired by Handelsbanken's Head of Sustainability. The Committee consists of representatives from various operating areas throughout the Group and met regularly during 2019, a total of six times.

A sub-committee operates under the Sustainability Committee to work on ethical and tax-related matters. The Head of Group Tax chairs this sub-committee, and representatives come from different business areas and central departments within the Group. The sub-committee is tasked with discussing and providing opinions on tax-related matters from a sustainability perspective, with regard to customers and suppliers and to the Group's own tax management.

Sustainability specialists from various parts of the Group are also active in the Green Finance Committee (GFC), which is responsible for determining technical criteria for green loans, and for approving assets for inclusion in Handelsbanken's portfolio of green assets. In its assessments, the Committee considers areas such as life-cycle analysis, positive effects on the climate, powers of resistance and scientific targets.

Matters of principle relating to sustainability in asset management are the responsibility of Handelsbanken's Responsible Investment Committee. The Committee is represented by Handelsbanken's two fund management companies: Handelsbanken Fonder and Xact Kapitalförvaltning. The Committee's task is to actively monitor trends in responsible investment, to contribute to ongoing improvement in Handelsbanken's work in this area, and to set and follow up relevant objectives.

HANDELSBANKEN AND THE SUSTAINABLE DEVELOPMENT GOALS

Handelsbanken's Sustainability Committee has analysed the 17 Sustainable Development Goals and their 169 targets to determine which of these the operations should focus on, and how we can integrate them within the framework of the sub-areas in the Bank's material topics described above. The analysis was based on the degree of influence, both indirect and direct, identified risks and opportunities, and the Bank's most material sustainability topics. Consequently, in the next few years we will focus on the following six goals:

- gender equality
- decent work and economic growth
- industry, innovation and infrastructure
- sustainable cities and communities
- climate action
- peace, justice and strong institutions.

For all goals selected, Handelsbanken is able to contribute through its own operations and through business relationships. Gender equality, decent work conditions and children's rights are a natural part of our own operations. We are eager to help accelerate their progress in the communities where we are active and the companies with which we do business.

With significant lending to the property sector, we have particular responsibility in terms of sustainable cities. In our corporate lending we want to contribute by reducing our indirect impact on the climate and by financing companies leading the way in the transition to a more sustainable economy. The goal of peace, justice and strong institutions includes the goal of substantially reducing illicit financial flows and significantly reducing all forms of corruption and bribery, an area where banks play a crucial role.

STAKEHOLDER DIALOGUE

To be a responsible bank, we must listen closely to our stakeholders' expectations and be receptive to their opinions about our sustainability activities. We actively engage in systematic dialogue with our stakeholders, to ensure that we get our priorities right. Since June 2019, we have asked our customers about their sustainability preferences in investment advisory sessions. We document their attitude to sustainability in the areas of the environment, social questions and corporate governance. Statistics show that 67 per cent of customers consider sustainability to be either quite important or very important. In 2019, Handelsbanken Liv also asked its customers questions about sustainability in a customer study. The study indicates that slightly more than half of customers believe that sustainability is quite important, and that six out of ten are of the opinion that consumers' choice of savings product can influence society to move towards more sustainable development.

OUR STAKEHOLDERS

Many private individuals, organisations and companies are affected by how Handelsbanken acts in various matters. Business relations with customers, how we act as an employer, conversations with our shareholders, and all the meetings with different groups are examples of stakeholder dialogues. They are affected by and affect how we conduct our operations. For Handelsbanken, corporate social responsibility means living up to the reasonable expectations of these stakeholders and acting so as to maintain their trust in the Bank.

Handelsbanken's principal stakeholders are our customers, employees, owners and investors, union organisations, and the community at large, which includes special interest organisations, public authorities and legislators, for example. The Bank's main stakeholder groups have been identified based on the fact that Handelsbanken's operations materially affect them, or are materially affected by them. Handelsbanken also maintains a continuous dialogue with other stakeholder groups, such as equity research analysts, trade associations, sustainability analysts, non-profit organisations, international organisations, municipalities and county councils, suppliers, press and media, students, schools and universities.

Stakeholder model

All stakeholders have expectations of Handelsbanken. They all wish the Bank to be stable and responsive to their expectations. How well the Bank manages to live up to these expectations has an impact on the continued success of Handelsbanken.

Ongoing dialogue with our stakeholders

Through active dialogue, Handelsbanken can better understand the expectations, opinions and demands that stakeholders have on us and on the way we conduct our operations. This helps us to make well-founded decisions and to better prioritise our sustainability efforts in the markets where we operate.

Customers

The most important dialogue occurs in the meetings that take place every day at over 750 branches in our six home markets. These meetings arise from our desire to grow long-term relationships with our customers. They can be face-to-face, over the phone, at digital meeting places or on social media. By maintaining close, long-term relations with our customers, the Bank gains a better understanding of customer expectations regarding our sustainability work.

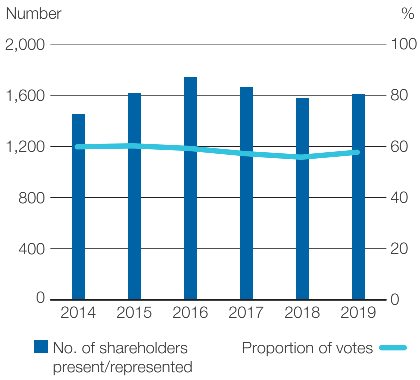
Employees

Our employees are an important stakeholder group. It does not matter how good the products or services are if the Bank does not have the most suitable staff. By taking part in their own unit's annual business planning, each individual employee can play a part by contributing to and influencing the operational focus. Managers with delegated work environment responsibility perform a work environment survey with the work environment representative and their employees at least once a year. The work environment survey is one initiative undertaken to reach the Bank's work environment goals. The results of the work environment survey also serve as supporting documentation for the local work environment plan, which makes up part of the business plan.

Owners and investors

Handelsbanken's shareholders are those who ultimately decide about the Bank's governance. The shareholders exercise their right to decide on matters concerning the company at shareholders' meetings. At the meetings, individual shareholders have the opportunity to put questions to the Bank's Board and executive management. Shareholders show keen interest in Handelsbanken's annual general meetings. In the past five years, shareholders corresponding to more than 50 per cent of the votes have been represented. The Bank provides investors, analysts, rating agencies and other capital market players with information regarding Handelsbanken's operations and financial performance. During the year, the CEO, CFO and Investor Relations department held more than 500 meetings with equity and fixed income investors.

Attendance at AGMs 2014–2019



Union organisations

For a long time, Handelsbanken has had good relations with the union organisations, this being an important part of the Bank's business culture. Union representatives and managers maintain a continuous dialogue about operations – such as when changes are to be made – exchanging valuable information at the very early stages.

Society

Handelsbanken has a continuous dialogue with supervisory authorities, central banks and regulatory bodies as well as with governments and parliaments, in Sweden, the EU and the rest of the world. Increasingly, dialogue between public authorities and the Bank highlights sustainability. The Bank also has continuous contact with non-governmental organisations (NGOs). During the year, we had several ongoing dialogues with them, answered questions and participated in discussions and seminars to keep ourselves updated in the field of sustainability, and to gather important opinions.

Sustainability analysts

Around 30 investment banks have research analysts who regularly monitor Handelsbanken and its share. In recent years, several of these investment banks have supplemented the traditional company research by also evaluating the Bank from a sustainability perspective. Another increasingly prominent group are the independent research firms that specialise in sustainability analysis. Their research analysts evaluate the Bank's sustainability work in several dimensions. An evaluation is usually carried out by means of a comprehensive questionnaire, as well as a dialogue with the analyst. In 2019, Handelsbanken responded to some 10 enquiries, surveys and analyses from various international actors.

Suppliers

Handelsbanken purchases goods and services from many different suppliers. In the Swedish operations, 71 per cent of the total volume of purchases come from more than 130 of the Bank's several thousand suppliers. Based on the Bank's Supplier Code of Conduct, we conduct an ongoing dialogue with our key suppliers in which sustainability figures prominently. As a result of these dialogues, we become involved, our employees are inspired, and we improve our own – as well as our suppliers' – sustainability work.

MATERIALITY ANALYSIS

The purpose of our materiality analysis is to identify the sustainability topics where Handelsbanken's operations have the greatest impact on external parties, based on an economic, environmental or social stakeholder perspective. Applying the materiality analysis, we define the most important sustainability topics that we must prioritise, report on and communicate about.

In 2018, Handelsbanken carried out a comprehensive materiality analysis based on detailed dialogue with participants from our main stakeholder groups in the Bank's home markets. This materiality analysis is also deemed to be of relevance for 2019.

Work on the materiality analysis progressed in three stages:

1. Using a business intelligence analysis, we identified and ranked the sustainability topics where Handelsbanken's operations have the greatest impact on external parties based on an economic, environmental or social stakeholder perspective.
2. These topics were verified by internal and external sustainability experts and Handelsbanken's Sustainability Committee.
3. We carried out a detailed dialogue with stakeholders through qualitative and quantitative interaction. In conjunction with this, we conducted 14 in-depth interviews with representatives from our owners, unions, special interest organisations and large corporate customers. The quantitative part consisted of target group-specific surveys aimed at employees, private customers and corporate customers in our home markets, where the stakeholders could assess how important each sustainability topic was for them in conjunction with decisions and assessments linked to the Bank's operations. Almost 1,000 responses were received. The large number of responses made it possible to follow up the results by stakeholder group and home market.

The identified material sustainability topics were grouped into the following seven areas:

- the Bank and its customers
- the Bank's role in the community
- responsible financing
- responsible investment
- the Bank as an employer
- the Bank's business culture
- the Bank as an investment.

The results of the materiality analysis showed that the Bank's most important sustainability topics are clearly linked to our business in the form of credits, investments, products and advisory services. Other key sustainability topics are strongly associated with how we should continue to run our business in a sustainable and responsible manner with our customers' continuing firm confidence. This means that we continue to work on integrity and confidentiality, to prevent financial crime, to strive for openness and transparency and for the Bank to be financially sustainable by continuing to run our business in a responsible manner, with stability and profitability in focus.

The outcome of the materiality analysis is presented on pages 10–11 of the Sustainability Report. These pages also include a description of the significance of these topics to Handelsbanken and the risks they are associated with.

SUSTAINABILITY RISK

Put simply, sustainability risk refers to the risk that Handelsbanken does not operate in accordance with the policies, guidelines, commitments and ambitions that form the basis for our general sustainability work. This could ultimately result in financial consequences for the Bank, as well as proving harmful to our reputation. It is a matter of how we, as a bank, act in relation to and manage topics within the areas we have identified, where we have the greatest chance to contribute to more sustainable development. A few examples: responsible financing and granting of credit, responsible investment, preventing financial crime, being a responsible employer, responsible purchasing, local presence, financial stability and profitability. This also entails the management of risks related to the Bank's different roles – as a lender, asset manager, service provider, purchaser or employer.

Sustainability risks span over many areas, such as human rights, working conditions, the environment, climate, financial crime, and information and IT security. The identification, management and prevention of sustainability risk is important from both a financial and legal perspective, as are our actions as a community stakeholder. These are also of critical importance for the confidence we instil in the public, as well as our relationships with customers, employees, owners and investors. Handelsbanken's view is that responsible actions are thus essential to long-term value creation.

Handelsbanken's activities for managing sustainability risk follow our decentralised model and are aligned with the Bank's generally low risk tolerance. The Bank's business operations bear the responsibility for identifying sustainability risks and managing these. This is done within a framework of established processes for risk management.

Risk area	Risk description	Potential risk impact on Handelsbanken	Actions to minimise the risk	Leading conventions and guidelines
Climate	Climate-related risks are diverse, complex and often hard to measure. These risks can be split into physical risks and transition risks. Assets which, from a longer-term perspective, are deemed to be highly exposed to climate-related risks and risk losing their entire value are often referred to as 'stranded assets'. Physical climate risks arise as a consequence of global warming brought about by increased greenhouse gas emissions. This results in increased occurrences of extreme weather events, as well as rising sea levels, coastal erosion and similar consequences. These may, in turn, have a large impact on, including damage to, assets we have financed, or may affect companies we invest in. Transition risks are risks that arise through changes to legislation, changes in the demand for products and services, changed customer behaviour or other structural shifts which take place as part of society's attempts to transition to a climate-neutral economy, as a means of combating global warming.	The risk is primarily linked to increased credit losses and capital costs due to a deterioration of customers' financial positions. Weakened return on the Bank's investments. Also the risk of impaired reputation and decreased customer satisfaction.	Develop and improve our capacity to identify, measure, manage and report risks associated with both physical climate-related risks and transition risks in the investment and credit processes, as well as our process for risk control and reporting. This involves develop our existing procedures and processes in relevant areas, with the aim of more effectively being able to identify, value and also stress test assets exposed to climate-related risks. Periodic screening of companies we invest in, checklists in the credit assessment process, support with the help of sector-specific sustainability risks established by external experts, documentation requirements, systems support. Policy documents and instructions for responsible investment and responsible credits. Reporting in line with the TCFD recommendations.	Task Force on Climate-related Financial Disclosures (TCFD). The UN Environment Programme Finance Initiative (UNEP FI). Equator Principles. The UN Principles for Responsible Investment (PRI). The UN Principles for Responsible Banking (PRB).
Environment	Environmental risks are linked to both our own operations and the suppliers we use, but also to the companies we invest in and grant credit to. The risks may be associated with direct environmental incidents, pollution or other negative environmental impacts. However, they may also be indirect, such as business relations with companies engaging in operations that are not aligned with the transition to an environmentally sustainable economy, or which do not give sufficient attention to environmental issues in their operations.	Increased credit losses due to a deterioration of customers' financial positions. Weakened return on the Bank's investments. Also the risk of impaired reputation and decreased customer satisfaction.	Supplier Code of Conduct. Periodic screening of companies we invest in. Checklists in the credit assessment process, support with the help of sector-specific sustainability risks established by external experts, documentation requirements, systems support. Policy documents and instructions for responsible investment and responsible credits.	The UN Environment Programme Finance Initiative (UNEP FI). Equator Principles. The UN Principles for Responsible Investment (PRI). The UN Principles for Responsible Banking (PRB).
Human rights, social conditions and working conditions	The risk of abusing human rights is greatest in the role the Bank has as a lender and when we invest in companies, although the risk is also present in our own operations. Risks related to working conditions chiefly concern health and safety, harassment and victimisation, as well as union rights, reasonable wages and rights to all employee benefits as regulated by law. In our own operations, the risk is mainly linked to the Bank as an employer and the Bank's business culture, as well as relationships with suppliers.	Reputational damage and weaker financial position.	Mandatory training for employees, the Supplier Code of Conduct, supplier audits, the revision and strengthening of related processes connected with the Group's operations and its range of products and services. Periodic screening of companies we invest in, checklists in the credit assessment process, support with the help of sector-specific sustainability risks established by external experts, documentation requirements, systems support. Policy documents for responsible investment and responsible credits.	The UN Universal Declaration of Human Rights. The International Labour Organisation's core conventions. The UN Convention on the Rights of the Child. The UN Guiding Principles on Business and Human Rights. Children's Rights and Business Principles. The UN Global Compact. UK Modern Slavery Act.
Financial crime	These risks are chiefly associated with customers' use of the Bank's products and services for criminal activity. This refers primarily to money laundering, corruption, terrorist financing, various types of fraud, tax crime and other serious financial crime.	Legal consequences, resulting in substantial fines or other sanctions, or claims for damages. Reputational damage and weaker financial position.	Mandatory training to raise employees' awareness, constant revision and strengthening of related processes. Customer due diligence, including customer committees and transaction monitoring.	EU legislation for anti-money laundering and customer due diligence.
Information security and IT security	Risks linked to deficiencies in the management of personal information and company information with respect to availability, accuracy, confidentiality and/or traceability.	Weakened confidence, financial consequences arising from fines or other sanctions, or claims for damages.	Administrative systems, such as rules and instructions, as well as technical security solutions. Continuous follow-up of events which occur both within and outside our operations, for example. through collaboration in international forums. Employee training and informing customers, in order to increase awareness of the threats and risks related to information security.	ISO 27001 international standard. Standard of Good Practice produced by Information Security Forum (ISF).

KEY FIGURES FOR SUSTAINABILITY

Based on the materiality analysis for defining Handelsbanken's most significant sustainability topics, a number of relevant key figures have been compiled in a table. The key figures are organised in the same way as the Bank's material sustainability topics and are grouped in seven sub-areas.

Key figures for sustainability

The Bank and its customers	2019	2018	2017	2016	2015
Customer satisfaction, private customers, SKI/EPSI index					
Sweden	71.5	72.3	68.9	67.6	72.4
UK	84.6	83.9	85.2	83.5	83.6
Norway	77.2	78.1	77.5	74.2	75.8
Denmark	75.7	77.8	76.8	77.7	77.7
Finland	81.2	80.1	79.6	80.1	81.9
The Netherlands	77.7	78.0	78.0	74.1	73.5
Customer satisfaction, corporate customers, SKI/EPSI index					
Sweden	66.5	67.7	67.5	69.4	74.1
UK	83.1	82.6	83.8	81.6	80.7
Norway	72.9	71.5	72.5	69.9	69.7
Denmark	71.9	71.8	72.3	75.7	72.2
Finland	80.0	79.1	78.7	77.5	76.4
The Netherlands	75.3	73.5	72.4	71.9	72.8

The Bank's role in the community	2019	2018	2017	2016	2015
Number of branches and meeting places	769	779	807	819	848
Number of local collaborations and activities	> 800	> 600	> 400	> 400	-
Only local bank, home markets	68	63	66	59	68
Total taxes and government fees, SEK bn	12	11	10	8	8
Credit losses as a percentage of lending	0.04	0.04	0.08	0.09	0.09
Total emissions of greenhouse gases, CO_2e tonnes	9 193	9 628	9 878	9 432	11 580
of which Scope 1 – direct emissions	*27*	*41*	*86*	*51*	*28*
of which Scope 2 – indirect emissions	*5 422*	*5 488*	*5 562*	*5 416*	*7 504*
of which Scope 3 – other indirect emissions	*3 744*	*4 099*	*4 230*	*3 965*	*4 048*

Responsible investment	2019	2018	2017	2016	2015
Assets under management in funds with enhanced sustainability criteria, SEK bn	576	311	221	166	93
Proportion of assets under management in funds[1] with:					
enhanced sustainability criteria, %	90	44	32	29	17
negative screening regarding controversial sectors, %	90	44	32	29	17
negative screening regarding companies that violate international standards and conventions, %	90	44	32	29	17
Fund assets under management in companies:					
with positive screening regarding sustainability aspects (ESG), SEK bn	3.9	3.0	2.4	0.7	0.7
with screening regarding environmental aspects, SEK bn	0.3	-	-	-	-
Fund assets under management in green, sustainable and social bonds, SEK bn	22.2	-	-	-	-
Fund assets under management in impact investing, SEK bn[2]	4.4	1.8	-	-	-
Proportion of fund assets under management evaluated according to PRI, %[3]	100	100	100	100	100
Total number of dialogues for engagement	563	507	251	140	
Number of funds with a quantified carbon footprint and official comparative figure	72	31	34	26	24

Responsible financing	2019	2018	2017	2016	2015
Green bonds – volume arranged, SEK bn	16.3	20.0	8.3	5.2	3.0
Green loans outstanding volume, SEK bn	7.4	1.8	0.3	-	-
Eligible green assets, SEK bn	12.1	10.1	-	-	-
Equator Principles					
Project financing, number of loans					
Category A	0	0	0	0	-
Category B	1	1	0	0	-
Category C	0	0	0	0	-
Project-related corporate loans, number of loans					
Category A	0	0	0	0	-
Category B	0	0	0	0	-
Category C	0	0	0	0	-

[1] Fund volumes are based on Handelsbanken's own mutual funds in the Nordic market and mutual funds managed by Optimix (the Netherlands), and the proportion of total fund volume refers to volume after eliminations on consolidation.

[2] Investments that generate measurable, positive impacts on society, combined with a financial return.

[3] Requirement that fund managers, internal and external, have signed the Principles for Responsible Investment (PRI).

Key figures for sustainability, cont.

The Bank as an employer	2019	2018	2017	2016	2015
Average number of employees	12 548	12 307	11 832	11 759	11 819
Gender breakdown, percentage women/men					
All employees	50/50	49/51	49/51	50/50	50/50
Managers	40/60	39/61	40/60	40/60	39/61
Executive management [4]	14/86	34/66	32/68	29/71	22/78
Percentage of managers recruited internally, Group	92	96	92	93	93
Percentage of managers recruited internally, Sweden	97	99	97	99	99
Staff turnover, Group %	5.0	3.9	4.7	4.0	3.0
Sickness absence rate, %					
Sweden	3.0	3.1	3.0	3.2	3.0
UK	1.5	0.9	1.0	1.0	1.1
Norway	4.2	3.8	3.0	3.1	3.6
Denmark	2.3	1.2	1.0	1.3	1.3
Finland	2.0	2.0	1.8	1.9	1.4
The Netherlands	2.3	2.7	2.8	2.9	1.8
Number of cases reported to national equality ombudsman or a corresponding official body (against the Bank in its capacity as employer)	0	0	1	0	0
Percentage of staff covered by a work environment survey, % [5]	100	100	100	100	100
Number of employees who carried out a work environment survey	10 364	10 181	7 388	5 929	4 261
Total outcome (scale 1–4)	3.4	3.4	3.4	3.4	3.4
for Trust	3.3	3.4	3.3	3.3	3.3
for Respect	3.5	3.5	3.5	3.5	3.5
for Balance	3.2	3.2	3.2	3.2	3.2
for Communication	3.4	3.5	3.4	3.4	3.4
for Security	3.7	3.7	3.6	3.6	3.6
for Physical work environment	3.1	3.1	3.1	3.1	3.1
for Competence	3.5	3.5	3.5	3.4	3.5
for Pride	3.4	3.5	3.5	3.5	3.5
Staff covered by a periodic performance evaluation, %	100	100	100	100	100

The Bank's business culture	2019	2018	2017	2016	2015
Proportion of suppliers (purchased volume in %) that have signed the Bank's code of conduct, or whose code the Bank has approved	76	75	73	73	-
Percentage of employees who have completed training in anti-corruption, and prevention of money laundering and terrorist financing, % [6]					
Sweden	97	91	-	-	-
UK	98	96	-	-	-
Norway	94	93	-	-	-
Denmark	97	97	-	-	-
Finland	95	89	-	-	-
The Netherlands	98	80	-	-	-
Other countries	98	90	-	-	-
Total business travel, million kilometres	29.6	32.3	31.9	27.7	28.3
Business travel per employee, kilometres	2 424	2 703	2 782	2 437	2 483
Number of video conferences	218 095	129 616	41 260	21 382	16 446

The Bank as an investment	2019	2018	2017	2016	2015
Handelsbanken's green bond, volume, EUR m	500	500	-	-	-
Return on equity, %	11.9	12.8	12.3	13.1	13.5
Economic value creation (in accordance with GRI), SEK bn	41.3	40.1	38.0	37.7	39.8
Sustainability analysts' assessments of Handelsbanken					
SAM – new method [7]	74	77	77	-	-
RobecoSAM – old method	-	-	80	82	73
IMUG	positive (B)[8] positive (B)[9]	- -	neutral CCC[8] neutral CC[9]	- -	neutral CC[8] neutral CC[9]
Sustainalytics	78	77	74	71	69
ISS-oekom	C (Prime)	C (Prime)	C- (not Prime)	C- (not Prime)	C- (not Prime)
MSCI ESG rating	AA	A	A	A	A

[4] For 2015–2018, the figures refer to Senior Management.
[5] Information regarding the work environment surveys for 2015 and 2016 refers to Sweden.
[6] Percentage of employees assigned to the training programme.
[7] The method was revised for 2018. The 2017 results are those recalculated by RobecoSAM using the new method.
[8] Non-covered bonds.
[9] Covered bonds.

FACTS: THE BANK AND ITS CUSTOMERS

CUSTOMER SATISFACTION

Handelsbanken considers customer satisfaction surveys very important. Every year, EPSI Rating, which includes SQI (Swedish Quality Index), carries out independent surveys of customer satisfaction. The results of this year's surveys showed that Handelsbanken has more satisfied private and corporate customers than the average for the banking sector in all six of the Bank's home markets.

Customer satisfaction, Handelsbanken 2019

	Private customers	Sector average	Corporate customers	Sector average
Sweden	71.5	67.3	66.5	64.1
UK	84.6	72.1	83.1	70.4
Norway	77.2	70.9	72.9	70.6
Denmark	75.7	70.0	71.9	70.3
Finland	81.2	73.6	80.0	72.2
The Netherlands	77.7	68.2	75.3	63.5

Source: SKI/EPSI 2019.

Managing customer complaints

Customer complaints must be dealt with correctly, carefully and as efficiently as possible. First, the complaint is managed by the local branch responsible. If the customer wishes to pursue the matter, all regional banks in each home market have a designated complaints officer. In addition, there are complaints officers at the Group level. Complaints officers at the Group level regularly report to executive management and product owners. Information about how the Bank manages complaints is available from the Bank's websites.

Financial advisory services

For financial advisory services in conjunction with granting credit, investments and in insurance mediation, the Bank always considers the customer's overall situation and financial circumstances. Based on this, we can provide guidance on financing, payments or investments adapted to each customer's requirements. We focus on the customer's needs – not individual products or services.

When providing investment advice, we adapt the proposal to the customer's goals, interests, savings horizon and attitude to risk. We consider it essential for the customer to understand the risk associated with each type of financial instrument and also to have the knowledge and experience needed to invest in the product or service selected. The information the Bank provides to customers must be clear, factual and easy to understand, and the terms and conditions for the Bank's services must be clear and not changed arbitrarily. We also discuss customer sustainability preferences, and inform the customer about Handelsbanken's sustainability work and the products with specific sustainability criteria that we offer.

The regulations for financial advisory services and insurance mediation require that all employees who provide customers with advice concerning investments and insurance have relevant, up-to-date skills. Handelsbanken has broad expertise in investment advisory services and complies with the regulatory requirements from the EU and local supervisory authorities in all six of the Bank's home markets. Handelsbanken has almost 4,400 employees permitted to provide investment advice. All are licensed to provide advisory services concerning financial instruments, and they update their knowledge every year through mandatory professional training.

Development of the product offering

One of the Bank's main contributions to more sustainable development is embodied in the financial products the Bank offers. Thus, it is vital to take sustainability into account when approving new and amended products. The process for approving new and amended products and services is based on the Bank's policy for products and services and adheres to a checklist describing the product's characteristics, risks and other relevant information. The process is also intended to ensure the Bank's sustainability topics are taken into account.

INTEGRITY AND CONFIDENTIALITY – INFORMATION SECURITY AND IT SECURITY

Work with the Bank's information security and IT security involves protecting customers' information and transactions and also the Bank's IT environment. Information security covers administrative systems, such as rules and instructions, as well as technical security solutions.

It is important that the Bank actively works with IT security to meet possible threats, and that there are procedures for managing changes in the IT environment so that no breaches occur. In the case of deficient processing, or if information were to be released by mistake, the consequences could be serious, including weakened confidence in the Bank or financial losses.

The Group Chief Executive establishes guidelines for information security at Handelsbanken. All employees of the Bank are responsible for compliance with the rules for protection of information, and all managers are responsible for compliance with the rules in their own area of responsibility. Information security work is pursued in accordance with the ISO 27001 international standard. In June 2019, Handelsbanken's organisation for information security, as well as four essential processes within IT production, were certified according to ISO 27001.

The Bank's information security and IT security work, as well as its management of sensitive information, is also governed by international and national legislation.

In 2019, 22 incidents (26) relating to customer privacy or poor management of customer data were reported. None of the reports was received via government authorities. A total of 18 were complaints received from customers which were found to be substantiated by the Head of Information Security, while four were identified internally. All cases have been managed with the parties affected. This data do not include cases under the General Data Protection Regulation (GDPR), introduced in May 2018.

The Bank's information security regulations are based on the Standard of Good Practice developed by Information Security Forum (ISF), an organisation which counts most of the largest companies in the world as members. The work with information and IT security is pursued systematically, and we apply a process where risk analysis plays a central role. The risk analyses employ the ISF's Information Risk Analysis Methodology (IRAM).

The conditions for IT security are constantly changing. Thus, Handelsbanken needs to continuously evaluate and take a stand on new potential threats in this area. By continuously following up events which occur both within and outside our operations, it is easier to take the right action at the right time. To this end, the Bank participates and collaborates in international forums. For several years, Handelsbanken has been a 'listed team' in the Trusted Introducer community (a European network for IT security) and a full member of the Forum of Incident Response and Security Teams (FIRST). Handelsbanken also participates in FIDI-FINANS, a forum for sharing information between the government, the business community and other relevant organisations in Sweden regarding information security in the financial sector. The forum is led by the Swedish Civil Contingencies Agency (MSB).

FACTS: THE BANK'S ROLE IN THE COMMUNITY

FINANCIAL ASPECTS

Pages 77–236 contain a complete account of the financial aspects of the operations, but the most important key figures connected with financial aspects and sustainability are reported below and on pages 49–50.

Lower credit losses

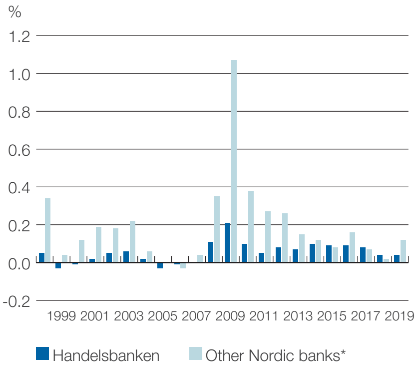
Handelsbanken has a low risk tolerance. This means that the quality of credits must never be neglected in favour of achieving higher volume or a higher margin.

Outcome

Credit losses were SEK -1,045 million (-881). Credit losses as a proportion of lending were 0.04 per cent (0.04). For the most recent 10-year period – that is, since 2010 – the Bank's average credit loss ratio has been 0.07 per cent. This can be compared to the average of the five other major banks in the Nordic region: 0.15 per cent.

Handelsbanken Group	2019	2018
Profit before credit losses, SEK m	22 821	22 880
Net credit losses, SEK m	-1 045	-881
Operating profit, SEK m	21 796	22 013
Return on equity for total operations	11.9%	12.8%
Credit loss ratio	0.04%	0.04%

Credit losses as a percentage of lending



* Only Swedish banks are included for the period up to and including 2000.

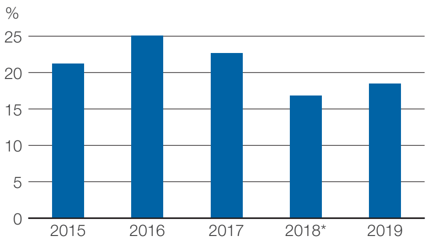
Capital

The Bank's goal is that its common equity tier 1 ratio under normal circumstances should exceed by 1–3 percentage points the common equity tier 1 capital requirement communicated to the Bank by the Swedish Financial Supervisory Authority. The tier 1 ratio and the total capital ratio must also be at least 1 percentage point above the total capital requirement communicated to the Bank by the Supervisory Authority for the respective capital tiers. Additionally, the Bank must fulfil any other capital requirements set by the regulators.

Outcome

At year-end, the common equity tier 1 ratio was 18.5 per cent (16.8). The Bank estimates that the Swedish Financial Supervisory Authority's common equity tier 1 capital requirement at that time was 15.8 per cent. The Bank's capitalisation was thus within the target range.

Common equity tier 1 ratio, CRD IV



*The common equity tier 1 ratio was affected when the Swedish Financial Supervisory Authority moved the risk weight floor for mortgage loans in Sweden to Pillar 1, at 31 December 2018.

Political independence

Handelsbanken is not allied to any political parties. The Bank does not provide any financial support to any political party, nor does it make any other type of political donation.

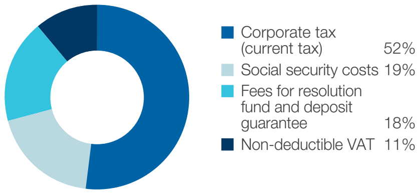
Taxes and distributed economic value

Handelsbanken wishes to provide transparent financial reporting on how the economic value generated by our operations is distributed. The Bank pays and reports tax based on local regulations in the countries where it operates. Handelsbanken complies with the OECD Transfer Pricing Guidelines, such that the Group's earnings are taxed where value is created. The Bank also prepares a country-by-country report showing the Group's earnings and tax in the countries where its operations are run. The Bank's operations in Luxembourg and Hong Kong are not subject to local tax regimes that allow for lower tax rates. The Bank's international branches in Luxembourg and Hong Kong conduct real operations with profits from local business operations for which the Bank is taxed locally in accordance with the normal local tax regulations.

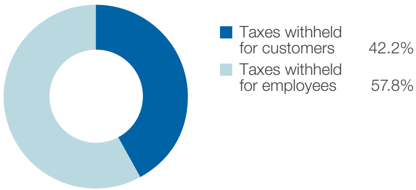
MODERN SLAVERY AND HUMAN TRAFFICKING

Handelsbanken does not accept any form of child labour, slave labour or human trafficking. It works to prevent the occurrence of these in the Group's supply chain and in other companies with which Handelsbanken has business relations. The UK Modern Slavery Act 2015 requires that certain organisations annually state the actions that they

Total taxes and government fees 2019, SEK 11.8 bn



Taxes withheld for customers and employees 2019, SEK 6.9 bn



Geographical information 2019

SEK m	Income	Operating profit	Corporate tax (current tax)*	Social security costs	Fees for the Swedish resolution fund, deposit guarantee, etc.	Assets	Average number of employees
Sweden	26 621	13 886	-4 100	-1 628	-1 567	2 612 909	7 401**
UK	7 185	3 074	-830	-226	-163	360 677	2 442
Norway	4 336	2 646	-615	-136	-209	316 359	777
Denmark	2 312	849	-167	-104	-84	143 762	651
Finland	2 214	1 143	-201	-13	-107	262 504	617
The Netherlands	1 022	326	-86	-41	-34	66 371	336
USA	288	43	-20	-7	-	340 105	62
Luxembourg	192	80	-20	-7	-1	43 596	46
China	123	-84	-11	-	-	5 300	80
Germany	100	-15	-10	-5	0	14 011	38
France	64	31	-5	-2	0	4 002	6
Singapore	49	-85	3	-	-	6 444	30
Poland	40	-57	-	-2	0	1 118	33
Estonia	12	-14	-	-6	0	215	19
Latvia	4	-13	-	-1	0	482	5
Lithuania	2	-14	-	0	0	45	5
Eliminations	-	-	-	-	-	-1 108 233	-
Group	**44 564**	**21 796**	**-6 062**	**-2 178**	**-2 165**	**3 069 667**	**12 548**

* Current tax is the same as paid tax in all material respects.
** Includes eight employees at the Bank's representative offices, as specified on page 253.

The table, which is laid out according to GRI principles, shows how the income generated by the Bank's operations is distributed among various groups of stakeholders. The data comes from the Group's income statement and balance sheet.

Direct economic value generated and distributed (in accordance with GRI) Economic flows to and from various groups of stakeholders

SEK bn	2019	2018	2017	2016	2015
DIRECT ECONOMIC VALUE CREATED					
Customers					
Income after credit losses and before fees for the Swedish resolution fund, deposit guarantee, etc.	41.3	40.1	38.0	37.7	39.8
Value created by serving customers	**41.3**	**40.1**	**38.0**	**37.7**	**39.8**
DISTRIBUTED ECONOMIC VALUE					
Employees					
Salaries	9.3	8.7	8.4	8.1	8.0
Provision to profit-sharing foundation (incl. social security costs)*			0.8		0.9
Social security costs and other staff costs	5.1	3.9	3.3	4.4	3.7
Cost of employees	**14.4**	**12.6**	**12.5**	**12.5**	**12.6**
Public authorities and society at large					
Suppliers**	8.2	7.4	6.5	5.9	5.7
Corporate tax (current tax)	6.1	5.4	5.4	5.2	4.9
Deferred tax	-1.2	-0.8	-0.5	-0.8	-0.6
Fees to the Swedish resolution fund, deposit guarantee, etc.	2.2	2.8	2.0	1.3	1.1
Government bank support received	-	-	-	-	-
Participation in government guarantee programmes	-	-	-	-	-
To society	**15.3**	**14.8**	**13.4**	**11.6**	**11.1**
Shareholders					
Dividends (refers to the year dividends were paid)	10.7	14.6	9.7	11.4	11.1
New share issue	-	-	-	-	-
Transactions with the shareholders	**10.7**	**14.6**	**9.7**	**11.4**	**11.1**
Reinvested economic value ('remaining in the Bank')	**0.9**	**-1.9**	**2.4**	**2.2**	**5.0**

*The preliminary provision made in 2018 and reversed early in 2019 has been excluded from this table.
**Refers to Other administrative expenses and depreciation.

The table of direct economic value generated and distributed shows how the income generated by Handelsbanken's operations during the year was distributed among various stakeholders. The calculation is based on the figures in the income statement and in accordance with the GRI guidelines. The distributed items in the table are based on a broader value created where salaries, depreciation, amortisation, and other administrative costs (suppliers) are added to the operating profit. The purpose is to show in a basic way how Handelsbanken creates value for its stakeholders and in the economic systems in which the organisation works. The table provides an overview of the direct measurable monetary value contributed by Handelsbanken to its stakeholders, and thus how the Bank contributes to development in society.

have taken to ensure that modern slavery and human trafficking do not occur in their supply chains or in their operations. Internal instructions and procedures are in place so that employees understand how to act if they are faced with or suspect a case of modern slavery or human trafficking.

More information and a statement on the Modern Slavery Act 2015 may be found at handelsbanken.co.uk.

ECONOMIC RESEARCH AND EDUCATION

Since the early 1960s, Handelsbanken has on a number of occasions awarded grants for economic research, mainly through allocations to two independent research foundations: Tore Browaldhs stiftelse and Jan Wallanders och Tom Hedelius stiftelse.

Together, these foundations are one of the most important sources of funding for economic research in Sweden. In 2019, 208 grants (189) were awarded for a total of SEK 215 million (215).

At the end of 2019, the foundations' combined capital was SEK 8,268 million (6,684).

Handelsbanken has also funded a professorial chair in accounting at the Stockholm School of Economics and provided financial support to the Swedish House of Finance (SHoF).

Handelsbanken also supports a research project at the Stockholm School of Economics where studies and analyses are performed on the most important factors in creating customer satisfaction and also in monitoring the link between loyalty and profitability.

DIRECT ENVIRONMENTAL AND CLIMATE IMPACT

In accordance with the Paris Agreement, emissions linked to our own operations must be reduced over time. Systematic environmental work is continually done at Handelsbanken to steadily reduce the environmental impact of operations. This is monitored using an array of key figures that show how the work is progressing. Handelsbanken's goal is to actively work to minimise its direct environmental impact by constantly developing its environmental activities. We are working to achieve this by boosting resource efficiency and recycling, for example, and by taking environmental impact into account in our purchasing and business travel. One concrete example of this work is the Bank's company car guidelines, stipulating that company cars that are neither electrically powered nor plug-in hybrids may only be selected in exceptional cases.

Energy and carbon dioxide

The Bank's direct impact derives mainly from energy consumption, business travel and transport as well as use of resources such as paper.

ENVIRONMENTAL DATA

General information	Unit	2019	2018	2017	2016	2015	Base year 2013*
Number of branches reporting		758	768	806	809	827	791
Total office space reported	m^2	452 821	450 789	450 532	456 838	455 176	458 071
Number of employees covered by environmental data [1]	persons	12 217	11 959	11 471	11 373	11 407	11 070
Proportion of total number of employees	%	97	97	97	97	97	96
Emissions of greenhouse gases (CO_2e)	**Unit**	**2019**	**2018**	**2017**	**2016**	**2015**	**Base year 2013***
Emissions Scope 1[2]	tonnes	27	41	86	51	28	47
Emissions Scope 2[3]	tonnes	5 422	5 488	5 562	5 416	7 504	11 385
Emissions Scope 2 without GO electricity	*tonnes*	*9 150*	*9 401*	*8 775*	*9 287*	*9 415*	*11 987*
Emissions Scope 3[4]	tonnes	3 744	4 099	4 230	3 965	4 048	4 787
Total emissions[5]	tonnes	9 193	9 628	9 878	9 432	11 580	16 219
Total emissions per employee	tonnes/employee	0.75	0.81	0.86	0.83	1.02	1.47
Emissions of greenhouse gases by source (CO_2e)	**Unit**	**2019**	**2018**	**2017**	**2016**	**2015**	**Base year 2013***
Emissions from energy use (in buildings)	tonnes	5 443	5 520	5 639	5 460	7 525	11 427
Emissions from business travel	tonnes	3 341	3 743	3 824	3 362	3 243	3 555
Emissions from other sources	tonnes	409	365	415	610	812	1 237
Emissions by country (CO_2e)	**Unit**	**2019**	**2018**	**2017**	**2016**	**2015**	**Base year 2013***
Sweden	tonnes	4 300	4 789	4 532	4 456	4 632	7 336
UK	tonnes	2 751	2 727	3 011	2 710	4 663	4 001
Norway	tonnes	400	445	476	421	430	848
Denmark	tonnes	534	558	578	609	680	1 924
Finland	tonnes	631	621	659	689	689	1 716
The Netherlands	tonnes	577	488	622	547	486	394
Energy consumption	**Unit**	**2019**	**2018**	**2017**	**2016**	**2015**	**Base year 2013***
Total energy consumption (in buildings)	MWh	99 076	102 494	100 114	103 642	105 060	118 923
Electricity consumption	MWh	41 404	44 101	43 669	45 835	47 504	53 704
Change in electricity consumption from preceding year	%	-6.1	1.0	-4.7	-3.5	-5.8	-
Proportion renewable electricity[6]	%	100	100	99	99	92	80
Total electricity consumption per employee	MWh/employee	3.4	3.7	3.8	4.0	4.2	4.9
Use of heating and cooling	MWh	57 672	58 393	56 445	57 807	57 556	65 219
Business travel	**Unit**	**2019**	**2018**	**2017**	**2016**	**2015**	**Base year 2013***
Total business travel	km	29 613 756	32 328 350	31 909 038	27 719 588	28 319 984	29 697 980
Business travel per employee	km/employee	2 424	2 703	2 782	2 437	2 483	2 683
Travel by air	km	19 417 459	21 872 038	21 531 214	18 034 955	17 481 188	18 584 368
Travel by car	km	6 451 782	6 970 747	7 558 391	7 080 995	7 163 074	7 203 086
Travel by train	km	3 744 515	3 485 565	2 819 433	2 603 638	3 675 722	3 910 526
Resource efficiency	**Unit**	**2019**	**2018**	**2017**	**2016**	**2015**	**Base year 2013***
Paper use	tonnes	1 138	1 111	1 200	1 214	1 465	1 605
Paper use per employee	tonnes/employee	0.09	0.09	0.10	0.11	0.13	0.15

[1] Number of employees according to the definition in the Annual Report/number of full-time employees.
[2] Scope 1 – Direct emissions from stationary and mobile combustion of diesel, city gas and Eo1 fuel oil.
[3] Scope 2 – Indirect emissions from purchased electricity, heating and cooling.
[4] Scope 3 – Other indirect emissions from business travel, transport and use of paper.
[5] Emission factors (see method description) are updated for the respective year when the relevant figure becomes available. This also applies historically. 2013–2018 have been adjusted due to incorrectly reported data from one unit.
[6] Refers to electricity from wind power and hydroelectric power.
* The year 2013 was when the Bank acquired its current structure, with six home markets, and is the base year for Handelsbanken's comparisons of emissions over time.

We are working to minimise the carbon dioxide emissions generated by our operations. In 2019, carbon dioxide emissions from Handelsbanken's operations totalled 9,193 tonnes. Since 2013, the Bank has reduced its emissions by 43 per cent.

The Bank's electricity consumption decreased by 6 per cent in 2019 compared with 2018. The proportion of renewable electricity is 100 per cent for all home markets.

Environmental work during the year
Throughout the Bank, changes are constantly being made which, together, are reducing environmental and climate impact.

Examples of actions carried out in 2019:

- Branches and central departments use an environmental checklist, which consists of concrete actions for reducing environmental impact. This was launched in all six of the Bank's home markets during the year.
- Business travel by train in Sweden has increased by 53 per cent while air travel has decreased.
- In 2019, the number of video conferences that can replace business travel was up by 68 per cent from 2018.
- Work to reduce paper consumption continued, and many print-outs linked to the mortgage loan business have been moved to the customer's online inbox. Since 2013, the number of paper communications to customers has gone down by 16 per cent.

Climate compensation
Handelsbanken works constantly to minimise the emissions generated by our operations. The Bank also purchases carbon offsets for the reported CO_2 emissions generated by the operations. The Bank purchases carbon offsets through projects with verified climate benefits which have been registered with the UN Clean Development Mechanism (CDM). The projects are certified based on the Gold Standard, a certification endorsed by more than 80 non-governmental organisations (NGOs) that ensures the projects contribute to long-term sustainable development.

Through our customers' leasing, Handelsbanken indirectly owns many different vehicles. The emissions from these have not yet been included in our total reported emissions, but Handelsbanken Finland is nonetheless leading by example, and has chosen to compensate for the emissions generated by the Finnish leasing fleet. The emissions have been estimated with the help of Finnish emissions statistics, and Handelsbanken Finland compensates using emission allowances in a UN-registered, Indian wind power project, which is also certified according to the Gold Standard.

Method description for environmental data
Climate-based calculations are made according to the GHG Protocol. The calculations include emissions from sources that are owned or operatively controlled by the Bank, which are divided into three categories, referred to as scopes. Scope 1 covers direct emissions from the stationary combustion of diesel, city gas and Eo1 fuel oil from backup generators, heat generation in our own properties, and mobile emissions from our service vehicles. Scope 2 covers indirect emissions from purchased electricity, heating and cooling. Emissions in both scopes are calculated on the basis of specific consumption figures for each branch or unit, multiplied by an emission factor. When specific figures are unavailable, consumption is estimated using adjacent units or energy statistics.

Scope 3 covers indirect emissions outside our organisation. For this, the information is received directly from our paper suppliers, travel agency and transporters. Emissions from car travel are supplemented with unit-specific information from the Bank's company cars.

We measure our material environmental impact in our six home markets. These markets represent 97 per cent of the Bank's total number of employees. The calculations include the relevant greenhouse gases, primarily CO_2, CH_4 and N_2O. Certain emissions are not included in the calculations, such as emissions from coolants, commuting, customers' and employees' leased cars, and from the Bank's investments. The Bank's investments are analysed in asset management's climate reports, in accordance with the TCFD recommendations. The Bank's CPD reporting provides a more detailed description of emission calculations.

Activity	Source emission factors
Stationary combustion	National authorities
Mobile combustion	Unit-specific figures
Electricity consumption	National authorities & external consultant
Heating & cooling	Local energy producers & trade associations
Transport	Figures from service provider
Business travel	Unit-specific figures & figures from service provider
Resource consumption	Figures from service provider
Greenhouse gases	GWP factors CO_2: 1, CH_4: 25 & N_2O: 298. Source: IPCC Fourth Assessment Report

SERVICES FOR THE PUBLIC GOOD

Handelsbanken continues to digitalise the Bank and adapt to the wishes and needs of our customers. This in turn leads to new expectations on our meeting places, where new digital solutions help simplify everyday tasks and streamline service and prompt new services and solutions that benefit the Bank's customers.

Digital solutions
In Sweden, Handelsbanken collaborated with other Swedish banks to develop the Swish payment service and the BankID electronic ID system. Using Swish, all our private customers in Sweden can quickly and simply make payments in real time to individuals, companies, associations and organisations that are linked to the service. Using BankID, public authorities, organisations, companies and banks in Sweden can identify private individuals, making it possible to execute digital agreements, orders and confirmations.

Handelsbanken Denmark has a distribution agreement with MobilePay, whereby our customers can easily make payments using their smartphones in shops, in online stores, in apps and to other users of the service. In Norway, Handelsbanken has an agreement with Vipps, the country's leading payment app. Customers in the Netherlands can use iDEAL, the country's standard for online payments. In Finland, our customers can use the market-leading MobilePay payment app.

The majority of the Bank's home markets have in common that we offer our customers personal technical support, 24 hours a day. When their branch is closed, our customers in Sweden can also receive personal service by phone in any of 20 different languages. Personal service by phone is also offered outside office hours in other markets.

Cash services
Handelsbanken is a part owner of Bankomat AB, a leading operator within cash handling in Sweden. Bankomat AB invests in ATMs – both freestanding and at cash centres – throughout Sweden. In addition to Bankomat's ATMs, in about 562 locations, our customers can withdraw cash from other ATMs that accept MasterCard and Visa.

In addition to withdrawals, private customers can make deposits at Bankomat ATMs in 161 locations.

Cash services are offered at 160 of our 383 branches in Sweden. Our customers can also order banknotes online, by phone or at branches. The banknotes may be picked up at Postnord service points throughout Sweden. Most of Handelsbanken's card customers can also withdraw cash at almost 1,300 ICA shops around Sweden, with no purchase required.

To increase availability and offer cash handling around the clock for our customers in Denmark and Finland, we collaborate with external parties so that our customers can access more ATMs for cash withdrawals and deposits.

FACTS: RESPONSIBLE FINANCING

Handelsbanken must act responsibly and with a long-term perspective. The Bank has clear guidelines for its business relations regarding human rights, working conditions, and environmental and climate-related concerns.

BUSINESS RELATIONSHIPS

Guidelines regarding armaments and defence industry
Handelsbanken's guidelines for business relationships with the armaments and defence industry state that the Bank must not have business relations with companies that manufacture or trade in weapons that are prohibited under international conventions. This includes biological weapons, chemical weapons, anti-personnel mines and cluster munitions. Nor can Handelsbanken have business relations with companies that manufacture or trade in nuclear weapons, or with companies that export weapons to countries under a UN or EU embargo.

Guidelines regarding the environment and climate change
Handelsbanken has guidelines for business decisions related to the environment and climate change. These state that, with respect to the companies with which the Bank has business relations, Handelsbanken must be aware of, and act upon, the risks linked to climate change, environmental damage, corruption and human rights.

The guidelines also state that Handelsbanken must not directly finance new mining of coal or new coal power plants. Nor will the Bank initiate new business relations with companies that are either active in coal mining or are dependent on coal, and that are not working actively to ensure a transition to renewable energy production.

Guidelines regarding business relations in forestry and farming

Handelsbanken has guidelines for how the Bank should approach business relationships in forestry and farming. The guidelines specify which aspects we must take into consideration when granting credits, for example, that we expect customers, suppliers and business partners to respect the rights of employees, minimise negative environmental impact, preserve biological diversity, prevent deforestation and protect high conservation value forest.

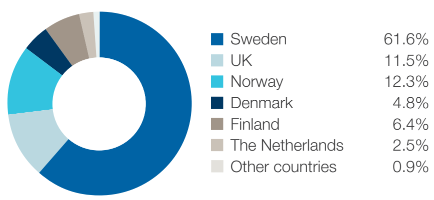
Guidelines regarding business relations in the tobacco industry

Handelsbanken has guidelines to clarify the Bank's approach to companies in the tobacco industry. This states the importance of companies in the tobacco industry with which the Bank has business relations, having processes to address the relevant risks that exist over the whole life cycle of the product. The Bank must not to have any business relations with companies involved in cigarette production.

Guidelines for managing taxes

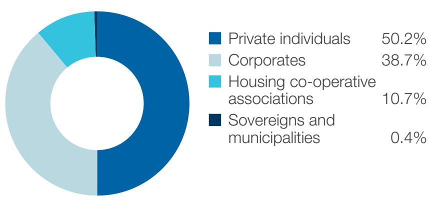
Handelsbanken's guidelines for managing taxes state, among other things, that the Bank must not participate in transactions, through granting credits or otherwise with respect to customers, directly or indirectly, which constitute a step in tax evasion, or in transactions with no business purpose, undertaken only to obtain tax advantages in conflict with the objective of the tax regulations. This also applies in relation to suppliers and other business partners. If there is doubt, the Bank must refrain from participating.

Loans to the public 2019 – Geographic breakdown



Total: SEK 2,293 billion

Loans to the public 2019 – Sector breakdown



Total: SEK 2,293 billion

EXPOSURE TO CLIMATE-RELATED RISKS

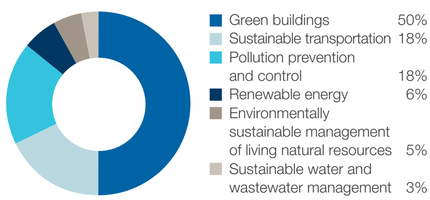
In late 2017, Handelsbanken carried out a screening of the Bank's lending to energy production, which showed that such loans represent only about 1 per cent of total loans to the public. Of this lending, about 12 per cent was to fossil fuel-based production, about 7 per cent to nuclear power, and some 81 per cent to energy produced from renewable sources. A similar screening was undertaken at the end of the third quarter of 2019. The results showed that there was an even lower proportion of lending to energy production.

Loans to the public, 31 December 2019	SEK bn	Proportion of total lending, %
Private individuals	1 152	50.2
of which mortgage loans	*939*	*41.0*
Housing co-operative associations	245	10.7
Property management companies	647	28.2
Manufacturing	29	1.3
Retail	29	1.3
Hotel and restaurant	9	0.4
Sea transport	6	0.3
Other transport and communication	11	0.5
Construction	19	0.8
Electricity, gas and water	19	0.8
Agriculture, hunting and forestry	19	0.8
Other services	20	0.9
Holding, investment and insurance companies	58	2.5
Other corporate lending	20	0.9
Sovereigns and municipalities	10	0.4
Total loans to the public	**2 293**	**100.0**

Green registry

Handelsbanken has built up a green registry, consisting of credits that finance green projects and that comply with the requirements and criteria stipulated in Handelsbanken's green bond framework. At the time of issue in summer 2018, the assets in the green registry totalled SEK 10 billion. At the end of 2019, the volume had increased to SEK 12.1 billion. In addition, Stadshypotek had green assets totalling SEK 2.4 billion at year-end.

Breakdown of credits in green registry



FACTS: RESPONSIBLE INVESTMENT

Handelsbanken strives for sustainable development – in financial, social and environmental terms – in the companies in which the Bank invests on behalf of its customers. We do so based on the Bank's policies and on our commitments under international conventions and guidelines.

INVESTMENT PROCESSES

Integrating sustainability

Criteria related to the environment, social issues and corporate governance (ESG) are integrated with financial criteria to produce better background documentation for decisions in the investment process. The following three methods are common starting points for this work.

Inclusion

Active equity and fixed income management – selecting companies

In active asset management, analysis is paramount. Finding and investing in the right companies is key. The sustainability analysis helps identify risks in companies' business models and find companies at the forefront of the transition to sustainable development. Our active asset management screens companies in two dimensions: the company's sustainability performance and the company's products and services.

Companies in transition

As part of our sustainability work, we have elected to allow the inclusion of 'companies in transition' in our actively managed mutual funds. These companies are in the process of transitioning their business operations from fossil fuel energy production to renewable sources. There can thus be an exemption from the principle of excluding fossil fuels for a temporary period, if the company fulfils our criteria for qualification as a company in transition:

- The company produces and/or distributes electric power.
- The company's plans for the development of its operations are clearly defined, with the objective of reducing its carbon dioxide emissions in line with the Paris Agreement.
- The company's current operations must not consist primarily of fossil fuel energy.
- The company's current rate of investment must emphasise a transition from fossil fuels to renewable energy.

Index management – selecting indexes

Index management takes a rules-based approach, in which the manager foregoes company analysis and, instead, makes investments in line with the fund's index. Therefore, our index funds' sustainability criteria for companies that are included as well as companies excluded are built into the fund's index methodology.

We offer index funds that include companies based on their sustainability work. This selection is based on an evaluation of companies' sustainability performance. Companies that successfully manage sustainability-related risks and opportunities are favoured. Indexes are produced as part of a collaboration between an index supplier and a supplier of sustainability analyses.

Mutual fund portfolios – inclusion of funds

In our mutual fund portfolios, the asset managers do not invest directly in individual companies; instead, they invest in other funds. These fund investments can include Handelsbanken's own funds, and mutual funds from external fund management companies.

Fund investments are selected and followed up in a process that takes into account sustainability criteria at the mutual fund and fund management company levels. Demands are made on systematic sustainability work, which takes its starting point in international norms and conventions.

Handelsbanken Liv – inclusion of mutual funds
Handelsbanken Liv includes mutual funds that integrate sustainability in their investment process and make efforts to contribute to sustainable development. Financial, social and environmental sustainability are taken into account in the assessment and selection of which mutual funds are included in the range. Investments in mutual funds and investment products are preceded by an assessment of the fund management company and the product itself. For example, to be included among the mutual funds Handelsbanken offers, each fund management company must support the UN's Principles for Responsible Investment (PRI), must have policies or principles for systematic sustainability work and must regularly follow up its mutual funds. Funds that integrate sustainability and have an active process for engagement and corporate governance work are favoured in the selection.

Exclusion

Companies that our funds exclude
We exclude companies that do not act in line with the values which we at Handelsbanken respect and that, in various ways, represent a risk of hindering the work towards meeting the targets of the 2030 Agenda and the Sustainable Development Goals.

Consequently, our funds with enhanced sustainability criteria, which constitute 90 per cent of the total fund volume, exclude the controversial sectors listed in the table below, as well as excluding companies which are deemed to be in breach of international norms and conventions regarding, among other things, the climate, environment, human rights, corruption and working conditions.

In addition to the above, our funds have long excluded companies involved in banned weapons, nuclear weapons and coal mining.

Examples of companies that we exclude are published at handelsbanken.com/responsible-investments.

Sector	0% of income from production of:	Max. 5% of income from production of:	Max. 5% of income from distribution of:
Alcohol		•	•
Tobacco	•		•
Cannabis		•	•
Commercial gambling		•	•
Weapons and military equipment		•	•
Pornography	•		•
Fossil fuels*		•	•

* For our actively managed funds, the exclusion of a company with operations in the fossil fuel industry can be exempted if the company meets our requirements for qualification as a company in transition. One example could be a power company making the transition from fossil fuel energy production to renewable, thus reducing its environmental impact.

On a daily basis, the fund management companies' risk control function monitors that the funds follow the provisions regarding the exclusion of companies. The monitoring refers to excluded sectors and also to the companies that do not comply with international norms and conventions.

Mutual funds that Handelsbanken Liv excludes
Handelsbanken Liv avoids mutual funds that invest in companies with significant operations within the mining of coal for combustion or in power companies that use coal for combustion as a major source of energy. In addition, Handelsbanken Liv avoids funds that invest in companies involved in the manufacture or distribution of nuclear weapons and weapons banned under international law, such as cluster munitions, anti-personnel mines, chemical weapons and biological weapons. In 2019, stricter fund selection criteria were implemented for fossil fuels to ensure that the managed assets are directed to investments that contribute to a carbon-neutral society. The criteria will be implemented in 2020 with a fixed adaptation period.

Active engagement

Dialogues
Engagement is an important way for us to contribute to sustainable development. This applies both to proactive dialogue aimed at encouraging companies to improve their sustainability activities and to dialogue with companies that we feel do not comply with the international norms and conventions that we are committed to. We pursue the engagement process on our own through direct contact with companies as well as in collaboration with other asset owners and through sector initiatives.

In 2019, we engaged with 563 companies through dialogues on specific sustainability topics. A list of these companies is published at handelsbanken.com/responsible-investments. These dialogues have covered topics such as corruption, environmental destruction and labour laws.

Targeted dialogues
During the year, we held 37 targeted dialogues intended to proactively influence how companies work with sustainability. We also gather information about sustainability work through our regular contacts with company management and research analysts. In 2019, our asset managers had meetings with some 1,500 companies, to monitor the companies' performance and their business methods and opportunities.

Dialogues together with other investors
Working with other investors, we engage companies through joint dialogues. Co-operation means strength and sends a clear signal to the companies that we expect these issues to be taken seriously. The impetus for these dialogues is often suspected or confirmed violations of international norms and conventions, with the focus on the UN Global Compact's core areas: human rights, labour law, the environment and anti-corruption. In 2019, we participated in 145 such dialogues.

Collaborations and industry initiatives
We also take part in dialogues within the framework of international collaboration and sector initiatives such as PRI and FAIRR. The dialogues often focus on specific topics, such as the climate, deforestation or reduced use of antibiotics in food. In 2019, we participated in 381 such dialogues.

Engagement with fund providers
Handelsbanken Liv strives to influence fund providers to pursue sustainable development. By analysing and comparing the working methods of the fund management companies, Handelsbanken Liv can encourage fund providers to advance their own sustainability efforts. All funds on offer are regularly screened to identify holdings in companies that systematically violate international norms in areas such as the climate, environment, human rights, working conditions and corruption. If the evaluation of a mutual fund indicates non-compliance with these norms, a dialogue is initiated with the fund manager with the aim of influencing them to review the fund's holdings. If the dialogue with the asset manager does not lead to a change, the mutual fund may be excluded from the offering as a result. In addition to the regular screening, Handelsbanken Liv also works on certain focus areas, such as the climate and gender equality. During the year, fund providers have been analysed in terms of their climate-related work in both their management and reporting. These fund management companies have also been analysed in terms of their work to promote gender equality within the company and the asset management organisation, and have been asked to report the carbon footprint of their funds and to draw up ESG profiles. The result of these analyses constitutes supporting documentation for the annual follow-up of the fund provider.

Handelsbanken Liv's fund selection committee compiles such reviews and prepares supporting documentation to determine which mutual funds will be included or removed from its range of funds. Decisions are made by the subsidiary's Chief Executive.

Corporate governance
Conscious, active and responsible governance in the companies we select for our mutual funds is an important part of our assignment as an asset manager. As a shareholder, we have the opportunity to influence the operations of a company through corporate governance. In addition to dialogues, this mainly takes the form of voting at shareholders' meetings, as well as representation on nomination committees. The goal is that the companies achieve optimum value performance in the long term, benefitting our fund savers.

Shareholders' meetings
Our mutual funds invest globally in a great many companies spread over many markets. Shareholders' meetings are one of our most useful means of influencing the majority of companies in which our funds invest. In general, we support shareholder proposals that promote corporate sustainability and greater transparency in recording

and reporting the company's climate impact and its work with human rights and labour law.

In 2019, we voted at 814 ordinary and extraordinary shareholders' meetings distributed over 48 countries. Votes were cast either in person at the meetings or through proxies via electronic voting. Proxy voting enables us to reach more companies and markets and thus influence companies' development to a greater extent. We also voted in favour of several shareholder proposals on sustainability, such as for better climate reporting and analysis based on the two-degree target.

Nomination committees

The most direct impact we can have as owners is by serving on nomination committees. In Swedish companies where our actively managed mutual funds are a major shareholder, we exercise a particularly active ownership role, most notably by influencing the composition of the companies' boards through work in their nomination committees. Guidelines for nomination committee work are sent to all companies that offer us a seat on their committee. The guidelines cover the analysis of board expertise and needs, the importance of sustainability expertise, and a focus on achieving diversity and gender equality on the boards.

Ahead of annual general meetings in 2019, Handelsbanken Fonder participated in the work of 34 nomination committees. The boards proposed by these committees saw only a marginal increase in the proportion of women, from an average of 34 per cent of board members in 2018, to 35 per cent in 2019. Although the average figure remains relatively unchanged, there were major changes in many of the companies. The proportion of female board members increased in seven of the companies but, unfortunately, decreased in nine. Going into the 2020 nomination committee season, we will be increasing our focus on improving the gender equality on the companies' boards. Handelsbanken Fonder appointed women to 65 per cent of the nomination committees we served on in 2019. We believe that this gives us a sound footing to increase the momentum towards achieving gender-equal boards, but we remain humble, considering the size of the task.

Corporate governance	2019	2018	2017
Nomination committees*	34	36	33
Shareholders' meetings**	814	631	267
Handelsbanken Fonder	*473*	*382*	*142*
Xact Kapitalförvaltning	*341*	*156*	*70*

* Refers to Handelsbanken Fonder.

** No. of occasions. Each fund management company votes independently. Thus, the total number of instances may include shareholders' meetings at which more than one fund management company voted. The totals for 2017 and 2018 include Luxembourg. The fund management operations in Luxembourg were discontinued in December 2018.

For a summary of our voting activity, see the report at handelsbanken.com/responsible-investments.

Incentive programmes

It has become more common for boards to propose incentive programmes for senior management and employees in their companies. Incentive programmes with share-related components must always be decided by the shareholders' meeting. These programmes can be complex and, in many cases, are not sufficiently transparent. Together with Institutionella Ägares Förening – IÄF (Institutional Owners Association for Regulatory Issues in the Stock Market), Handelsbanken Fonder has prepared a document with guidelines for how these programmes should be presented. The demands include clear-cut goals, a transparent structure and outcomes, and other existing programmes and remuneration. We receive many enquiries from companies about these programmes before they are presented at the shareholders' meeting, and we have detailed discussions about them. Before the 2019 meetings, we had 25 dialogues on this subject. In addition, we analysed around 30 other programmes before voting.

Disputes and settlements

It may transpire that companies that the fund management companies invest in, breach the regulations in some way. This may be, for example, a violation of the marketplace rules, a breach of competition regulations, or activities which constitute corruption. Such violations may result in legal proceedings being brought against the companies, often as a class action. These processes are most often resolved through a settlement, with the company being compelled to compensate shareholders for losses incurred. Settlements may also include demands for changes in the company's governance structure, in the form of changes to the board of directors, or, for example, new or amended internal rules or control activities. The aim of monitoring and participating in such processes and settlements is that the investing funds receive compensation. In 2019, a number of the funds managed by the fund management company received a total of around SEK 30 million from eight settlements in class actions in the US.

CLIMATE-RELATED FINANCIAL DISCLOSURES

Handelsbanken has published climate reports in accordance with the TCFD recommendations. Reports have been prepared for Handelsbanken Liv, Handelsbanken Fonder and Xact Kapitalförvaltning. The climate reports describe how each organisation takes into consideration climate change in the areas of governance, strategy, risk management, targets and metrics. The results are presented in the climate reports available at handelsbanken.com/responsible-investments. Read more under Facts: The Bank as an investment, on page 61.

FACTS: THE BANK AS AN EMPLOYER

Handelsbanken's values and strong corporate culture are vital to our success. Our concept of how to run a successful bank is based on trust and respect for the individual – both customers and employees. The Bank's decentralised way of working creates commitment and opportunities for every employee to make an impact on the Bank's operations.

STAFF TURNOVER

The Bank takes a long-term approach to relationships with customers and employees. It sees each recruitment as important and long term. Employees with long experience and with broad knowledge from the whole Bank make a vital contribution to the Bank having satisfied customers. External staff turnover was low for the six home markets, at 4.9 per cent (3.8), and 3.7 per cent (3.0) for Sweden. For the Group, it was 5.0 per cent (3.9).

Handelsbanken promotes long-term employment by offering professional development for every employee and opportunities to develop on a personal level in different roles. If employment ceases for any reason other than retirement, the Bank can offer outplacement with the help of external partners.

CONSTANT DEVELOPMENT

Employees must have the necessary skills to help our customers in the best way possible, to provide advice based on customers' needs, and to comply with the current policies and regulations. Each year, an individual competency mapping is performed to identify any need for professional development, based on current duties.

In 2019, several training programmes were mandatory for all employees in the Group, covering anti-corruption, prevention of money laundering and terrorist financing, and the General Data Protection Regulation. New employees are required to complete the Ethics and Sustainability training course, which all other employees are required to complete every second year.

HEALTH AND WORK ENVIRONMENT

Our overall goal for health and the work environment is that employees should be able to feel good, develop and perform at optimal capacity. To achieve our work environment goal, we target a number of health factors.

The work environment survey is based on our eight health factors, with five questions per factor. Each question is answered on a scale from one to four, where one means 'Definitely not' and four means 'Yes definitely'. See the table of key figures on pages 49–50 for results from the Group's work environment surveys in 2019.

Guidelines and procedures are available for dealing with and support in cases of poor health, sickness or crisis situations. If additional expertise is needed, the Bank has special agreements with external service providers.

During 2019, 22 (26) cases of harassment were investigated.

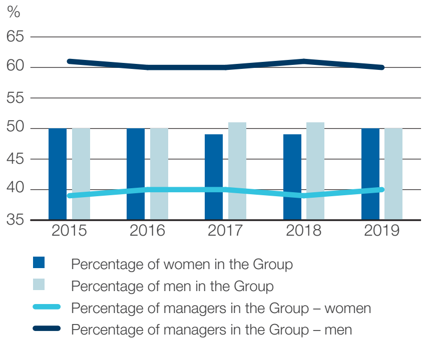
SICKNESS ABSENCE

The sickness absence rate for staff in the Bank's six home markets was 2.7 per cent (2.6). For staff in Sweden, the rate was 3.0 per cent (3.1), of which 1.2 per cent (1.3) referred to those on long-term sick leave.

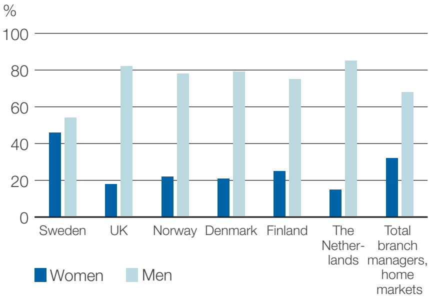
GENDER EQUALITY

The promotion of gender equality and diversity is part of our core values and must be a natural and integral part of our daily work. We aim to have an

Gender breakdown – Group



Gender breakdown – branch managers 2019



Salary contributions to defined contribution pensions 2019

%	Sweden[2]	UK	Norway[3]	Denmark	Finland[4]	The Netherlands
Salary contribution by employers[1]	2	15.3	7/20	11	17.2	10.5
Salary contribution by employees, average	0	1.8	0	5.3	6.8/8.3	0

Salary contributions to defined contribution pensions 2018

%	Sweden[2]	UK	Norway[3]	Denmark	Finland[4]	The Netherlands
Salary contribution by employers[1]	2	15.3	7/20	11	17.8	14.2
Salary contribution by employees, average	0	1.8	0	5.3	6.4/7.9	0

[1] In Sweden, the UK, Norway and the Netherlands, less than 100 per cent of salary is pension-qualifying, as there is an upper limit.
[2] In Sweden, retirement pension plans are 'defined benefit'. The premiums stated refer to defined contribution supplementary pensions.
[3] For salaries corresponding to 0–7.1 Norwegian base amounts/For salaries corresponding to 7.1–12 Norwegian base amounts.
[4] Salary contributions refer to statutory public pensions. Salary contributions by employees are for up to/from 53 years of age.

Defined benefit pensions, pension commitments, and pension assets according to IAS 19[1]

	31 December 2019		31 December 2018	
	SEK m	%	SEK m	%
Pension commitments	35 724	100	31 969	100
Earmarked pension assets	36 378	102	28 743	90
Assets part of Handelsbanken's general resources	-	-	3 226	10

[1] For more detailed information for 2019, see note G8.

inclusive work environment, where we respect and appreciate our different backgrounds, competencies and experiences. The goal is also to create and maintain an even gender balance within different professional roles, working groups and units.

At year-end, 40 per cent (39) of managers in the Group as a whole were women; the corresponding figure for Sweden was 48 per cent (46). Of the total number of employees in the Group, 50 per cent (49) were women; the corresponding figure for Sweden was 52 per cent (52). All managers at Handelsbanken have personnel responsibility.

A few years ago, the Bank signed the Women in Finance Charter in the UK, an initiative from HM Treasury, entailing a commitment to work for a more even gender balance in the financial sector. Handelsbanken in the UK has set goals for women in managerial positions: 30 per cent by 2021 and 40 per cent by 2026. In 2019, the proportion of women managers in the UK increased from 24 per cent to 26 per cent.

REMUNERATION AND BENEFITS

Handelsbanken aims to be an attractive employer and offers competitive terms of employment for all employees – temporary as well as permanent. In addition to the benefits stipulated by law, regulations, collective bargaining agreements and other local agreements, we offer benefits that promote our view of long-term employment, gender equality and participation in Handelsbanken's results.

An attractive employer

Handelsbanken aims to meets its employees' needs during various phases of their life in a flexible way. Collective bargaining agreements are the foundation of the conditions the Bank offers to both temporary and permanent employees. At Handelsbanken, we have individual salaries which are set in the salary dialogue review between manager and employee conducted every year.

Conditions and benefits differ within the Group and are adapted to the markets where the Bank operates and to the collective agreements which have been entered into.

Employees' total remuneration should help to develop the Handelsbanken Group's competitiveness and profitability by attracting, retaining and developing skilled staff, and ensuring the Bank's management succession. This is stated in the Bank's remuneration policy, determined by the Bank's Board. The Board is responsible for the policy being applied and takes decisions to follow up on it. Once a year, the Bank's remuneration committee must make an assessment of the policy and the remuneration system and report it to the Board.

Benefits and pensions

Handelsbanken offers various types of competitive benefits, for both permanent and temporary employees of the Group; these differ between the countries. In 2019, the proportion of permanent employees was 94 per cent (94).

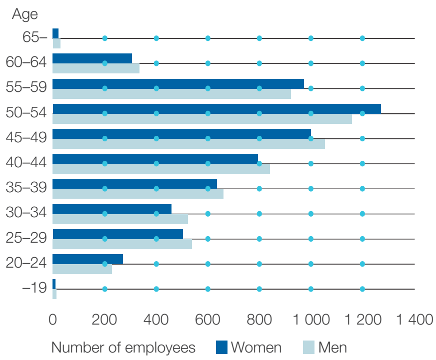
Handelsbanken aims to make it easier for all employees to combine employment with parenthood. The Bank subsidises home and family services for employees in Sweden who have children under the age of 12. In addition to current social insurance regulations for parental leave, in most of its home markets Handelsbanken provides remuneration in accordance with local regulations. This means that parents receive between 80 and 100 per cent of their salaries over a limited period. Employees who take parental leave have the same right to salary dialogue reviews as other staff. Of those who took parental leave in 2019 in the Bank's home markets, 60 per cent (61) were women and 40 per cent (39) men. Almost all of these employees returned to work.

In the Bank's home markets, employees are offered credits on special terms. These credits are mainly granted for financing residential property.

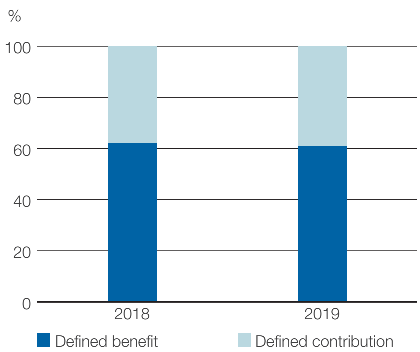
The terms and conditions differ between countries depending on local circumstances, and in several countries they are a taxable benefit.

Our employees' health and their work environment are vital to ensuring that they feel good, develop and perform at optimal capacity. The Bank encourages this by granting subsidies for various leisure activities.

Age and gender breakdown 2019



Proportion of employees in Handelsbanken's home markets who are covered by a retirement pension plan[1]



[1] Retirement pension plan refers here to both (statutory) national retirement pensions and occupational pension plans under local laws and regulations.

Other forms of benefits offered include insurance and company cars.

Pensions are part of the total remuneration to employees of Handelsbanken. The pension terms in the countries where the Bank conducts its operations must be competitive and adapted to legislation and regulations, in accordance with the conditions prevailing in each country.

An occupational pension plan can include a retirement pension, disability pension and surviving family member protection. Employees can be offered pension solutions that are defined benefit, defined contribution or a combination of the two.

Oktogonen – the Bank's profit-sharing scheme

Our goal is to have better profitability than the average of peer competitors in our home markets. In every year but four since 1973, Handelsbanken has allocated part of the Bank's profits to a profit-sharing scheme for its employees. An allocation is made following the Board's overall assessment of the Bank's performance. The funds are managed by the Oktogonen Foundation.

Allocations are subject to Handelsbanken achieving its corporate goal. Each employee receives an equal part of the allocated amount, regardless of their position, form of employment or tasks. The profit-sharing scheme is long term, given the general rule that payments cannot begin until the employee turns 60, at the earliest. 98 per cent (98) of the Group's employees are covered by Oktogonen.

For many years, the Oktogonen Foundation has been one of the Bank's largest shareholders, and is represented by two members on the Central Board of Handelsbanken. Oktogonen's holding also entitles the Foundation to a seat on the Bank's nomination committee.

A basic idea in managing the Foundation is that the funds are invested in shares in Handelsbanken.

	2019				2018				2017			
	New employees by home market, age group and gender		Staff turnover* by home market, age group and gender		New employees by home market, age group and gender		Staff turnover* by home market, age group and gender		New employees by home market, age group and gender		Staff turnover* by home market, age group and gender	
	Number	%**	Number	%**	Number	%**	Number	%**	Number	%**	Number	%**
Sweden	299	4	291	3.7	596	7.6	238	3.0	619	8.2	295	3.9
UK	299	12	146	5.6	288	11.8	122	5.0	219	9.7	103	4.6
Norway	44	5	41	5.1	41	5.1	25	3.1	41	5.3	34	4.4
Denmark	58	9	68	10.2	55	8.0	41	6.0	54	7.9	53	7.7
Finland	48	7	41	6.4	23	3.7	37	5.9	79	11.9	43	6.5
The Netherlands	51	14	42	11.3	48	13.5	16	4.5	57	17.4	20	6.1
Total home markets	**799**	**6**	**629**	**4.9**	**1 051**	**8.3**	**479**	**3.8**	**1 069**	**8.7**	**548**	**4.5**
Group total	**816**	**6**	**656**	**5.0**	**1 076**	**8.2**	**509**	**3.9**				
men < 30 yrs old	123		61		185		49		215		52	
30–50 yrs old	260		206		299		150		320		182	
> 50 yrs old	42		84		75		50		63		63	
women < 30 yrs old	125		55		179		45		178		49	
30–50 yrs old	210		166		245		139		252		144	
> 50 yrs old	39		57		68		46		41		58	

* Staff turnover refers to the proportion of employees who have left the Bank (excluding retirements and deaths) in relation to all employees.
** Percentage of the number of employees in each home market.

	2019				2018				2017			
Employees by form of employment	Number	%	Men %	Women %	Number	%	Men %	Women %	Number	%	Men %	Women %
Regular employment												
Full-time	*10 957*	*83*	*54*	*46*	*10 831*	*83*	*54*	*46*	*10 455*	*82*	*54*	*46*
Part-time	*1 477*	*11*	*19*	*81*	*1 503*	*11*	*19*	*81*	*1 475*	*12*	*18*	*82*
Temporary employment	817	6	45	55	748	6	45	55	725	6	46	54
Group total	**13 251**				**13 082**				**12 655**			

	2019				2018				2017			
Average number of employees	Number	%	Men %	Women %	Number	%	Men %	Women %	Number	%	Men %	Women %
Sweden	7 394	59	48	52	7 262	59	48	52	7 010	60	48	52
UK	2 442	19	56	44	2 319	19	58	42	2 151	18	58	42
Norway	777	6	53	47	771	6	53	47	750	6	54	46
Denmark	651	5	51	49	659	5	50	50	653	6	51	49
Finland	617	5	44	56	635	5	43	57	623	5	42	58
The Netherlands	336	3	67	33	313	3	69	31	284	2	69	31
Other countries	331	3	46	54	348	3	48	52	361	3	46	54
Group total	**12 548**		**50.2**	**49.8**	**12 307**		**50.5**	**49.5**	**11 832**		**50.5**	**49.5**

Sickness absence by home market 2019	2019			2018			2017		
%	Men	Women	Total	Men	Women	Total	Men	Women	Total
Sweden	1.9	4.0	3.0	2.1	4.0	3.1	2.0	3.9	3.0
UK	1.4	1.7	1.5	0.7	1.1	0.9	0.6	1.4	1.0
Norway	3.0	5.5	4.2	2.5	5.3	3.8	2.0	4.2	3.0
Denmark	1.6	2.9	2.3	1.0	1.5	1.2	0.8	1.2	1.0
Finland	1.8	2.1	2.0	1.1	2.7	2.0	1.3	2.3	1.8
The Netherlands*			2.3			2.7			2.8
Total sickness absence	**1.8**	**3.5**	**2.7**	**1.7**	**3.3**	**2.6**	**1.6**	**3.3**	**2.5**
of which long-term absence, Sweden	*0.6*	*1.8*	*1.2*	*0.7*	*1.9*	*1.3*	*0.5*	*1.4*	*1.0*
of which long-term absence, home markets excluding the Netherlands	*0.6*	*1.5*	*1.0*	*0.5*	*1.4*	*1.0*			

* National legislation does not permit the reporting of sickness absence broken down by gender.
Sickness absence is stated as a percentage of total normal working hours. Long-term absence is a period of absence of 60 days or more.

RELATIONSHIPS WITH UNIONS

Handelsbanken's traditionally good relationships and cooperation with unions are a valuable component of the Bank's culture. The Bank promotes the right of all employees to join a trade union or employee organisation. There is an ongoing, close dialogue between union representatives and managers concerning changes to the operations – such as organisational changes, new products or the appointment of new managers.

All employees in Denmark, Finland, Germany, Luxembourg, Norway and Sweden – comprising 76 per cent (77) of the Bank's employees – are covered by collective bargaining agreements. In these countries, employees who are not members of a union are also covered by the terms of the collective agreement. In addition to collective agreements, there are also other types of agreements with local employees' organisations, such as works councils in the UK and the Netherlands.

In Sweden, Handelsbanken's part-ownership of BAO, the Employers' Association of the Swedish Banking Institutions means that, for matters relating to, for example, the work environment and pensions, the Bank is bound by collective agreements with Finansförbundet (Financial Sector Union of Sweden) and various associations which are affiliated to Saco, the Swedish Confederation of Professional Associations. BAO also has collective agreements with the Swedish Hotel and Restaurant Workers' Union and the Swedish Building Maintenance Workers' Union. The Bank has also reached local agreements with Finansförbundet and Saco regarding the forms of influence and co-determination. There is also a work environment agreement between Handelsbanken and Finansförbundet, regulating areas including security issues, roles and the allocation of responsibilities, and the work environment organisation. At the local level, there are joint work environment committees comprised of members representing both the Bank and Finansförbundet. At the central level, there is a joint work environment and security committee, with representatives from the Bank, Finansförbundet and Saco.

There are also work environment agreements in Denmark, Finland and Norway. Similarly, these agreements regulate security issues, roles and the allocation of responsibilities, and the organisation of the work environment.

As well as matters dealt with in a dialogue with the union organisations at national level in each country, there is also Handelsbanken's European Works Council (EWC), which serves as a forum for joint and cross-border questions in the countries in Europe where the Group has operations. The EWC consists of employee representatives from nine countries: Denmark, Finland, Germany, Luxembourg, the Netherlands, Norway, Poland, Sweden and the UK.

FACTS: THE BANK'S BUSINESS CULTURE

Handelsbanken upholds good business ethics and works systematically to take into account new requirements and expectations, as well as to integrate new regulations in daily operations.

Handelsbanken has a number of policies that describe the Bank's common view on, and approach to, a variety of issues. The Bank's website also has the full texts of the policy for sustainability, policy for ethical standards, policy for management of conflicts of interest and policy against corruption as well as summaries of other policies in the Handelsbanken Group. In addition, a selection of guidelines adopted by Handelsbanken's Group Chief Executive is available on the Bank's website.

COMPLIANCE AND CONFIRMED INCIDENTS

Banking operations are regulated and governed by extensive laws and regulations. If a bank does not comply with these, the responsible supervisory authority can decide on administrative fines and, in the worst case, revoke the banking licence. Administrative fines may be imposed on banks for breaches such as corruption, faulty product or service information or labelling, or non-compliance with laws or regulations in the social or economic spheres. In 2019, 0 (1) confirmed incidents occurred. The European Securities and Markets Authority (ESMA) decided in 2018 that Handelsbanken had issued credit ratings without being authorised to do so, and imposed a fine of EUR 495,000. The Bank appealed against the decision. The Board of Appeal found in March 2019 that the Bank had not acted negligently, and ruled that the fine amount was to be refunded.

POLICY FOR ETHICAL STANDARDS

The policy for ethical standards is reviewed at least once a year by the Board. The review begins with any changes made in the relevant legislation but also covers changes in external expectations, the Bank's experience from ongoing internal work, and observations from the Bank's comprehensive internal control.

GUIDELINES FOR MANAGING TAXES

Handelsbanken's actions regarding tax-related matters must be responsible and transparent and must comply with prevailing laws and regulations.

At Handelsbanken, high ethical standards must always be observed, as regulated in policy documents from the Board.

Internal and external transactions carried out by the Bank within the framework of its own operations must always have a business purpose and must not be carried out for tax purposes only. Services and products provided by the Bank must always have a business purpose, and the Bank must never provide products or services where the primary purpose is to obtain tax benefits in conflict with the intent of tax regulations. The Bank must not participate in transactions with customers, through granting credits or otherwise, which constitute a step in tax evasion or in transactions with no business purpose, undertaken only to obtain tax advantages in conflict with the objective of the tax regulations. This also applies in relation to suppliers and other business partners. If there is doubt, Handelsbanken must refrain from participating.

POLICY FOR SUSTAINABILITY

In 2016, Handelsbanken's Board adopted a policy for sustainability that sets the direction for the Bank's work and clearly sets out the Bank's view of sustainability. The policy applies throughout the Handelsbanken Group and encompasses all activities in relation to customers, suppliers and other business partners.

WORK TO PREVENT FINANCIAL CRIME

At least once a year, Handelsbanken's Board and CEO establish a Group-wide policy and guidelines that serve as the framework for the Bank's actions to prevent financial crime, which include anti-money laundering and terrorist financing. The function responsibility for work to prevent financial crime is held by a central department which must ensure that there is competency in and awareness of these areas throughout the Group. The operational responsibility for work to prevent financial crime lies with each country's general manager.

CONFLICTS OF INTEREST, CORRUPTION, BRIBERY AND IMPROPER INFLUENCE

Handelsbanken has established procedures for managing conflicts of interest with the aim of preventing negative impact on customers' interests. The Bank's policy for management of conflicts of interest provides further guidance for the Bank's work in this area, for example, by listing areas where conflicts of interest could arise in our operations. The policy includes details on the procedure for identifying and managing conflicts of interest. For example, potential conflicts of interest, as well as how they have been managed, must be reported each year by units deemed to have a greater probability of conflicts of interest.

All unit heads must annually review with their employees the regulations applying to bribery and improper influence. The regulations must be

CONDUCT OF EMPLOYEES

The following are extracts from codes of conduct included in policies and guidelines and refer to human resources.

Handelsbanken's employees

- must not be in a position where they may be suspected of taking improper advantage of knowledge about the financial markets which they obtain in the course of their work
- must be familiar with legislation concerning trading in financial instruments and observe the Bank's rules for employees' private securities and currency transactions
- must, in their work at the Bank and in their private affairs, refrain from business transactions that violate the Bank's rules or current legislation
- must refrain from transactions or other commitments that could seriously jeopardise their personal financial position
- are not permitted to process transactions in which they, or persons closely associated with them, have a personal interest – this also applies to companies in which employees, or persons closely associated with them, are involved
- must notify compliance or Group Audit if they suspect irregularities at the Bank. Handelsbanken's separate whistleblowing system provided by an external supplier may be used as well as these reporting channels
- must notify the Bank of assignments outside the Bank and obtain approval – this also applies to secondary occupations and certain posts in clubs, societies and the like.

followed in all contexts, such as gifts, corporate hospitality and other events. The department responsible for actions to prevent financial crime performs a Group-wide risk assessment at least once a year in the area of financial crime, which includes corruption. Areas where the risk of corruption is assessed to be higher than for normal customers are, for example, customers who operate in countries or sectors where corruption occurs more frequently, and also products and services used by these customers, such as cross-border payments. In addition, at least once a year every unit must perform a self-assessment of operational risk which includes the area of corruption. Security reviews are also performed every year and contain a training and information section on corruption.

Handelsbanken's anti-corruption policy states that all Bank employees must complete a course on corruption, bribery and improper influence on an annual basis. Each year, the Bank's employees complete a training programme on ethical standards and sustainability that has sections dealing with conflicts of interest, corruption, and anti-money laundering and counter-terrorist financing (AML/CTF). Handelsbanken's Central Board and the boards of the Bank's subsidiaries have also received training.

SUPPLIERS

The Group's purchases can largely be categorised as property and premises, external IT costs, communications, travel and marketing, purchased services, procurement of materials or other expenses. External IT costs and communications are purchased centrally, chiefly from suppliers which operate internationally. Other categories are usually purchased mainly from local suppliers. We work to co-ordinate the Bank's purchases over national borders, to take into account cost effects, quality and environmental impact.

The Bank holds ongoing dialogues with suppliers where sustainability is a key factor. Among other things, we research whether the supplier has collective agreements and policies regarding the work environment, anti-corruption and environmental impact. In 2016, Handelsbanken implemented a code of conduct for major suppliers in Sweden, which is now also being rolled out to the other home markets. The code defines the expectations we have of our suppliers and their subcontractors. Most of these expectations are based on internationally accepted standards, starting with the UN Global Compact. Among other things, the Bank requires that suppliers eliminate and combat all forms of human trafficking, modern slavery and compulsory labour, that they are not involved whatsoever in any form of child labour, and that they ensure that they do not violate human rights. Results have been promising, and many of the Bank's major suppliers have signed the code. For the Swedish operations, a project is under way to ensure that all suppliers providing facility services sign the Bank's code of conduct.

We see a positive link between the code and our relationships with suppliers as well as its direct impact on our sustainability activities.

Handelsbanken's Supplier Code of Conduct is available at handelsbanken.com/sustainability.

PRINCIPLES WHEN GRANTING CREDIT

Sustainability aspects are a vital part of the Bank's credit policy. The policy states that the Bank's lending must be responsible and meet high demands for sound ethical standards. When granting credit, Handelsbanken must assess and evaluate the customer's approach to the principles and agreements supported by the Bank. This can result in Handelsbanken ultimately declining to grant credit to companies that do not apply these principles.

FACTS: THE BANK AS AN INVESTMENT

PUBLIC LIMITED COMPANY

Handelsbanken is a Swedish public limited company, which means that the public can invest in the Bank by buying and selling shares on the open market. Handelsbanken's shares are traded on several different marketplaces. Turnover is largest on Nasdaq Stockholm (the Stockholm stock exchange), but for several years, the shares have also been traded on other stock exchanges. Handelsbanken has over 120,000 shareholders.

DIVIDEND

The Bank's dividend policy is that the dividend level must not lead to the capital ratios falling below a level of one percentage point above the requirements communicated by the Swedish Financial Supervisory Authority. For more than 25 years, including during the most recent financial crisis, Handelsbanken has paid a dividend to its shareholders.

CREATING SHAREHOLDER VALUE

During the past five-year period, Handelsbanken has generated a positive shareholder value of SEK 25 billion. Market capitalisation has decreased by SEK 33 billion, while the Bank has paid out SEK 58 billion in dividends to shareholders. Dividends of SEK 10.9 billion (10.7) are proposed for 2019.

TCFD – TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate change caused by global warming is one of the greatest challenges of our age. Global emissions of greenhouse gases have to be reduced if their effects are to be prevented. For this to be possible, major changes are required to global consumption patterns, transport and energy production, which will have an increasingly significant impact on the global economy. This will, in turn, have consequences for companies in numerous sectors, including financial services. Climate change means that companies and whole sectors are exposed to new types of risks, climate-related risks, but the transition to a low-carbon economy as envisaged in the Paris Agreement also gives rise to business opportunities. Increased transparency, with more information on how companies work with and manage these risks and opportunities, is thus becoming more and more important for both customers and investors. This information is needed, alongside traditional financial disclosures, to assess a company's value and position in the market. Supervisory authorities and legislators are also emphasising the importance of companies adding information on climate-related risks to their reporting. In recent years, supervisory authorities have more clearly included climate-related risks in their supervision of banks and other financial institutions. The TCFD recommendations have become a global guidepost in the work with climate-related information. The recommendations were published in 2017 by the TCFD international working group, together with a presentation on how companies are to report information relating to their work on the management of climate-related risks and opportunities.

The recommendations are based on four core elements:

Governance	Description of how climate-related matters are managed by the company's board and management.
Strategy	Description of the company's strategy for climate change and the transition to a low-carbon society, as well as the risks and opportunities identified, including scenario analyses.
Risk management	Description of processes used to identify, assess and manage climate-related risks and business opportunities.
Metrics and targets	Reporting of relevant metrics and targets.

Handelsbanken endorses the TCFD's recommendations, and both Handelsbanken Asset Management and Handelsbanken Liv have published climate reports in line with the recommendations. Read more on page 55 under Facts: Responsible investment.

As the first stage of the work to integrate the TCFD's recommendations into the Bank's credit portfolio, a review of our lending to energy production was carried out as early as 2017. Read more about the result on page 55 under Facts: Responsible financing.

In 2019, Handelsbanken continued its work to map and review the Bank's various processes for the assessment, management and reporting of climate-related risks and opportunities, in order to identify work outstanding to fully align with TCFD's recommendations. The Bank has engaged external experts to provide ancillary support in this work. The future work mainly entails reformulating and adding to policy documents and instructions to increase the level of awareness regarding climate-related risks – both physical risks and transition risks – and how they affect different sectors, as well as calculating the climate impact of the Bank's credit portfolio.


Handelsbanken

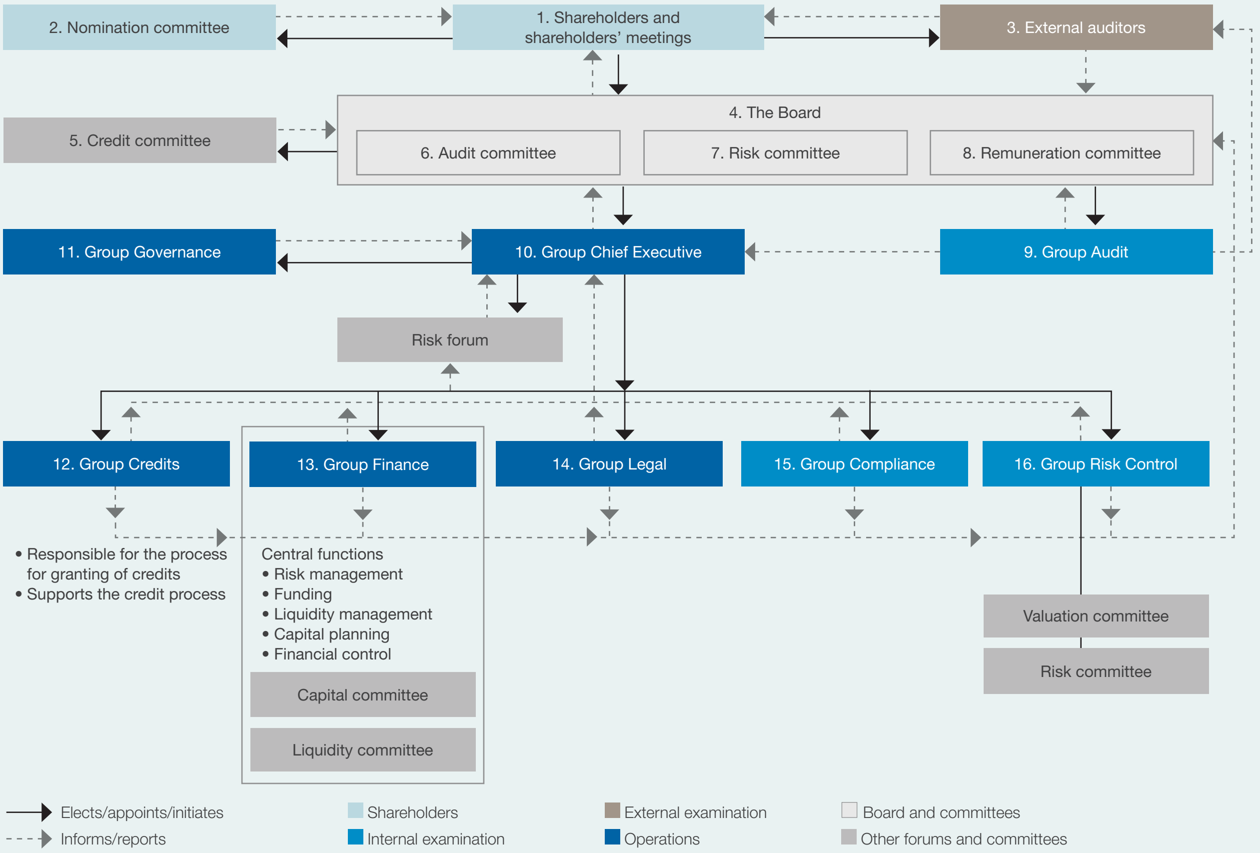
Corporate Governance Report

Handelsbanken is a Swedish public limited company, whose shares are listed on Nasdaq Stockholm. Here the Board submits its Corporate Governance Report for 2019. Handelsbanken applies the Swedish Code of Corporate Governance with no deviations.

CONTENTS

Corporate Governance structure

Corporate governance at Handelsbanken – an overview



Corporate governance at Handelsbanken – an overview
The diagram provides a summary of corporate governance at Handelsbanken. The shareholders take decisions at the AGM. For certain questions, the shareholders' decisions are prepared by the nomination committee. The shareholders appoint a Board, which in turn appoints a CEO to manage the day-to-day operations. The Board (referred to within Handelsbanken as the Central Board) organises within itself various committees. In the work of governing the Bank, the CEO is supported by the Heads of Group Finance, Group Credits, Group IT, Group HR, Capital Markets and Group Legal, referred to collectively as Executive Management. There are also a number of control functions at the Bank. In addition, the shareholders exercise control through auditors appointed by the AGM.

1. SHAREHOLDERS AND SHAREHOLDERS' MEETINGS
Shareholders exercise their right to decide on matters concerning Handelsbanken at shareholders' meetings, which are the Bank's highest decision-making body. Every year, an annual general meeting is held, which among other things appoints the Board, the Chairman of the Board and auditors.

2. NOMINATION COMMITTEE
The nomination committee's task is to prepare and submit proposals to the AGM regarding the appointment of the Chairman and other members of the Board and fees to the Chairman and other members of the Board. The committee also proposes the appointment of the auditors, and their fees. The AGM decides how the nomination committee will be appointed.

3. EXTERNAL AUDITORS
The auditors are appointed by the AGM for the period until the end of the following year's AGM. The auditors are accountable to the shareholders. They carry out an audit and submit an audit report covering matters such as the Annual Report, including this Corporate Governance Report, and the administration of the Board and the CEO. In addition, the auditors report orally and in writing to the Board's audit committee concerning how their audit was conducted and their assessment of the Bank's administrative order and internal control. The auditors also submit a summary report of their audit to the Board as a whole.

4. THE BOARD
The Board is responsible for the Bank's organisation and manages the Bank's affairs on behalf of its shareholders. The Board is to continuously assess the Bank's financial situation and ensure that the Bank is organised in such a way that the accounting records, management of funds and other aspects of the Bank's financial circumstances are satisfactorily controlled. The Board establishes policies and instructions on how this is to be executed, and establishes a work procedure for the Board and also instructions for the CEO.

These central policy documents state how responsibility and authority are allocated among the Board as a whole and the committees, and also between the Chairman of the Board and the CEO. The Board appoints the CEO, Executive Vice presidents and the Heads of Group Risk Control, Group Compliance and Group Audit, and stipulates the employment terms for these persons. The Chairman is responsible for evaluating the Board's work and informs the nomination committee of the results of this evaluation.

5. CREDIT COMMITTEE
The Board has set up a credit committee which decides on credit cases where the amount exceeds the decision limit that the

Central Board has delegated to another unit. However, cases of special importance and credits to Board members and certain persons in managerial positions are decided upon by the Board as a whole. A representative from the unit within the Bank to which the credit case applies presents the case to the credit committee.

6. AUDIT COMMITTEE

The Board's audit committee monitors the Bank's financial reporting by examining important accounting matters and other factors that may affect the qualitative content of the financial reports. The committee also monitors the effectiveness of the Bank's and Group's internal control, internal audit and risk management with regard to financial reporting, as well as the external auditors' impartiality and independence. It evaluates the audit work and assists the nomination committee in appointing auditors. The committee also receives reports from the Bank's internal and external auditors.

7. RISK COMMITTEE

The Board's risk committee monitors risk control and risk management in the Handelsbanken Group. The committee prepares decisions regarding the Bank's risk strategy, risk tolerance, etc., and examines reports from Group Compliance and Group Risk Control.

8. REMUNERATION COMMITTEE

The Board's remuneration committee evaluates the employment conditions for the Bank's executive officers in the light of prevailing market terms. The committee's tasks include preparing the Board's proposals to the AGM concerning guidelines for remuneration to executive officers, monitoring and evaluating the application of these guidelines, and preparing the Board's decisions on remuneration and other terms of employment for executive officers, as well as for the Head of Group Audit. The committee also makes an assessment of Handelsbanken's remuneration policy and remuneration system.

9. GROUP AUDIT

Group Audit (internal audit) performs an independent, impartial audit of the operations and financial reporting of the Group. A key task for Group Audit is to assess and verify processes for risk management, internal control and corporate governance. The Chief Audit Officer is appointed by the Board and reports regularly to the audit committee, orally and in writing, and also submits an annual summary report to the whole Board.

10. PRESIDENT AND GROUP CHIEF EXECUTIVE (CEO)

The CEO is appointed by the Board to lead Handelsbanken's day-to-day operations. In addition to instructions from the Board, the CEO is obliged to comply with the provisions of the Swedish Companies Act and a number of other statutes concerning the Bank's accounting, management of funds and operational control.

11. GROUP GOVERNANCE

Group Governance, the corporate governance unit, ensures that decisions made at shareholders' meetings and by the Board, as well as changes in legislation, regulations and corporate governance code, are implemented in policy documents from the Board and internal guidelines and instructions from the CEO, with the aim of stipulating overall responsibilities and authorities internally at the Bank.

12. GROUP CREDITS

Group Credits is responsible for formulating and maintaining the Bank's credit process, and for preparing every major credit case that the Board's credit committee or the Board as a whole decides on. The head of the department, Handelsbanken's Chief Credit Officer, reports to the CEO and is a member of the credit committee established by the Board. The Chief Credit Officer also reports to the Board about losses and risks in the credit portfolio.

13. GROUP FINANCE

Group Finance is responsible for control systems, reporting, bookkeeping, accounting and taxes. It is also responsible for the Group's liquidity, funding, and capital and for the Group's overall risk management regarding financial risk, liquidity risk, and insurance risk. For a detailed description of this risk management, see note G2 on pages 96–133. The Head of Group Finance, Handelsbanken's CFO, reports to the CEO and also regularly reports on behalf of the CEO to the Board's audit committee and risk committee and, regarding market risks, liquidity, funding and capital, to the Board as a whole.

14. GROUP LEGAL

Group Legal is responsible for legal matters within the Group and provides other units with legal advisory services. The department monitors developments as regards regulations, laws, standards and guidelines in Handelsbanken's home markets.

15. GROUP COMPLIANCE

The primary responsibilities of the Compliance function are to work actively to ensure a high level of compliance within the Group and to ensure that Handelsbanken's low tolerance of risks linked to non-compliance is fulfilled. The Compliance function also manages public authority contacts related to supervisory cases.

More information

More information about Handelsbanken's corporate governance is available at handelsbanken.com. The site includes the following information:

- Previous years' corporate governance reports from 2008
- Articles of Association
- Information about the nomination committee
- Minutes from shareholders' meetings from 2008 onwards.

The function provides advice and support about compliance to the employees, CEO and Board of the Group, and continually informs the units concerned about the risks which may arise in the operations due to inadequate compliance.

The function informs and trains employees affected by new or changed rules. The Compliance function also identifies the risks that the Group will not meet its obligations under regulations, laws and other rules for operations that are subject to a licence. It also checks and monitors that these risks are being managed by the units concerned, and also submits reports in accordance with established procedures.

The Group has a compliance manager who reports directly to the CEO and who leads the Compliance function in the Group, and is also ultimately responsible for reporting on regulatory compliance. The Compliance function is independent and organisationally separated from the functions and areas to be monitored and controlled. The Head of Group Compliance reports regularly to the CEO, the risk committee and the Board on matters regarding compliance.

16. GROUP RISK CONTROL

Group Risk Control is responsible for monitoring and reporting all the Group's material risks at an aggregate level. This responsibility comprises credit and market risks (interest rate, exchange rate, equity price and commodity price risk), operational risk, liquidity risks and insurance risks, as well as risks associated with the Group's remuneration system. Group Risk Control reports continually to the CEO and on a regular basis to the risk committee, the remuneration committee and the Board. The Head of Group Risk Control, Handelsbanken's Chief Risk Officer, also provides information to the CFO on an ongoing basis. Group Risk Control reports directly to the CEO, acts independently, and is separate from the operations under review. Group Risk Control has function responsibility for all risk control in the Group.

CORPORATE GOVERNANCE AT HANDELSBANKEN

Corporate governance concerns how rights and obligations are allocated among the various bodies of the Bank, in accordance with prevailing laws and regulations. Corporate governance also encompasses the systems for decision-making, and the structure through which shareholders control the Bank, directly and indirectly. Handelsbanken's shareholders exercise corporate governance principally by electing the Board. The Board appoints and gives instructions to the CEO.

The following are fundamental to corporate governance at Handelsbanken: on the one hand the Articles of Association and documents adopted by the Board, for example the Board's rules of procedure, instructions to the CEO and the Chief Audit Officer, credit instructions and policy documents regarding the Bank's operations (see also pages 70–72), and, on the other hand, the instructions and guidelines issued by the CEO. These documents are revised every year, and whenever deemed necessary.

However, the foundation of functioning corporate governance is not only formal documents but also the Bank's corporate culture, corporate goal, working methods and remuneration system.

A central part of governance of Handelsbanken comprises managing the risks that arise in operations. Risk management is described in detail in a separate risk section in the Annual Report, note G2 on pages 96–133, in the Bank's Pillar 3 report, and also briefly in this Corporate Governance Report.

The Bank's culture and long-term goal

Handelsbanken's corporate goal is to have better profitability than the average of peer competitors in its home markets. This is mainly to be achieved by having more satisfied customers and lower costs. One of the purposes of this goal is to offer shareholders long-term high growth in value.

Handelsbanken has a decentralised work method and a strong local presence due to its nationwide branch networks and a long-term approach to customer relations. The Bank's decentralised working model involves profound trust in employees' willingness and ability to take responsibility. This working model has been consistently applied for decades and has resulted in the Bank's very strong corporate culture.

The Oktogonen profit-sharing scheme sharpens the employees' focus on profitability, and is thus a method of reinforcing a corporate culture that is characterised by cost-awareness and prudence. Provisions for the Oktogonen scheme are made if Handelsbanken's profitability is better than the average of peer competitors in Handelsbanken's home markets, and following an overall assessment of the Bank's performance by the Board.

Handelsbanken takes a long-term view of both its employees and its customers. The Bank wishes to recruit young employees for long-term employment at the Bank by offering development opportunities that make the Bank self-sufficient in terms of skilled employees and managers.

This long-term approach also applies to the way in which the Bank relates to its customers. It is manifested in, for example, the ambition of always giving the customer the best possible advice – without looking at what is most profitable for the Bank in the short term. In this manner, the Bank builds long-term relationships with both customers and employees.

Application of the Swedish Corporate Governance Code

Handelsbanken applies the Swedish Corporate Governance Code with no deviations. The code is available on the Swedish Corporate Governance Board's website, bolagsstyrning.se.

General information on the regulation and supervision of banks

The operations of Swedish banks are regulated by law, and banking operations may only be run with a licence from the Swedish Financial Supervisory Authority.

The regulations for banking operations are very extensive, and are not described in detail in this report. A list of the key regulations is available on the Swedish Financial Supervisory Authority's website. Handelsbanken's main principle is that operations outside Sweden are subject both to Swedish regulations and to the host country's regulations, if these are stricter or require deviations from Swedish rules.

The Swedish Financial Supervisory Authority extensively supervises the Bank's operations in Sweden and in all countries where the Bank runs branches, in other words, when the foreign operation is part of the Swedish legal entity Svenska Handelsbanken AB. The supervisory work is co-ordinated in a supervisory group for Handelsbanken, led by the Swedish Financial Supervisory Authority. Equivalent authorities in other countries exercise limited supervision over the branches' operations, but have full supervision over the Bank's subsidiaries outside Sweden.

In addition to laws and ordinances, the Swedish supervision is also based on regulations and general guidelines from the Swedish Financial Supervisory Authority. The Supervisory Authority requires extensive reporting on various matters such as the Bank's organisation, decision-making structure and internal control.

The Supervisory Authority's work also includes systematically visiting various parts of the Bank. The purpose of this is to follow up the Bank's actual compliance with the terms and conditions of granted licences and other detailed regulations.

SHAREHOLDERS AND SHAREHOLDERS' MEETINGS

Rights of shareholders

At the end of 2019, Handelsbanken had over 120,000 shareholders. They have the right to decide on matters related to the company at the AGM or extraordinary meetings of shareholders. Handelsbanken has two classes of shares: class A and class B. Class A shares are by far the most common and represented more than 98 per cent of all outstanding shares at the end of 2019. Each class A share entitles the holder to one vote, while each class B share entitles the holder to one-tenth of a vote. Handelsbanken's Articles of Association state that at shareholders' meetings, no shareholder is allowed to exercise voting rights representing more than 10 per cent of the total number of votes in the Bank. Class A shares and class B shares entitle holders to the same proportion of the profit.

Shareholders who wish to have a matter considered by the AGM must submit a written request to the Board sufficiently far in advance so that the matter can be included in the notice of the meeting. The Bank's website, handelsbanken.com, contains information as to when this request must have reached the Board.

At the AGM, the Bank's shareholders make various decisions of major importance to the Bank's governance. Shareholders' decisions include:

- adopting the income statement and balance sheet
- appropriation of profits
- discharge from liability for the Board and the CEO for the past financial year
- how many members should be on the Board of the Bank, who these members should be, and who should be the Bank's auditors
- determining fees to Board members and auditors
- principles for remuneration to executive officers.

The shareholders at a shareholders' meeting can also make decisions on the Bank's Articles of Association. The Articles of Association constitute the fundamental governing document for the Bank. They specify which operations the Bank is to conduct, the limits on the amount of share capital, the right of shareholders to participate at shareholders' meetings and the items to be presented at the AGM. The Articles of Association state that the number of board members must be at least eight and at most 15. They are elected for one year at a time. Handelsbanken's Articles of Association contain no stipulation regarding the appointment and discharging of board members nor concerning amendments to the Articles of Association.

Information in preparation for meetings is published at handelsbanken.com. Minutes of previous meetings are also available there in both Swedish and English.

Major shareholders

At the end of 2019, the holdings of two shareholders represented more than 10 per cent of the votes: The Oktogonen Foundation, with 10.5 per cent, and AB Industrivärden, with 10.6 per cent. Detailed information on the Bank's largest Swedish shareholders can be found on page 41.

Annual General Meeting 2019

The annual general meeting took place on 27 March 2019.

Over 1,600 shareholders were represented at the meeting. They represented almost 56.2 per cent of all votes in the Bank. All board members except one were present at the meeting. Also participating were Helena Stjernholm, nomination committee chair, as well as Jesper Nilsson of Ernst & Young AB and Johan Rippe of PricewaterhouseCoopers AB, the auditors-in-charge from the auditing companies elected by the AGM. The chairman of the meeting was Sven Unger, a lawyer.

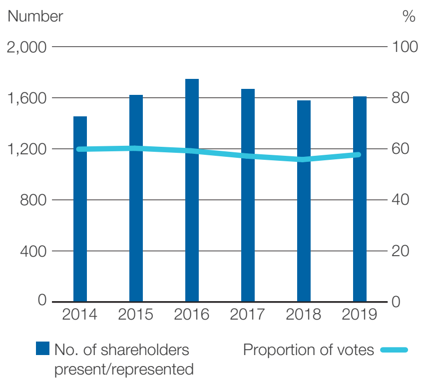
The decisions made by the shareholders at the meeting included:

- An ordinary dividend of SEK 5.50 per share.
- Authorisation for the Board to decide on acquisition of not more than 120 million shares in the Bank, as well as divestment of shares.
- The Board is to consist of 11 members.
- The re-election of 10 Board members and the election of one new Board member, Carina Åkerström, for the period until the conclusion of the next AGM.
- The election of Pär Boman as Chairman of the Board.
- Fees to be paid to the Board members: SEK 3,400,000 to the Chairman of the Board, SEK 970,000 to the Deputy Chair, and SEK 690,000 to the other Board members. Fees to be paid for committee work to each member of the respective committee: SEK 400,000 for the credit committee, SEK 140,000 for the remuneration committee, SEK 400,000 for the risk committee and SEK 400,000 for the audit committee. It was decided that the fee to the chairperson of the risk committee would be SEK 450,000, and that the fee to the chairperson of the audit committee would be SEK 500,000. Board members who are employees of Handelsbanken shall not receive a fee.
- The AGM appointed Ernst & Young AB (re-election) and PricewaterhouseCoopers AB (re-election) to serve as auditors until the end of the AGM to be held in 2020.

The shareholders at the meeting also adopted the following guidelines for remuneration and other terms of employment for executive officers, as proposed by the Board:

- The total remuneration is to be on market terms.
- Remuneration is only paid in the form of a fixed salary, pension provision and customary benefits.
- By special decision of the Board, the Bank can provide housing.
- Variable remuneration benefits, such as bonuses or commission on profits, are not paid.
- The executive officers in question are included in the Oktogonen profit-sharing scheme on the same terms as all employees of the Bank.
- The retirement age is normally 65. The pension benefits are defined contribution and may be payable in addition to pension plans under collective agreements.

Attendance at AGMs 2014–2019



- The period of notice on the part of an executive officer is six months, and on the part of Handelsbanken a maximum of 12 months. If the Bank terminates the employment contract later than five years after the person becomes one of the Bank's executive officers, the period of notice is a maximum of 24 months. No additional severance pay is payable. Other time periods may apply due to collective agreements or labour legislation.
- The Board shall have the right to deviate from the established guidelines if there are special reasons in an individual case.

The guidelines do not affect remuneration previously decided for executive officers. The guidelines are applied to the Group Chief Executive, other executive officers, and any members of Handelsbanken's Central Board who are also employees of the Bank.

Auditors

Jesper Nilsson has been an authorised public accountant since 2007. He is auditor-in-charge for Ernst & Young AB at Handelsbanken and chairs Handelsbanken's auditing team. Mr Nilsson is also an auditor for Intrum, Creades, and Alecta. Jesper Nilsson was born in 1964.

Johan Rippe has been an authorised public accountant since 1999 and is auditor-in-charge for PricewaterhouseCoopers AB at Handelsbanken. Mr Rippe is also an auditor for Stena, Getinge, and Lundin Petroleum, Deputy CEO of PricewaterhouseCoopers AB, and the Chairman of the Board of the Swedish Institute of Authorised Public Accounts (FAR). Mr Rippe was born in 1968.

NOMINATION COMMITTEE

The shareholders at the 2010 AGM resolved to establish instructions for how the nomination committee is to be appointed. According to the decision, the instructions will apply until they are amended by a future AGM. The instructions state that the nomination committee shall comprise five members: the Chairman of the Board and one representative from each of the Bank's four largest shareholders as at 31 August the year before the AGM is held.

However, the nomination committee must not include representatives of companies which are significant competitors of the Bank in any of its main areas of operations. It is the Chairman of the Board's task to contact the largest owners, so that they will appoint one representative each to sit on the nomination committee, together with the Chairman. The 2020 nomination committee comprises:

Representative	Shareholders	Voting power as a %, 31 August 2019
Helena Stjernholm, Chair	Industrivärden	10.6
Christian Dahl	Oktogonen Foundation	10.5
Mats Guldbrand	Lundberg ownership group	3.7
Bo Selling	Alecta	1.4
Pär Boman, Board Chairman		

Information on the composition of the nomination committee has been available on Handelsbanken.com since 21 September 2019.

The nomination committee's task in preparation for the AGM on 25 March 2020 is to submit proposals for the election of a chairman of the AGM, the Chairman of the Board and other members of the Board, the fees to the Chairman and other members of the Board, and remuneration for committee work. In addition, the Handelsbanken Board has decided that proposals regarding the election of and fees to auditors be made by the nomination committee.

Recruitment and diversity-related work

In its work, the nomination committee takes into account matters relating to diversity, including gender distribution, on the Board. Handelsbanken's Board has adopted a policy to promote diversity in the Board. The policy states that to promote independent opinions and critical questioning, it is desirable that the Board should be characterised by sufficient diversity in terms of age, gender, geographical origin, and educational and professional background. The proportion of women on the Board of the Bank is 45 per cent, and the proportion who are nationals of a country other than the one where Handelsbanken is domiciled is 36 per cent. In compiling its proposal for the AGM, the nomination committee will also consider the evaluation of the Board carried out by the Chairman of the Board.

THE BOARD

After the shareholders at the 2019 AGM had appointed Pär Boman to be Chairman of the Board, Fredrik Lundberg was appointed as Deputy Chair at the first Board meeting immediately after the AGM. At the same time, the Board appointed members of the credit committee, audit committee, risk committee and remuneration committee. Information about the Board is shown on pages 74–75.

Composition of the Board

The Board consisted of 11 members during 2019. When the Board is to be elected, the nomination committee proposes members. Starting from the date of the 2020 AGM, the Board will include two members and two deputy members who are employee representatives, in accordance with applicable legislation.

The Board members have broad and extensive experience from the business community. Several are, or have been, chief executives of major companies, and most of them are also board members of major companies. See also pages 74–75. Several members have worked on the Bank's Board for a long time and are very familiar with the Bank's operations. The nomination committee's proposals at previous AGMs, including their reasons, are available at handelsbanken.com.

Independence of Board members

The Swedish Corporate Governance Code stipulates that the majority of Board members elected by the AGM must be independent of the Bank and the Bank's management, and that at least two of the independent Board members must also be independent of those of the company's shareholders that control 10 per cent or more of the shares and votes in the Bank. The composition of the Board fulfils the Code's requirements for independence.

Regulations governing the Board's work

The fundamental rules regarding the distribution of tasks among the Board, the Board committees, the Chairman, the CEO and Group Audit are expressed in the Board's rules of procedure, as well as in its instructions to the CEO and to the Chief Audit Officer.

Chairman of the Board

The Board's rules of procedure state that the Chairman shall ensure that the Board carries out its work efficiently and that it fulfils its duties. This involves organising and managing the Board's work and creating the best possible conditions for this work. The Chairman must also ensure that the Board members continually update and expand their knowledge of the Bank's operations, and that new members receive appropriate introduction and training. The Chairman must be available to the CEO as an advisor and discussion partner, but must also prepare the Board's evaluation of the CEO's work.

The Chairman's duties include being chairman of the credit and remuneration committees, as well as being a member of the audit and risk committees. The Chairman is responsible for ensuring that the Board's work is evaluated annually. The 2019 Board evaluation was performed by means of a survey and through discussions between the Chairman and each member. The Chairman informed the Board of the outcome of the evaluation and led a Board discussion on this. He also informed the nomination committee about the Board evaluation. The Chairman is responsible for maintaining contact with the major shareholders concerning ownership matters.

There is no other regular division of work for the Board except as concerns the committees.

The Board's work in 2019

During the year, the Board had 15 meetings, including a lengthy strategy meeting.

The figure on page 69 gives an overview of the Board's work in 2019, including regularly occurring major items at ordinary Board meetings. In addition, matters discussed at each committee meeting are reported at the next Board meeting.

Committee work

Credit committee

The credit committee consisted of eight members: the Chairman of the Board (Pär Boman, who also chairs the credit committee), the Deputy Chair (Fredrik Lundberg), the chair of the audit committee (Bente Rathe), the CEO (Carina Åkerström), the Chief Credit Officer (Per Beckman), and three Board members appointed by the Board (Jon Fredrik Baksaas, Ole Johansson, and Hans Biörck).

The credit committee normally holds one meeting every month to take decisions on credit cases that exceed a set limit and that are not decided on by the whole Board due to the importance of these cases or legal requirements. The heads of the regional banks and Handelsbanken International presented cases to the credit committee from their own units in 2019 and participated when other cases were presented, with the objective of providing them with a good picture of the Board's approach to risk. Credit cases that are decided upon by the whole Board are presented by the Chief Credit Officer. If a delay in the credit decision would inconvenience the Bank or the borrower, the credit instructions allow the CEO and the Chief Credit Officer to decide on credit cases during the interval between credit committee meetings.

In 2019, the credit committee had 11 meetings.

Audit committee

The audit committee comprised the Chairman of the Board (Pär Boman) and four Board members appointed by the Board (Jon Fredrik Baksaas, Ole Johansson, Lise Kaae and Bente Rathe). The latter members are independent of the Bank, its management, and major shareholders. Bente Rathe was appointed to chair the committee.

The work of the audit committee includes the following:

- monitoring the financial reporting, as well as the effectiveness of the Bank's internal control, internal audit and risk management systems in relation to financial reporting
- providing recommendations and proposals concerning the financial reporting
- preparing the Board's decision regarding an audit plan for the work of Group Audit and taking into account reports from Group Audit
- having regular contact with the external auditors. These auditors report to the committee on significant matters that have emerged from the statutory audit
- keeping up to date with the audit of the annual report and consolidated accounts and the Swedish Supervisory Board of Public Accountants' quality control
- assisting the nomination committee in the matter of proposing auditors and thereafter submitting a recommendation regarding the election of auditors
- informing the Board of the results of the audit and of the manner in which the audit has contributed to the reliability of the financial reports
- monitoring and verifying the external auditors' impartiality and independence, with a particular focus on whether the auditors provide any services other than auditing to the company.

All interim reports and year-end reports are reviewed by the audit committee. Items are presented by the CEO, the CFO, the Chief Audit Officer and the persons with main responsibility from the audit companies appointed by the AGM. The members of the committee can also ask questions of the Head of Group Audit and external auditors when members of Bank management are not present.

In 2019, the audit committee had ten meetings.

Risk committee

The risk committee comprised the Chairman of the Board (Pär Boman) and five Board members appointed by the Board (Jon Fredrik Baksaas, Ole Johansson, Kerstin Hessius, Lise Kaae and Bente Rathe). The latter members are independent of the Bank, its management, and major shareholders. Kerstin Hessius was appointed to chair the committee.

The work of the risk committee includes the following:

- processing reports from the Heads of Group Risk Control and Group Compliance
- preparing the Board's decisions regarding the establishment of the internal capital adequacy assessment
- processing the validation and evaluation of the internal risk classification system
- preparing the Board's decisions regarding risk tolerance and risk strategy
- processing the evaluation of the risk calculation methods used for limiting financial risks, calculating capital requirements and calculating economic capital
- preparing the Board's decisions regarding the establishment of Handelsbanken's recovery plan.

The Head of Group Risk Control, who is also the Bank's CRO, and the Chief Compliance Officer present their reports to the risk committee in person. The members of the committee can also ask questions of the CRO and Head of Group Compliance when members of Bank management are not present. The Bank's CEO, CFO, Chief Credit Officer and Chief Legal Officer also attend meetings of the risk committee.

In 2019, the risk committee had eight meetings.

Remuneration committee

The remuneration committee comprised the Chairman of the Board (Pär Boman, who also chairs the committee) and two Board members appointed by the Board (Ole Johansson and Bente Rathe), who are independent of the Bank, its management, and major shareholders.

The tasks of the remuneration committee include making an independent assessment of Handelsbanken's remuneration policy and remuneration system. In addition, the remuneration committee prepares matters regarding remuneration to be decided on by the Board and the AGM. After the shareholders at the AGM have decided on guidelines for the terms and conditions of remuneration to executive officers, the Board decides on remuneration to these officers and the heads of the control functions: Group Audit, Group Risk Control and Group Compliance. Each year, the remuneration committee evaluates Handelsbanken's guidelines as well as its remuneration structures and levels in accordance with the Swedish Corporate Governance Code. A statement from the committee in this regard is published on handelsbanken.com prior to the AGM.

In 2019, the remuneration committee had 11 meetings.

THE BANK'S MANAGEMENT

Group Chief Executive

Carina Åkerström has been President and Group Chief Executive since March 2019. Carina was born in 1962, is a Bachelor of Laws, and has worked at Handelsbanken since 1986. In 2008, Carina Åkerström became a member of the executive management as Deputy CEO and

Head of Regional Bank Eastern Sweden. In 2010, she was appointed Head of Regional Bank Stockholm. Carina Åkerström was appointed Deputy Group Chief Executive in 2016, while retaining her position as Head of Regional Bank Stockholm. With the exception of her positions as Deputy Chair of the Swedish Bankers' Association and board member in World Childhood Foundation, Carina Åkerström has no significant assignments outside Handelsbanken. Her shareholdings in the Bank and those of close relatives are 10,500 shares, as well as 30,427 shares held indirectly via the Oktogonen profit-sharing scheme. Neither the CEO nor her close relatives has any material shareholdings or other ownership interests in companies with which the Bank has significant business relations.

Executive management

In addition to the Group Chief Executive, Handelsbanken's executive management includes the CFO and the Heads of Group IT, Group Credits, Group Legal, Group HR and Capital Markets. The Heads of Business Development Sweden and Regional Bank Stockholm are co-opted to the Bank's executive management. Executive management is a forum for addressing Group-wide issues and other matters of significance from a Group perspective. Before decisions are made on such matters, these are, as a general rule, discussed by executive management.

Decision-making process

To a large extent, responsibilities and powers of authority at Handelsbanken have been assigned to individual members of staff, rather than groups or committees. However, there are collective decisions regarding credit decisions made in credit committees and the boards of regional banks. It is also required that the members are unanimous regarding these decisions.

Risk Forum

Within Handelsbanken there is the Risk Forum, a forum for the follow-up of risk management within several areas and for in-depth discussions regarding the Bank's overall risk situation prior to Board meetings. In addition to the CEO, the Risk Forum includes the CFO and the Heads of Group Risk Control, Group Compliance, Group Governance and Group Legal.

Operational structure

Handelsbanken has long had a decentralised working method, where almost all major business decisions are taken at the local branches, close to customers. Operations are pursued to a large extent within the parent company, but also in subsidiaries.

Branch operations

Branch operations are geographically organised into regional banks: five in Sweden, five in the UK, and one each in Denmark, Finland, Norway and the Netherlands. These countries comprise the Bank's home markets. Each regional bank is led by a head. The regional banks in the UK are co-ordinated under the Head of Handelsbanken UK. Since December 2018, the operations in the UK are organised as a subsidiary, Handelsbanken plc.

In Denmark, Finland, Norway, and the Netherlands, the head of the regional bank is also the general manager. These heads, as well as the Head of UK operations and the general managers for the international operations outside the home markets, are responsible to the public authorities in their respective countries for all operations that the Bank and its subsidiaries pursue in those countries.

FRAMEWORK FOR CONTROL

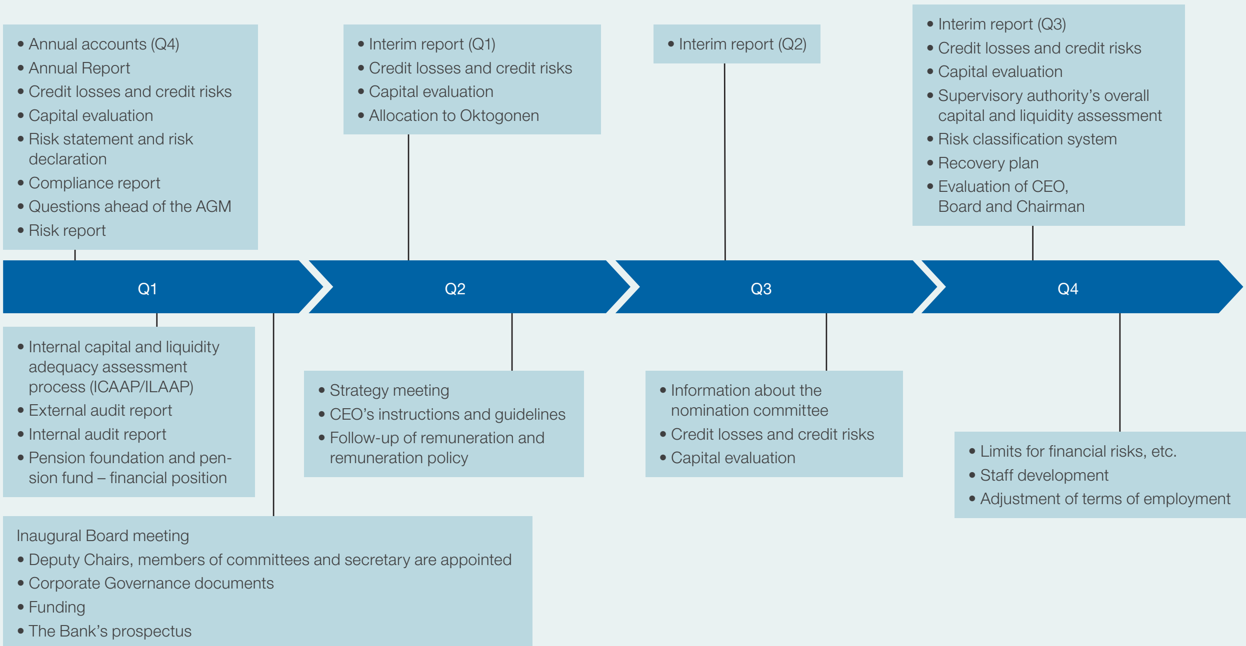
Internal control for operations

Responsibility for internal control has been delegated from the CEO to managers who report directly to the CEO and who are in charge of internal control within their respective units. In turn, these managers have delegated responsibility for internal control to managers who report to them. This responsibility means that fit-for-purpose instructions and procedures for the operation must be in place, and compliance with these procedures must be monitored regularly. Thus, the responsibility for internal control and compliance is an integral part of managers' responsibility at all levels in the Bank.

Group Compliance

Compliance is the responsibility of all employees in the Group. Measures to ensure that compliance is observed are also part of internal control. The responsibility for ensuring compliance rests therefore with function managers, product managers and product owners, as well as with managers and employees of Handelsbanken. Group Compliance monitors and verifies compliance in the Group. The regulations are often complex,

Board work 2019[1] – Regularly occurring major items at normal board meetings[2]



[1] The committees' meetings are not presented in the chart.
[2] Utilisation of market risk limits, liquidity, funding and the business situation are dealt with at all meetings.

and in some cases the individual employee may have limited knowledge of these. For this reason, support and advice from the Compliance function is important, especially in conjunction with the introduction of new or changed regulations, or changes to the Group's products, services, processes and organisation.

Group Compliance is an independent unit with the functional responsibility for compliance matters in the Group.

The Chief Compliance Officer is appointed by the Central Board and reports directly to the CEO on compliance in the Group each quarter. The Chief Compliance Officer reports on compliance in the Group twice a year directly to the Board's risk committee and once a year to the Board as a whole. In addition, material observations are reported regularly to the CEO.

Group Risk Control

The Bank is characterised by a clear division of responsibility where each part of the business operations bears full responsibility for risk management.

Group Risk Control identifies, measures, analyses and reports all the Group's material risks. This includes monitoring and checking the Group's risk management and assessing that Handelsbanken's risk management framework is fit-for-purpose and efficient. Group Risk Control also checks that the risks and risk management comply with the Bank's risk strategy, and fall within the risk tolerance thresholds established by the Board. Group Risk Control is also responsible for checking that financial instruments are correctly valued. This responsibility includes ensuring that executive management has reliable information about risks to use in critical situations. Group Risk Control is an independent unit with function responsibility for risk control in the Group, including subsidiaries.

The Head of Group Risk Control is appointed by the Central Board and reports directly to the CEO. Information is also provided to the CFO on a regular basis. The Head of Group Risk Control reports regularly to the Board's risk committee and remuneration committee, and once a year to the Board as a whole. Group Risk Control is also in charge of the Bank's extensive risk reporting to the supervisory authorities.

A more detailed description of the Bank's risk management and control is contained in note G2 on pages 96–133, and also in the Bank's Pillar 3 Report.

Group Audit

Group Audit, which is the Board's controlling body, comprises some 100 employees. The Chief Audit Officer is appointed by and reports to the Board.

Group Audit is tasked with performing an independent, impartial audit of the operations and financial reporting of the Group. This includes assessing and verifying processes for risk management, internal control and corporate governance. Their assignment is based on a policy established by the Board and is performed on the basis of a risk-based methodology in accordance with internationally accepted standards issued by the Institute of Internal Auditors. The planned auditing tasks are documented every year in an audit plan which is established by the Board. Group Audit's conclusions, the actions to be taken and their status, are reported regularly to the audit committee and every year to the Board as a whole. The Chief Audit Officer is also part of the recipient group for Handelsbanken's separate system for whistleblowing.

Group Audit is regularly subject to independent external quality reviews. In addition, the Bank's external auditors perform an annual quality review of the work of Group Audit.

POLICY DOCUMENTS

The following is a brief summary of a selection of the policy documents which the Board of Handelsbanken has established and which apply at the time this Annual Report is published.

Credit policy

Credits may only be granted if there are good grounds for expecting the borrower to meet their commitments. Credits must normally have satisfactory collateral. Handelsbanken strives to maintain its historically low level of credit losses compared to other banks, thus contributing to the Bank's profitability target and retaining its sound position.

Policy for risk control

Handelsbanken must have a risk control function that is independent of the functions that are to be monitored. Risk control must be enforced regarding all material risks in Handelsbanken, with the exception of compliance risks, which are within the purview of Group Compliance. The risk control function must verify that all material risks to which the Group is exposed, or may be exposed in the future, are identified and managed by the relevant functions, and must also supervise and monitor the Group's risk management. In addition, the function must identify risks arising as a result of deficiencies in the Group's risk management. The risk control function must also verify that every business unit monitors all its material risks in an efficient manner. Central risk control, called Group Risk Control, reports to the CEO. Risk Control is independent and organisationally separated from the functions and areas to be monitored and controlled.

Policy for operational risk

Handelsbanken's tolerance of operational risk is very low. Operational risk refers to the risk of loss due to inadequate or failed internal processes, human error, erroneous systems or external events. Operational risks must be managed so that losses remain small in comparison with previous losses incurred. The responsibility for operational risk is an integral part of managerial responsibility throughout the Group.

Capital policy

The purpose of the capital policy is to ensure that the Group's supply of capital is satisfactory. The Group must at all times be well capitalised in relation to risk, and fulfil the goals established by the Board and the capital adequacy requirements established by supervisory authorities, even in situations of financial stress (see the section on risk in note G2 on pages 96–133). Handelsbanken's capital situation must also justify a continued high rating from the most important rating agencies.

Financial policy

Through this policy, the Board establishes the framework for financial operations in Handelsbanken. This includes the general establishment of measurement methods for financial risks. 'Financial risks' here refers to market risks and liquidity risks. Market risks are in turn divided into interest rate risks, equity price risks, currency risks and commodity price risks.

Financial risks shall only occur as a natural step in customer business, in connection with Handelsbanken's funding and liquidity management, and in its role as a market maker. The purpose of the Group's funding and liquidity management is to ensure that Handelsbanken is able to meet its payment commitments in the short and long term. The Group's funding must be well diversified in terms of markets, currencies and maturities. Handelsbanken must have an adequate liquidity reserve to be able to continue its operations for predetermined periods of time, without new funding in the financial markets. This requirement must also be fulfilled in times of financial strain.

Information policy

Handelsbanken's information must be correct, objective, and easy to understand. It must respect the recipient of the information and be provided at the right time and in the right manner. The information will contribute to strengthening Handelsbanken's brand and the trust of its customers, the capital markets and society in general. Information provided to the capital market must be correct, relevant, clear, reliable and in compliance with stock market regulations in all other respects. Information is to be made public as soon as possible and simultaneously to the stock market, investors, analysts, news services and other media. At press conferences and the like, the media and analysts should normally participate at the same time.

Policy for sustainability

Handelsbanken aims to integrate financial, social and environmental sustainability into all its operations. Handelsbanken must safeguard human rights and employees' rights, and not be complicit in breaches of these. Gender equality, diversity and an inclusive corporate culture should be a fundamental part of Handelsbanken's values. Handelsbanken must, through financial and environmental sustainable operations, endeavour to minimise the negative effect on the environment and climate. Nor shall Handelsbanken accept corruption, money laundering or terrorist financing, and conflicts of interest must be managed.

The policy is available at handelsbanken.com.

Policy for ethical standards

Employees of Handelsbanken must conduct themselves in a manner that upholds confidence in Handelsbanken. All operations in the Group must be characterised by high ethical standards. Financial advice must be based on the customer's requirements. In case of doubt as to what is ethically acceptable, the matter must be discussed with the employee's immediate superior. There must be no discrimination on grounds such as gender or religion. The policy on ethical standards also describes how employees who suspect internal fraud or other irregularities should act. As a supplement to the paths for reporting provided by the Compliance and Group Audit functions, Handelsbanken also has an established whistleblower system, through which reports may be submitted anonymously.

The policy is available at handelsbanken.com.

Policy for management of conflicts of interest
Conflicts of interest are a natural part of a business operation, which means that these types of conflicts may arise within the Group's operations. It is the responsibility of all heads of units to continuously identify potential conflicts of interest in their operations. If a conflict of interest is identified, the first priority is to ensure that the customer's interests are not adversely affected. If this is not possible, the customer must be informed of the conflict of interest.

The policy is available at handelsbanken.com.

Policy against corruption
The Bank's policy against corruption establishes the importance of preventing and never accepting corruption, and of always taking action where there is suspicion of corruption.

Employees of the Group must carry out their responsibilities in all their activities at the Group and their external assignments in a manner that upholds confidence in Handelsbanken. They must not, therefore, participate in actions that may involve bribery or any other improper influence.

The policy is available at handelsbanken.com.

Policy for remuneration
Handelsbanken takes a long-term view of its staff's employment. Remuneration must be on market terms, enabling Handelsbanken to attract, retain and develop skilled staff, and ensuring good management succession, thus contributing to the achievement of the Handelsbanken Group's corporate goal.

Handelsbanken has a low risk tolerance in general. This is reflected in the company's view of remuneration. Handelsbanken considers that fixed remuneration contributes to healthy operations. This is therefore the main principle. Fixed remuneration is comprised primarily of a basic salary, customary employee benefits and pension.

Variable remuneration must be applied with great caution and is not offered to employees who, in their professional roles, can have a material impact on the Bank's risk profile.

Remuneration at Handelsbanken is generally established locally in accordance with the Bank's decentralised method of operating and is based on salary-setting factors that are established in advance.

In certain countries, Handelsbanken is party to collective agreements on general terms and conditions of employment and conditions for pensions. This policy does not affect rights and obligations under collective agreements; nor does it affect obligations under applicable contract law or labour law.

Group HR is responsible for verifying that remuneration in Handelsbanken is compliant with internal and external rules. The independent control functions monitor and analyse the remuneration system, and report material risks and flaws to the Board's remuneration and risk committees.

A more detailed description of Handelsbanken's remuneration principles is shown on page 72 and details about remuneration are shown in note G8 on pages 136–139.

Policy for suitability assessment
Group HR performs suitability assessments in conjunction with the election of board members, CEOs, board members at the Bank's subsidiaries and the Head of Group Audit, and ahead of decisions on appointments of officers that report directly to the CEO and the Head of Group Audit.

Policy for group audit operations
Group Audit is to evaluate the efficiency and appropriateness of the Group's processes for risk management, internal governance and control. The Audit function must impartially and independently examine the Group's operations, accounts and governance process, ensure that material risks are identified and managed in a satisfactory manner, and ensure that material financial information is reliable, correct and delivered on time. Group Audit reports directly to the Board; it provides reports for the Board and its audit committee, as well as for the CEO.

Policy for managing and reporting events of material importance
Incidents of material importance must be reported to the Swedish Financial Supervisory Authority. This refers to incidents that may jeopardise the stability of the parent company or a subsidiary, or the protection of customers' assets.

Policy for the Bank's use of the external auditors' services
Engaging the Bank's elected auditors for services other than auditing is to be avoided when this can be done without inconvenience. A decision on this must be made by the Chief Audit Officer or, in the case of more extensive assignments, by the Board's audit committee. This policy is adopted by the Board's audit committee on behalf of the Board.

Policy for compliance
Compliance refers to the observance of regulations, laws, directives and recommendations from public authorities, internal rules, as well as generally accepted business practices or standards relating to all operations conducted within the Handelsbanken Group that are subject to a licence. Handelsbanken has a low tolerance of compliance risks and, as far as possible, must prevent these risks. Using a risk-based approach, the Compliance function is to support and verify compliance. It also analyses shortcomings and risks relating to compliance. Group Compliance reports directly to the CEO; it provides reports for CEO, as well as for the Board and its risk committee. The Compliance function is independent and organisationally separated from the functions and areas to be monitored and controlled.

Policy for complaints management
Complaints must be taken very seriously, managed with the utmost professionalism and regarded as an opportunity to correct a mistake or misunderstanding. The customer in question must be treated with respect and understanding, regardless of the size of their commitment with the Group. The aim of Handelsbanken's complaints management is that the person making the complaint must be very satisfied with the Bank's handling of the complaint.

Policy for employees' private securities and currency transactions
The policy for employees' private securities and currency transactions applies to all permanent and temporary employees of the Handelsbanken Group, closely related persons and service providers. The purpose of the policy is to prevent any person who is covered by the policy from carrying out his/her own securities transactions that involve market abuse, or misuse or improper disclosure of confidential information under the regulations that apply to Handelsbanken and its employees, in accordance with prevailing legislation, directives from public authorities and voluntary agreements.

Accounting policy
The accounting policy applies to Handelsbanken's accounting function. The consolidated accounts are prepared in accordance with IFRS, as adopted by the EU, plus additional standards in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, and the regulations and general guidelines issued by the Swedish Financial Supervisory Authority. The parent company's annual report is prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, and the regulations and general guidelines issued by the Swedish Financial Supervisory Authority. International units must prepare accounts in accordance not only with the Group's rules, but also with the regulations that apply in the country where they are required to maintain accounting records.

Policy for products and services
The Handelsbanken Group's range of products must maintain a high level of quality. This means that the products' function, and their associated costs and risks, must meet customers' needs, characteristics and goals, as well as being presented in such a way that customers are able to make well-founded decisions. A decision-making procedure must be in place for the approval of new and materially changed products. Before a product is rolled out, it must be subject to product testing, and no new or materially changed product may be rolled out until the resources are in place to manage the risks associated with the product. The products must have established target markets and the strategy for distribution

of products must be appropriate in relation to the target market. Products distributed must be distributed to the predetermined target market. Procedures must exist for monitoring the product, to ensure that it remains suitable for the established target market.

Policy on measures against financial crime

The policy on measures against financial crime is partly based on Swedish laws and regulations concerning money laundering, terrorist financing, breaches of international sanctions, applicable non-Swedish rules (including UK regulations against tax evasion) and fraud, and it shall be applied throughout the Handelsbanken Group. Handelsbanken must not participate in transactions of which the employees do not understand the implications, or which may be suspected of being linked to criminal activities. The Group's work method is based on having a good knowledge of its customers, and an understanding of its customers' business operations, as well as the purpose and nature of the business relationship. Customer due diligence must be performed and maintained for as long as the customer relationship exists. Handelsbanken must monitor and comply with decisions and sanctions pursuant to the Swedish Act on Certain International Sanctions.

PRINCIPLES FOR REMUNERATION AT HANDELSBANKEN

The Bank's principles for remuneration to employees are long established. In general, Handelsbanken has low tolerance of risk and holds the opinion that fixed remuneration contributes to healthy operations. This is, therefore, the main principle. Only fixed remuneration is paid to the Bank's executive officers and to employees who make decisions on credits or limits, or who work at the Bank's control functions. This also applies to employees who are assessed as having a material impact on the Bank's risk profile, called 'risk-takers' in the Bank.

Variable remuneration is applied with great caution and to a very limited extent. It is only offered to employees in the Capital Markets business area and in mutual fund and asset management operations. In these operations, variable remuneration may only be paid to employees at units whose profits derive from commissions or intermediary transactions that take place without the Bank being subject to credit risk, market risk or liquidity risk. Approximately 1 per cent of the Group's employees are eligible to receive variable remuneration. The total amount reserved for variable remuneration to employees in the Handelsbanken Group must not exceed 0.4 per cent of the Bank's common equity tier 1 capital during any given year. For 2019, a total of SEK 48 million was allocated for variable remuneration, corresponding to approximately 0.5 per cent of total salaries and approximately 0.04 per cent of the Bank's common equity tier 1 capital. Handelsbanken complies with the Swedish Financial Supervisory Authority's regulations governing remuneration policies in credit institutions, investment firms and fund management companies, which include provisions for formulating and adopting remuneration policies. The heads of the areas concerned, as well as the CRO and Chief Compliance Officer, take part in the remuneration committee's preparation and assessment of the Board's remuneration policy and the Bank's remuneration system.

The main principle is that salaries are set locally in salary reviews between the employee and his/her line manager. These principles have been applied for many years with great success. They mean that managers at all levels participate regularly in the salary process, and take responsibility for the Bank's salary policy and the growth in their own unit's staff costs.

Salaries are based on factors known in advance: the nature and level of difficulty of the work, competency and skills, work performance and results achieved, leadership, and being a cultural ambassador for the Bank.

In Sweden and certain other countries, the Bank is party to collective agreements on general terms and conditions of employment during the employment period and on terms and conditions of pensions after employees have reached retirement age. The aim of the Bank's policy on salaries is to increase the Bank's competitiveness and profitability, to enable the Bank to attract, retain and develop skilled staff, and to ensure good management succession planning. Good profitability and productivity performance at the Bank create the necessary conditions for salary growth for the Bank's employees.

At Handelsbanken, the Board decides on the remuneration policy. The main principle of the remuneration policy is that remuneration is paid in the form of fixed remuneration. However, the policy allows for variable remuneration to be paid. The Board decides on the total amount.

A detailed description of fixed and variable remuneration at Handelsbanken is given here. Other information concerning remuneration paid by the Bank in accordance with the current regulations is presented in note G8 on pages 136–139. This note also provides information about amounts for salaries, pensions and other benefits, and loans to executive officers.

Fixed remuneration

The Bank takes a long-term view of its staff's employment. Remuneration for work performed is set individually for each employee, and is paid in the form of a fixed salary, customary salary benefits and pension. At Handelsbanken, salary-setting takes place at local level.

Variable remuneration

Variable remuneration is based on Handelsbanken's factors for setting salaries and it must be designed so that it does not encourage unhealthy risk-taking. The financial result on which the variable remuneration is based is adjusted for risk and charged with the actual cost of the capital and liquidity required by the operations. Normally, variable remuneration is only paid in cash. In subsidiaries which run mutual fund operations and in Heartwood Wealth Management Ltd, the variable remuneration is entirely or partially paid out as mutual fund units.

The main rule for variable remuneration is that at least 40 per cent is to be deferred for at least three years. For particularly large amounts of variable remuneration, 60 per cent is deferred for four years. Payment and the right of ownership to the variable remuneration do not accrue to the person with the entitlement until after the end of the deferment period. Deferred variable remuneration can be removed or reduced if losses, increased risks or increased expenses arise during the deferment period, or if payment is deemed to be unjustifiable in view of the Bank's financial situation. No employee may receive variable remuneration of more than 100 per cent of his/her fixed remuneration.

Principles for remuneration to executive officers

The shareholders at the AGM decide on guidelines for remuneration to the Group Chief Executive and other executive officers. The guidelines are applied to the Group Chief Executive, other executive officers, and any members of Handelsbanken's Board who are also employees of the Bank. For the AGM guidelines from 2019, see the "Annual General Meeting 2019" section on pages 66–67.

The Board decides on remuneration to the officers who are subject to the AGM's remuneration guidelines (with the exception of the two Board members who are Handelsbanken employees), a total of 13 individuals (as at 31 December 2019). The Board also decides on remuneration to the Head of Group Audit, among others.

Executive officers in Handelsbanken are Board members, members of executive management, Deputy CEOs and the Heads of Group Risk Control and Group Compliance. These persons comprise executive officers according to the definition in the Swedish Companies Act. These persons are subject to the remuneration guidelines applied by the annual general meeting. Further information about executive officers is shown on pages 136–139. The Swedish Financial Supervisory Authority's regulation FFFS 2011:1 states that 'senior management' includes members of executive management, Deputy CEOs and the Heads of Group Risk Control and Group Compliance.

The Board's report on internal control regarding financial reporting

The presentation of Handelsbanken's internal control process for financial reporting is based on the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and covers the following components: control environment, risk assessment, control activities, information and communication, and follow-up. The process was designed to ensure compliance with the Bank's principles for financial reporting and internal control, and to ensure that the financial reporting has been prepared pursuant to the law, applicable accounting standards, and other requirements related to listed companies.

Control environment

To ensure reliable financial reporting, Handelsbanken's internal control process for financial reporting is based on the control environment. The control environment is fundamental to other components of the process and has been described earlier in the corporate governance report: organisational structure, division of responsibilities, guidelines and policy documents. An important aspect of the control environment is that decision-making channels, powers of authority and responsibilities are clearly defined and communicated, as is that policy documents and guidelines established by the Board and CEO give clear guidance and are complied with.

Risk assessment

Risk assessment aims to identify, manage and follow up risks with the potential to affect the financial reporting. Group Finance is responsible for performing a risk assessment at Group level, in order to identify units for which the need for internal control is assessed as of material significance to minimise the risk of material error in the financial reporting. Units that Group Finance deems must be covered by the process are required to draw up general documentation of their processes for internal control regarding financial reporting. This general documentation must describe the processes that generate the unit's most significant balance sheet and profit and loss items, risks, procedures for preparing the accounts, and identified control activities. The identified control activities are carried out each quarter to ensure that the financial reporting is correct, in all material respects.

The annual self-evaluations carried out at regional banks, subsidiaries, central departments and international units are an essential part of the Bank's total risk assessment. Risks in the financial reporting are part of this total analysis. Other aspects of Handelsbanken's risk management are detailed in note G2 on pages 96–133 and in the Bank's Pillar 3 report.

Control activities

Various control activities are incorporated in the entire financial reporting process.

Group Finance bears the overall responsibility for the financial reporting, the consolidated accounts and consolidated financial reports, and for financial and administrative control systems. The unit's responsibilities also include the Group's liquidity, the internal bank, own funds, tax analysis and Group-wide reporting to public authorities. The capital requirements are, however, calculated by Group Risk Control.

Group Finance has the overall responsibility for ensuring that a fit-for-purpose process is in place for reporting on internal control regarding the financial reporting. For the units that Group Finance has deemed must be covered by the process for internal control regarding financial reporting, control activities are identified which are aimed at preventing, detecting and correcting errors and deviations in the financial reporting. Group Finance has established a number of financial control activities linked to the general ledger and the process of preparing the accounts, which all finance departments at regional banks, subsidiaries, central departments and international units are required to carry out in conjunction with every quarterly closing of accounts. These include, for example, the reconciliation and verification of reported amounts, and analyses of income statements and balance sheets. In addition to financial control activities, units selected by Group Finance are responsible for identifying and evaluating control activities within business process and systems that have a substantial impact on the income statement and balance sheet, with the aim of minimising the risk of material error in the financial reporting. Heads of accounting and control at the respective units are responsible for ensuring that the control activities in the financial reporting for their unit are fit-for-purpose – i.e. that they are designed to prevent, detect and correct errors and deviations – and are in compliance with internal guidelines and instructions. At each quarterly closing of accounts, the units certify to Group Finance that the control activities have been carried out, and that their balance sheets and income statements are correct. Based on Group Finance's follow-up of the units' reports, the Head of Group Finance (i.e. the CFO) reports the status of the internal control of financial reporting to the audit committee at each quarterly closing of accounts.

The CRO is responsible for setting up and maintaining a valuation committee. The committee's role is to support risk control, Group Finance and the local risk and treasury functions in the decision-making processes for valuation and reporting matters. The committee deals with the valuation of financial assets and liabilities, including derivatives at fair value and also financial guarantees. The valuations refer to both own holdings and holdings on behalf of others. The committee must ensure that the valuation complies with external regulations, internal guidelines and current market practices.

High information security is a precondition for good internal control of financial reporting. Thus there are regulations and guidelines to ensure availability, accuracy, confidentiality and traceability of information in the business systems.

Information and communication

The Bank has information and communication paths with the aim of achieving completeness and correctness in its financial reports. Group Finance must ensure that the staff concerned are aware of and have access to instructions of significance to the financial reporting. The Group's general accounting instructions and special procedures for producing financial reports, and the process for internal control regarding financial reporting, are communicated to the staff concerned via the Group's intranet. The system used for financial reporting encompasses the entire Group.

Follow-up

The policy established by the Board for Group Compliance states that it must monitor and verify compliance within the Group. Accounting and financial control departments at regional banks, subsidiaries, central departments and international units also monitor and verify compliance with applicable rules in the form of internal policies, instructions and other policy documents which affect the financial reporting.

The policy established by the Board for internal audit states that it must examine internal governance and control, and must evaluate the reliability of the Group's financial reporting. Group Audit is described in more detail on page 65.

The policy established by the Board for Risk Control states that it must identify, check and report risks of errors in the Bank's assumptions and assessments that form the basis of the Bank's financial reporting.

As part of the quality control work for financial reporting, the Board has set up an audit committee. Among other responsibilities, the committee processes crucial accounting matters and the financial reports produced by the Bank. The committee also supervises the effectiveness of the internal control, internal audit and risk management systems for internal control regarding financial reporting. The audit committee is described in more detail on page 65.

The Group's information and communication paths are monitored continually to ensure that they are fit-for-purpose for the financial reporting.

The Board

Names	Pär Boman Chairman	Fredrik Lundberg Deputy Chair	Jon Fredrik Baksaas Board Member	Hans Biörck Board Member	Kerstin Hessius Board Member
Year elected	2006	2002	2003	2018	2016
Year of birth	1961	1951	1954	1951	1958
Nationality	Swedish	Swedish	Norwegian	Swedish	Swedish
Position and significant board assignments	Chairman of Svenska Cellulosa AB SCA and Essity AB • Deputy Chairman of AB Industrivärden • Board Member Skanska AB.	President and CEO of L E Lundbergföretagen AB • Chairman of Holmen AB, Hufvudstaden AB, AB Industrivärden • Board Member L E Lundberg-företagen AB, Skanska AB.	Board member Telefonaktie-bolaget LM Ericsson and Statnett SF.	Chairman of Skanska AB and Trelleborg AB.	CEO of AP3 Third National Swedish Pension Fund • Board member Vasakronan AB, Hemsö Fastighets AB, Trenum AB, Svensk-Danska Broförbindelsen SVEDAB AB and Øresundsbro Konsortiet.
Background	2006–2015 President and CEO of Handelsbanken.	CEO of L E Lundberg-företagen AB since 1981 • Active at Lundbergs since 1977.	2008–2016 Board member GSM Association, Chairman 2013–2016 • 2002–2015 Telenor Group, President and CEO • 1989–2002 Telenor Group, various positions within finance, financial control and management • 1988–1989 Aker AS • 1985–1988 Stolt Nielsen Seaway AS • 1979–1985 Det Norske Veritas, Norway and Japan.	2001–2011 Skanska, Deputy CEO and CFO • 1998–2001 Autoliv, CFO • 1997–1998 Self-employed • 1977–1997 Various positions in Esselte.	2001–2004 Stockholm Stock Exchange, CEO • 1999–2000 Sveriges Riksbank, Deputy Governor of the central bank • 1998 Danske Bank, Chief Executive, Asset Management • 1990–1997 ABN Amro Bank/ Alfred Berg • 1989–1990 Finanstidningen • 1986–1989 Swedish National Debt Office • 1985–1986 Sveriges Riksbank (central bank) • 1984–1985 Swedish Agency for Public Management.
Education	Engineer and Business/ Economics degree.	Graduate in Business Admin-istration and Master of Engi-neering, PhD (Econ) h.c. and PhD (Tech) h.c.	Graduate in Economics/ Business Administration and PED from IMD.	Graduate in Economics/ Business Administration.	Graduate in Economics/ Business Administration.
Remuneration 2019[1]	SEK 4,706,250	SEK 1,360,000	SEK 1,877,500	SEK 1,082,500	SEK 1,120,000
Credit committee **Participation**	Chairman 11/11	10/11	8/11	11/11	-
Audit committee **Participation**	10/10	-	9/10	-	-
Remuneration committee **Participation**	Chairman 11/11	-	-	-	-
Risk committee **Participation**	8/8	-	7/8	-	Chairman 8/8
Board meetings **Participation**	Chairman 15/15	15/15	11/15	14/15	15/15
Own shareholdings and those of immediate family	126,475, of which 26,475 in indirect holdings[3].	67,275,000	3,800	5,000	8,700
Dependent/ Independent	Not independent of the Bank and its management (former CEO).[4] Not independent of major shareholders (Deputy Chair-man of AB Industrivärden).	Independent of the Bank and its management. Not independent of major shareholders (Chairman of AB Industrivärden).	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.
Number of assignments[5] **Actual number of assignments**[6]	5[7] 14	4[7] 9	4 5	3 5	4 10

1 Remuneration decided by the AGM. Total remuneration to the Board in 2019 was SEK 15,753,750.
2 Member of the Board/committee from 27 March 2019.
3 Indirect holding of shares in Handelsbanken via the Oktogonen profit-sharing foundation.
4 Considered independent of the Bank and its management from 25 March 2020.
5 Number of assignments based on the Swedish Banking and Financing Business Act (2004:297), Chapter 10, Section 8 b, by which assignments in the same group or in companies in which the Bank has a qualifying holding may be counted as a single assignment. Assignments in organisations that are primarily non-commercial, including certain foundations and not-for-profit associations, are not included.
6 Number of assignments disregarding the basis of calculation stated in footnote 5.
7 Has permission from the Swedish Financial Supervisory Authority to hold an additional assignment as board member under the Swedish Banking and Financing Business Act (2004:297) Chapter 10, Section 8 b, paragraph 3.

Jan-Erik Höög **Board Member**	**Ole Johansson** **Board Member**	**Lise Kaae** **Board Member**	**Bente Rathe** **Board Member**	**Charlotte Skog** **Board Member**	**Carina Åkerström** **Board Member**
2017	2012	2015	2004	2012	2019
1969	1951	1969	1954	1964	1962
Swedish	Finnish	Danish	Norwegian	Swedish	Swedish
Head of Private Banking and Deputy Head of Business Support, Handelsbanken South East Sweden • Chairman of the Oktogonen Foundation.	Board member Konecranes Oyj Apb.	CEO of HeartLand A/S • Board Member Whiteway A/S and various companies within the Heartland Group.	Chair of Ecohz AS and Cenium AS (both companies are subsidiaries of Strawberry Invest AS).	Bank officer at Handelsbanken • Board member Financial Sector Union of Sweden.	President and Group Chief Executive of Handelsbanken • Deputy Chair of the Swedish Bankers' Association • Board member World Childhood Foundation.
Various positions at Handelsbanken • Employee since 1991.	1975–2011 Various positions within the Wärtsilä (Metra) Group with the exception of a period with Valmet 1979–1981 • CEO 2000–2011.	1992–2008 PricewaterhouseCoopers.	1999–2002 Deputy Group Chief Executive, Gjensidige NOR (CEO of life insurance company, chair of Mutual Fund and Asset Management Company) • 1996–1999 CEO of Gjensidige Bank AS • 1993–1996 CEO of Elcon Finans AS • 1991–1993 Deputy CEO of Forenede Forsikring • 1989–1991 CFO of Forenede Forsikring • 1977–1989 Head of Credits and CFO of E.A. Smith AS.	Various positions at Handelsbanken • Employee since 1989.	2016–2019 Deputy CEO, Deputy Group Chief Executive of Handelsbanken • 2010–2019 Deputy CEO, Head of Regional Bank Stockholm • 2008–2010 Deputy CEO, Head of Regional Bank Eastern Sweden • Employee at Handelsbanken since 1986.
Business/economics Upper secondary school, DIHM Diploma in Business Administration (IHM Business School).	Diploma in Economics and Business Administration.	Authorised Public Accountant.	Graduate in Economics/Business Administration and MBA.	Economics Programme at upper secondary school.	Bachelor of Laws.
SEK 0	SEK 2,016,250	SEK 1,480,000	SEK 2,111,250	SEK 0	SEK 0
Deputy member -	9/11	-	11/11	Deputy member -	8/11[2]
-	10/10	9/10	Chairman 10/10	-	-
-	10/11	-	11/11	-	-
-	8/8	7/8	8/8	-	-
15/15	15/15	15/15	15/15	13/15	11/15[2]
30,944, of which 30,944 in indirect holdings[3].	113,555	2,560	0	32,979, of which 29,400 in indirect holdings[3].	40,927, of which 30,427 in indirect holdings[3].
Not independent of the Bank and its management (employee). Not independent of major shareholders (Chairman of Oktogonen Foundation).	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.	Independent of the Bank, its management and major shareholders.	Not independent of the Bank and its management (employee). Independent of major shareholders.	Not independent of the Bank and its management (CEO). Independent of major shareholders.
2	2	3	2	2	1
3	4	60	3	5	1

Executive management

Executive management

Name	Position	Year of birth	Employed	Shareholdings
Per Beckman	Chief Credit Officer, Group Credits	1962	1993	Shareholdings* 14,966 of which 14,966 in indirect holdings**
Magnus Ericson	Chief Human Resources Officer, Group HR	1968	1988	Shareholdings* 26,681 of which 25,681 in indirect holdings**
Michael Green[1]	Head of Handelsbanken Stockholm	1966	1994	Shareholdings* 116,452 of which 19,592 in indirect holdings**
Dan Lindwall	Head of Capital Markets	1965	2000	Shareholdings* 13,624 of which 13,624 in indirect holdings**
Katarina Ljungqvist[1]	Head of Business Development Sweden	1965	1989	Shareholdings* 41,964 of which 30,104 in indirect holdings**
Rolf Marquardt	Chief Financial Officer, Group Finance	1964	2002	Shareholdings* 15,752 of which 10,752 in indirect holdings**
Juha Rantamaa	Acting Chief Information Officer, Group IT	1964	2011	Shareholdings* 12,402 of which 12,402 in indirect holdings**
Martin Wasteson	Chief Legal Officer, Group Legal	1971	2012	Shareholdings* 2,444 of which 2,444 in indirect holdings**
Carina Åkerström	President and Group Chief Executive	1962	1986	Shareholdings* 40,927 of which 30,427 in indirect holdings**

* Direct holdings of shares refer to own holdings or those of closely related persons.
** Indirect holding of shares in Handelsbanken via the Oktogonen profit-sharing foundation.
[1] Co-opted to executive management.

Financial reports Group

CONTENTS

Income statement, Group

Group SEK m		2019	2018
Interest income	*Note G3*	54 395	49 171
of which interest income according to effective interest method and interest on derivatives for hedging		*53 798*	*48 341*
Interest expenses	*Note G3*	-22 260	-17 885
Net interest income		**32 135**	**31 286**
Fee and commission income	*Note G4*	12 762	12 183
Fee and commission expenses	*Note G4*	-2 065	-1 936
Net fee and commission income		**10 697**	**10 247**
Net gains/losses on financial transactions	*Note G5*	1 299	908
Risk result – insurance	*Note G6*	145	106
Other dividend income		113	218
Share of profit of associates	*Note G18*	32	0
Other income	*Note G7*	143	1 005
Total income		**44 564**	**43 770**
Staff costs	*Note G8*	-13 549	-13 465
Other expenses	*Note G9*	-6 524	-6 712
Depreciation, amortisation and impairment of property, equipment and intangible assets	*Note G24, G25*	-1 670	-713
Total expenses		**-21 743**	**-20 890**
Profit before credit losses		**22 821**	**22 880**
Net credit losses	*Note G10*	-1 045	-881
Gains/losses on disposal of property, equipment and intangible assets	*Note G11*	20	14
Operating profit		**21 796**	**22 013**
Taxes	*Note G34*	-4 871	-4 656
Profit for the year		**16 925**	**17 357**
attributable to			
Shareholders in Svenska Handelsbanken AB		16 922	17 354
Non-controlling interest		3	3
Earnings per share, SEK	*Note G12*	8.65	8.93
after dilution	*Note G12*	8.58	8.84

Statement of comprehensive income, Group

Group SEK m	**2019**	**2018**
Profit for the year	16 925	17 357
Other comprehensive income		
Items that will not be reclassified to the income statement		
Defined benefit pension plans	4 262	-4 405
Equity instruments measured at fair value through other comprehensive income	372	-188
Tax on items that will not be reclassified to the income statement	-931	978
of which defined benefit pension plans	*-910*	*977*
of which equity instruments measured at fair value through other comprehensive income	*-21*	*1*
Total items that will not be reclassified to the income statement	**3 703**	**-3 615**
Items that may subsequently be reclassified to the income statement		
Cash flow hedges	3 741	768
Debt instruments measured at fair value through other comprehensive income	7	-12
Translation difference for the year	1 072	-188
of which hedges of net investments in foreign operations	*-1 509*	*-850*
Tax on items that may subsequently be reclassified to the income statement	-480	38
of which cash flow hedges	*-801*	*-159*
of which debt instruments measured at fair value through other comprehensive income	*-2*	*3*
of which hedges of net investments in foreign operations	*323*	*194*
Total items that may subsequently be reclassified to the income statement	**4 340**	**606**
Total other comprehensive income	**8 043**	**-3 009**
Total comprehensive income for the year	**24 968**	**14 348**
Attributable to		
Shareholders in Svenska Handelsbanken AB	24 965	14 345
Non-controlling interest	3	3

The year's reclassifications to the income statement are presented in the Statement of changes in equity.

In 2019, other comprehensive income totalled SEK 8,043m (-3,009) after tax. In individual periods, the results of all items within other comprehensive income may fluctuate due to changes in the discount rate, exchange rates and inflation.

During the period January to December 2019, other comprehensive income was positively affected by SEK 3,352m after tax, related to defined benefit pension plans, while in the period of comparison, there was a negative effect of SEK -3,428m after tax. The value of the plan assets has increased to a greater extent than the pension obligations. This is in spite of the fact that the discount rate for the Swedish pension obligations has decreased to 1.7% from 2.0% since year-end 2018.

Most of the Group's long-term funding is hedged using derivatives, where all cash flows are matched until maturity. Cash flow hedging manages the risk of variations in the cash flows related to changes in variable interest rates and currencies on lending and funding. The underlying funding and the asset which is being funded are valued at amortised cost, while the derivatives which are hedging these items are valued at market value. The impact on profit/loss of the market valuation is reported under Cash flow hedges. In 2019, the value changes on hedge derivatives in cash flow hedges were SEK 2,940m (609) after tax. The value changes derived partly from exchange rate movements, but above all from changes in the discount rates of the respective currency. During the year, SEK -9m (-39) has been recognised as a result of ineffectiveness.

Unrealised changes in the value of equity instruments and debt instruments classified at fair value via other comprehensive income had impacts of SEK 351m (-187) and SEK 5m (-9) after tax, respectively.

Unrealised foreign exchange effects related to the restatement of foreign branches and subsidiaries to the Group's presentation currency and the effect of hedging of net investments in foreign operations affected other comprehensive income by SEK 1,395m (6) after tax during the year.

Balance sheet, Group

Group SEK m		2019	2018
ASSETS			
Cash and balances with central banks		327 958	317 217
Other loans to central banks	*Note G13*	19 547	33 557
Interest-bearing securities eligible as collateral with central banks	*Note G16*	103 387	122 260
Loans to other credit institutions	*Note G14*	17 939	22 137
Loans to the public	*Note G15*	2 292 603	2 189 092
Value change of interest-hedged item in portfolio hedge		25	33
Bonds and other interest-bearing securities	*Note G16*	42 640	50 729
Shares	*Note G17*	21 390	13 821
Investments in associates	*Note G18*	285	259
Assets where the customer bears the value change risk	*Note G19*	174 988	136 346
Derivative instruments	*Note G21*	41 545	58 041
Reinsurance assets		11	12
Intangible assets	*Note G24*	11 185	10 455
Property and equipment	*Note G25*	6 645	2 229
Current tax assets		53	617
Deferred tax assets	*Note G34*	693	1 044
Assets held for sale		1	19
Net pension assets	*Note G8*	654	-
Other assets	*Note G26*	6 167	16 880
Prepaid expenses and accrued income	*Note G27*	1 951	3 426
Total assets	*Note G39*	**3 069 667**	**2 978 174**
LIABILITIES AND EQUITY			
Due to credit institutions	*Note G28*	147 989	194 082
Deposits and borrowing from the public	*Note G29*	1 117 825	1 008 487
Liabilities where the customer bears the value change risk	*Note G30*	174 988	136 346
Issued securities	*Note G31*	1 384 961	1 394 647
Derivative instruments	*Note G21*	20 642	17 360
Short positions	*Note G32*	1 856	6 163
Insurance liabilities	*Note G33*	578	542
Current tax liabilities		1 284	1 118
Deferred tax liabilities	*Note G34*	5 634	5 786
Provisions	*Note G35*	1 141	222
Net pension liabilities	*Note G8*	-	3 226
Other liabilities	*Note G36*	14 038	12 984
Accrued expenses and deferred income	*Note G37*	3 353	3 865
Subordinated liabilities	*Note G38*	35 546	51 085
Total liabilities	*Note G39*	**2 909 835**	**2 835 913**
Non-controlling interest		8	12
Share capital		3 069	3 013
Share premium reserve		8 758	5 629
Reserves		13 141	5 098
Retained earnings		117 934	111 155
Profit for the year, attributable to shareholders in Svenska Handelsbanken AB		16 922	17 354
Total equity		**159 832**	**142 261**
Total liabilities and equity		**3 069 667**	**2 978 174**

Statement of changes in equity, Group

Group 2019 SEK m	Share capital	Share premium reserve	Defined benefit plans	Hedge reserve	Fair value reserve	Translation reserve	Retained earnings incl. profit for the year	Non-controlling interest	Total
Opening equity 2019	**3 013**	**5 629**	**1 283**	**1 263**	**304**	**2 248**	**128 509**	**12**	**142 261**
Profit for the year							16 922	3	16 925
Other comprehensive income			3 352	2 940	356	1 395		0	8 043
of which reclassified within equity					*15*	*-133*			*-118*
Total comprehensive income for the year			**3 352**	**2 940**	**356**	**1 395**	**16 922**	**3**	**24 968**
Reclassified to retained earnings							118		118
Dividend							-10 693		-10 693
Effects of convertible subordinated loans	56	3 129							3 185
Change in non-controlling interest								-7	-7
Closing equity 2019	**3 069**	**8 758**	**4 635**	**4 203**	**660**	**3 643**	**134 856**	**8**	**159 832**

Group 2018 SEK m	Share capital	Share premium reserve	Defined benefit plans	Hedge reserve	Fair value reserve	Translation reserve	Retained earnings incl. profit for the year	Non-controlling interest	Total
Closing equity 2017	**3 013**	**5 629**	**4 711**	**654**	**499**	**2 242**	**124 845**	**11**	**141 604**
Effect of transition to IFRS 9					1		-640		-639
Tax effect due to transition to IFRS 9					0		139		139
Opening equity 2018	**3 013**	**5 629**	**4 711**	**654**	**500**	**2 242**	**124 344**	**11**	**141 104**
Profit for the year							17 354	3	17 357
Other comprehensive income			-3 428	609	-196	6		0	-3 009
of which reclassified within equity			*1*		*-5*	*-1 388*			*-1 392*
Total comprehensive income for the year			**-3 428**	**609**	**-196**	**6**	**17 354**	**3**	**14 348**
Reclassified to retained earnings							1 392		1 392
Dividend							-14 581		-14 581
Effects of convertible subordinated loans	0	0							0
Change in non-controlling interest								-2	-2
Closing equity 2018	**3 013**	**5 629**	**1 283**	**1 263**	**304**	**2 248**	**128 509**	**12**	**142 261**

The translation reserve includes conversion effects relating to the balance sheets and income statements of the Group´s international branches. Accumulated conversion effects are reported for taxation when an international branch is closed down or diversted. The tax regulations for the taxation of conversion effects are highly complex, and therefore subject to different interpretations. Consequently, it cannot be ruled out that conversion effects may need to be reported for taxation at an earlier stage than when a divestment/closedown takes place.

During the period January to December 2019, convertibles for a nominal value of SEK 3,185 m (0) relating to subordinated convertible bonds have been converted into 35,853,334 class A shares (1,609). At the end of the financial year, the number of Handelsbanken shares in the trading book was 0 (0).

Statement of changes in equity, Group cont.

Specification of changes in equity

Change in hedge reserve SEK m	**2019**	**2018**
Hedge reserve at beginning of year	1 263	654
Cash flow hedges		
Effective part of change in fair value		
Interest rate risk	3 146	-536
Foreign exchange risk	617	1 304
Unrealised value changes		
Reclassified to the income statement[1]	-22	-
Tax	-801	-159
Hedge reserve at end of year	**4 203**	**1 263**

Change in fair value reserve SEK m	**2019**	**2018**
Fair value reserve at the end of 2017		499
Effect of transition to IFRS 9		1
Fair value reserve at beginning of year	**304**	**500**
Unrealised value change – equity instruments	351	-187
Realised value change – equity instruments	-15	5
Unrealised value change – debt instruments	4	-10
Change in provision for expected credit losses – debt instruments	1	1
Reclassified to retained earnings – equity instruments	15	-5
Reclassified to the income statement – debt instruments[2]	0	-
Fair value reserve at end of year	**660**	**304**

Change in translation reserve SEK m	**2019**	**2018**
Translation reserve at beginning of year	2 248	2 242
Change in translation difference pertaining to branches	76	1 520
Change in translation difference pertaining to subsidiaries	1 450	-128
Reclassified to the income statement[4]	2	2
Reclassified to retained earnings[5]	-133	-1 388
Translation reserve at end of year	**3 643**	**2 248**

[1] Tax reclassified to the income statement pertaining to this item SEK 5m (-).
[2] Tax reclassified to the income statement pertaining to this item SEK 0m (-).
[3] Tax reclassified to the income statement pertaining to this item SEK 0m (0).
[4] Tax reclassified to retained earnings pertaining to this item SEK 28m (335).

Cash flow statement, Group

Group SEK m	2019	2018
OPERATING ACTIVITIES		
Operating profit, total operations	21 796	22 013
of which paid-in interest	*54 358*	*50 266*
of which paid-out interest	*-23 964*	*-17 648*
of which paid-in dividends	*249*	*372*
Adjustment for non-cash items in profit/loss		
Credit losses	1 297	1 057
Unrealised changes in value	-130	1 589
Depreciation, amortisation and impairment	1 670	713
Paid income tax	-5 325	-5 106
Changes in the assets and liabilities of operating activities		
Other loans to central banks	14 010	5 363
Loans to other credit institutions	4 198	-1 887
Loans to the public	-104 758	-124 830
Interest-bearing securities and shares	19 916	4 872
Due to credit institutions	-46 093	19 262
Deposits and borrowing from the public	109 338	66 520
Issued securities	-9 686	118 051
Derivative instruments, net positions	20 137	-9 381
Short positions	-4 439	4 178
Claims and liabilities on investment banking settlements	7 380	-7 311
Other	-6 933	-18 441
Cash flow from operating activities	**22 378**	**76 662**
INVESTING ACTIVITIES		
Acquisitions of and contributions to associates	-134	-219
Sales of shares	39	262
Acquisitions of property and equipment	-1 094	-695
Disposals of property and equipment	562	312
Acquisitions of intangible assets	-1 120	-786
Cash flow from investing activities	**-1 747**	**-1 126**
FINANCING ACTIVITIES		
Repayment of subordinated loans	-17 730	-
Issued subordinated loans	4 670	15 449
Dividend paid	-10 693	-14 581
Cash flow from financing activities	**-23 753**	**868**
of which changes in foreign exchange rates	*669*	*4 132*
Cash flow for the year	**-3 122**	**76 404**
Liquid funds at beginning of year	317 217	226 314
Cash flow from operating activities	22 378	76 662
Cash flow from investing activities	-1 747	-1 126
Cash flow from financing activities	-23 753	868
Exchange difference on liquid funds	13 863	14 499
Liquid funds at end of year	**327 958**	**317 217**

The cash flow statement has been prepared in accordance with the indirect method, which means that operating profit has been adjusted for transactions that did not entail paid-in or paid-out cash such as depreciations and credit losses.

Liquid funds are defined as cash and balances with central banks.

Notes, Group

G1 Accounting policies and other bases for preparing the financial reports

CONTENTS

1. STATEMENT OF COMPLIANCE

Basis of accounting

The consolidated accounts have been prepared in accordance with international financial reporting standards (IFRS) and interpretations of these standards as adopted by the EU. In addition, the accounting policies also adhere to the Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), and the regulations and general guidelines issued by the Swedish Financial Supervisory Authority in FFFS 2008:25, Annual Reports in Credit Institutions and Securities Companies. RFR 1 Supplementary Accounting Rules for Groups, and statements from the Swedish Financial Reporting Board, are also applied in the consolidated accounts.

The parent company's accounting policies are shown in note P1.

Issuing and adoption of annual report

The annual report and consolidated accounts were approved for issue by the Board on 4 February 2020 and will be presented for adoption by the AGM on 27 March 2020.

2. CHANGED ACCOUNTING POLICIES

IFRS 16 Leases

On 1 January 2019, IFRS 16 Leases, which replaced IAS 17, entered into force in the EU. The implementation of the standard mainly affects accounting by lessees. Accounting for lessors remains essentially unchanged. The main change arising from the new standard is that all lease contracts (with the exception of short-term lease contracts and lease contracts of low value) are recognised as an asset (right-of-use asset) and as a liability on the lessee's balance sheet. In the income statement, the straight-line expense for the operating lease has been replaced by a charge for depreciation on the leased asset and an interest expense attributable to the lease liability. The main impact on the Group's accounts comes from accounting for contracts for the rental of premises. Handelsbanken has applied the modified retrospective method in its implementation of the standard. The comparative figures have therefore not been recalculated. As at the transition date to IFRS 16, 1 January 2019, the asset (right-of-use assets) amounted to SEK 4.2 billion and the lease liability to SEK 4.2 billion. The opening balance of retained earnings was not affected by an initial impact in conjunction with the transition, as the Bank applied the alternative of recognising all right-of-use assets, as at the first date of application, at an amount corresponding to the lease liability, adjusted for any prepaid or accrued lease fees related to the lease agreements.

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and measurement and IFRS 7 Financial Instruments: Disclosures

Amendments have been made which introduce temporary exemptions from applying certain specific hedge accounting requirements for all hedging relationships directly affected by the Interest Rate Benchmark Reform. The purpose of the temporary exemptions is to prevent the break-up of otherwise effective hedging relationships solely due to the uncertainty brought about by the Interest Rate Benchmark Reform. According to the regulations, a direct impact on the hedging relationship exists only if this causes uncertainty about the benchmark rate relating to the hedged risk and/or dates or amounts regarding cash flows from the hedged item or hedging instrument that are based on the benchmark rate.

The uncertainty about the benchmark rate will persist until such time as a decision has been made about which rate will be the alternative interest rate, as well as about if and when the reform will be implemented, including a specification of the effects on individual contracts.

The amendments to IAS 39, IFRS 9 and IFRS 7 have been approved by the EU and are effective from 1 January 2020. However, early adoption is permitted. The amendments are to be applied retroactively to the hedging relationships in existence at the start of the reporting period in which the company chooses to apply the amendments for the first time, or which arise thereafter, and to gains and losses recognised under Other comprehensive income in existence at the start of this reporting period. The Bank has chosen to early adopt the amendments.

In other respects, the accounting policies and calculation methods applied by the Group during the financial year are consistent with the policies applied in the 2018 annual report.

3. CHANGES IN IFRS WHICH ARE YET TO BE APPLIED

IFRS 17 Insurance contracts

IFRS 17 Insurance contracts has been published by the IASB. Assuming that IFRS 17 is adopted by the EU, and the date of implementation proposed by the IASB is not changed, this standard is to be applied as of the 2022 financial year. IFRS 17 entails a change in how insurance contracts are recognised, presented and valued. It will also entail extended disclosure requirements. The Bank is currently analysing the financial effects of the new standard.

Other changes in IFRS

None of the other changes in the accounting regulations issued for application are assessed to have a material impact on Handelsbanken's financial reports, capital adequacy, large exposures or other circumstances according to the applicable regulatory requirements.

4. BASIS OF CONSOLIDATION AND PRESENTATION

Subsidiaries

All companies directly or indirectly controlled by Handelsbanken (subsidiaries) have been fully consolidated. The Bank is deemed to have direct control of a company when it is exposed to, or is entitled to, variable returns from its holdings in the company and can affect the return by means of its influence over the company. As a rule, control exists if Handelsbanken owns more than 50 per cent of the voting power at shareholders' meetings or the equivalent.

Subsidiaries are consolidated according to the acquisition method. This means that the acquisition of a subsidiary is regarded as a transaction where the Group acquires the company's identifiable assets and assumes its liabilities and obligations. In the case of business combinations, an acquisition balance sheet is prepared, where identifiable assets and liabilities are valued at fair value at the acquisition date. The cost of the business combination comprises the fair value of all assets, liabilities and issued equity instruments provided as payment for the net assets in the subsidiary. Any surplus due to the cost of the business combination exceeding the identifiable net assets on the acquisition

G1 Cont.

balance sheet is recognised as goodwill in the Group's balance sheet. Acquisition-related expenses are recognised when they arise. The subsidiary's financial reports are included in the consolidated accounts starting on the acquisition date until the date on which control ceases. Intra-group transactions and balances are eliminated when preparing the Group's financial reports.

When accounting for business combinations, the acquired operations are recognised in the Group's accounts from the acquisition date. The acquisition date is the date when controlling influence of the acquired entity starts. The acquisition date may differ from the date when the transaction is legally established.

Where the accounting policies applied for an individual subsidiary do not correspond to the policies applied in the Group, an adjustment is made to the consolidated accounts when consolidating the subsidiary.

Structured entities

A structured entity is a company formed to achieve a limited and well-defined purpose, where the voting rights are not the definitive factor in determining whether control exists. Handelsbanken's holdings in structured entities are restricted to holdings in mutual funds. Funds for which the Bank is asset manager and where the Bank owns more than 50 per cent of the shares are consolidated in their entirety on the balance sheet under Assets/Liabilities where the customer bears the value change risk. Ownership of between 20 and 50 per cent is consolidated in certain cases if the circumstances indicate that the Bank has a controlling interest, for example if the fund has a broad management mandate and generates a high proportion of variable return. Funds which the Bank owns through unit-linked insurance contracts are not consolidated. Additional information on holdings in non-consolidated structured entities is provided in note G20.

Associated companies

Companies in which Handelsbanken has a significant influence are reported as associated companies. A significant influence entails the right to participate in decisions concerning the company's financial and operating strategies but does not give control over these. As a rule, a significant influence exists when the share of voting power in the company is at least 20 per cent and at most 50 per cent. Associated companies are reported in the consolidated accounts in accordance with the equity method. This means that the holding is initially reported at cost. The carrying amount is increased or decreased to recognise the Group's share of the associated company's profits or losses after the date of acquisition. Any dividends from associated companies are deducted from the carrying amount of the holding. Shares of the profit of associated companies are reported as Share of profit of associates on a separate row in the Group's income statement.

Assets held for sale and accounting of discontinued operations

Non-current assets or a group of assets (disposal group) are classified as held for sale when the carrying amount will be mainly recovered through a sale and when a sale is highly probable. If an asset is classified as held for sale, special valuation principles are applied. These principles essentially mean that, with the exception of items such as financial assets and liabilities (see point 8), assets held for sale and disposal groups are measured at the lower of the carrying amount and fair value less costs to sell. Thus, property, plant and equipment or intangible assets held for sale are not depreciated or amortised. Any impairment losses and subsequent revaluations are recognised directly in the income statement. Gains are not recognised if they exceed accumulated impairment losses. Assets and liabilities held for sale are reported as a separate item on the Group's balance sheet until the time of sale.

Independent operations of a material nature which can be clearly differentiated from the Group's other operations and which are classified as held for sale using the policies described above are recognised as discontinued operations. Subsidiaries acquired solely for resale are also recognised as discontinued operations. In recognition as a discontinued operation, the operation's profit is reported on a separate row in the income statement, separately from other profit/loss items. Profit or loss from discontinued operations comprises the profit or loss after tax of discontinued operations, the profit or loss after tax that arises when valuing the assets held for sale/disposal groups that are included in discontinued operations at fair value less costs to sell, and realised gains/losses from the disposal of discontinued operations.

5. SEGMENT REPORTING

The segment reporting presents income/expenses and assets/liabilities broken down by business segments. A business segment is a part of the Group that runs operations which generate external or internal income and expenses and of which the profit/loss is regularly assessed and followed up by executive management as part of corporate governance. The principles for segment reporting are described further in note G44.

6. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

The consolidated accounts are presented in Swedish kronor, the Group's presentation currency. The functional currency for the Group's operations outside Sweden usually differs from the Group's presentation currency. The currency used in the economic environment where the operations are primarily conducted is regarded as the functional currency.

Translation of transactions in a currency other than the functional currency

Transactions in a currency other than the functional currency – foreign currency – are initially translated into the functional currency at the rate prevailing on the transaction date. Monetary items in foreign currencies and non-monetary items in foreign currencies that are measured at fair value are converted at the balance sheet date using the prevailing closing rate. Gains and losses arising from the currency translation of monetary items and non-monetary items measured at fair value are recognised in the income statement as foreign exchange effects under Net gains/losses on financial transactions. Translation differences that have arisen from non-monetary items classified as measured at fair value through other comprehensive income are recognised as a component of Other comprehensive income and are accumulated in equity. Exchange differences arising when translating monetary items comprising part of a net investment in a foreign operation are recognised in the same way.

Translation of foreign operations to the Group's presentation currency

When translating the foreign entities' (including branches') balance sheets and income statements from the functional currency to the Group's presentation currency, the current method has been used. This means that assets and liabilities are translated at the closing day rate. Equity is translated at the rate applicable at the time of investment or earning. The income statement has been translated at the average annual rate. Translation differences are recognised as a component of Other comprehensive income and are included in the translation reserve in equity.

7. RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS ON THE BALANCE SHEET

Purchases and sales of equities and money market and capital market instruments on the spot market are recognised on the trade date, which is the date on which an agreement is entered into. The same applies to derivatives. Other financial assets and liabilities are normally recognised on the settlement date.

Financial assets are derecognised from the balance sheet when the contractual rights to the cash flows originating from the asset expire or when all risks and rewards related to the asset are transferred to another party. A financial liability is derecognised from the balance sheet when the obligation is fulfilled, ceases or is cancelled.

The policies for recognising financial instruments on the balance sheet are of special importance when accounting for repurchase transactions, securities loans and leases (see the separate sections concerning these).

G1 Cont.

8. FINANCIAL INSTRUMENTS

Measurement categories

All financial assets, in compliance with IFRS 9, are allocated to one of the following measurement categories:

1. amortised cost
2. fair value through other comprehensive income
3. fair value through profit or loss
   a. mandatory
   b. fair value option

The starting point for the classification of financial assets into the respective measurement categories is the company's business model for managing the financial instruments, as well as whether the instruments' contractual cash flows only constitute solely payments of principal and interest.

Financial liabilities are classified as follows:

1. amortised cost
2. fair value through profit or loss
   a. mandatory
   b. fair value option

As a general rule, financial liabilities are recognised at amortised cost. The exceptions are financial liabilities which are required to be measured at fair value through profit or loss, such as derivatives, and liabilities which, upon initial recognition, are irrevocably identified as being measured at fair value (fair value option).

Financial assets and liabilities recognised on the same row on the balance sheet may be classified in different measurement categories, see note G39.

Upon initial recognition, all financial assets and liabilities are designated at fair value. For assets and liabilities at fair value through profit or loss, the transaction costs are recognised in the income statement on the acquisition date. For other financial instruments, the transaction costs are included in the acquisition cost.

Assessment of the business model

The business model for managing financial assets defines classification into measurement categories. The business model is determined at the portfolio level, as this best reflects how the operations are governed and how information is reported to, and evaluated by, the Bank's management. Information of significance to enabling a weighted assessment of the business model for a portfolio includes the established guidelines and objectives with a portfolio and how these are implemented in the operations, the risks which affect the performance of the portfolio and how the risks are managed, as well as the frequency, volume, reasons for and times of sales.

Assessment of whether contractual cash flows constitute solely payments of principal and interest

The assessment of whether contractual cash flows constitute solely payments of principal and interest is significant for the classification into measurement categories. For the purposes of this assessment, 'principal' is defined as the financial asset's fair value upon initial recognition. 'Interest' is defined as consideration for the time value of money, credit risk, other fundamental lending risks (such as liquidity risk) and costs (such as administrative expenses), as well as a profit margin.

To assess whether the financial asset's contractual cash flows constitute solely payments of principal and interest, the contractual terms of the financial asset are reviewed. If there are contractual terms that could change the timing or amounts of the contractual cash flows, modify the consideration for the time value of money, cause leverage or entail extra costs for prepayment and extension, then the cash flows are assessed as not constituting solely payments of principal and interest.

Amortised cost

A financial asset is to be measured at amortised cost if both of the following conditions are met:

- The objective of the business model is to collect contractual cash flows.
- The contractual cash flows constitute solely payments of principal and interest.

Financial assets recognised in the measurement category amortised cost consist of loans and holdings of interest-bearing securities that fulfil the above conditions. These assets are subject to impairment testing. Financial liabilities recognised in the measurement category amortised cost consist primarily of liabilities due to credit institutions, deposits and borrowing from the public, and issued securities.

Amortised cost consists of the discounted present value of all future cash flows relating to the instrument where the discount rate is the instrument's effective interest rate at the time of acquisition.

Interest and credit losses relating to financial instruments measured at amortised cost are recognised in the income statement under Net interest income and Credit losses, respectively. Early repayment charges for loans redeemed ahead of time, and capital gains/losses generated from repurchases of the Bank's own issued securities, are recognised in the income statement under Net gains/losses on financial transactions. Foreign exchange effects are also recognised under Net gains/losses on financial transactions.

Fair value through other comprehensive income

A financial asset is to be measured at fair value through other comprehensive income if both of the following conditions are met:

- The objective of the business model is both to collect contractual cash flows and to sell the asset.
- The contractual cash flows constitute solely payments of principal and interest.

Holdings of interest-bearing securities in the Bank's liquidity portfolio which satisfy the above conditions are recognised in the fair value through other comprehensive income measurement category. These assets are subject to impairment testing. Interest income is recognised under Net interest income, while foreign exchange effects and credit losses are recognised under Net gains/losses on financial transactions. Unrealised changes in value are recognised in other comprehensive income and reclassified to the income statement, under the item Net gains/losses on financial transactions, in conjunction with a sale.

Upon initial recognition, equity instruments that are not held for trading may be irrevocably classified as measured at fair value through other comprehensive income. Subsequent changes in value, both realised and unrealised and including exchange gains/losses, are thus recognised in other comprehensive income. Realised changes in value are reclassified to retained earnings, i.e. reclassified within equity, and not to the income statement. Only dividend income from these holdings is recognised in the income statement. This valuation principle is applied for certain shareholdings in companies which engage in activities to support the Bank. For example, these may refer to participating interests in clearing organisations, or infrastructure collaborations on the Bank's home markets. These shareholdings are long-term and remain largely unchanged from year to year.

Fair value through profit or loss, mandatory

If a financial asset does not meet the conditions for measurement at amortised cost or for measurement at fair value through other comprehensive income, measurement at fair value through profit or loss is mandatory.

Financial assets and liabilities held for trading are always classified as measured at fair value through profit or loss, as are financial assets managed and evaluated on a fair value basis.

The measurement category 'fair value through profit or loss, mandatory' mainly consists of listed shares, units in mutual funds, interest-bearing securities and derivatives. Interest, dividends, foreign exchange effects, and realised and unrealised changes in value related to these instruments are recognised in the income statement under Net gains/losses on financial transactions. For the recognition of derivatives through hedge accounting, see section 11.

Fair value through profit or loss, fair value option

There is an option, at initial recognition, to irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring the asset.

G1 Cont.

There is a corresponding option to irrevocably designate, at initial recognition, a financial liability as measured at fair value through profit or loss if either of the following conditions is met:

- It eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring the liability.
- A group of financial liabilities or a group of both financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about these instruments is provided internally to the Bank's management on that basis.

This valuation principle has been applied to avoid inconsistencies when measuring assets and liabilities which are counter-positions of each other and which are managed on a portfolio basis, such as liabilities resulting from unit-linked insurance contracts and certain holdings in the liquidity portfolio which are hedged with economic hedges.

Unrealised and realised changes in the fair value of financial instruments that are measured at fair value through profit or loss via the fair value option are recognised under Net gains/losses on financial transactions. Interest attributable to these instruments is recognised under Net interest income.

Reclassifications of financial instruments

As a general rule, financial assets are not reclassified after initial recognition. Reclassification is permitted in the rare case that the Bank changes the business model it applies for the management of a portfolio of financial assets. The reclassification of financial liabilities is not permitted after initial recognition.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument (loans and interest-bearing securities), for example, a credit guarantee. The fair value of an issued guarantee is the same as the premium received when it was issued. Upon initial recognition, the premium received for the guarantee is recognised as a liability under Accrued expenses and deferred income on the balance sheet. The guarantee is subsequently measured at the higher of the amortised premium or the provision for the expected loss. Premiums for issued financial guarantees are amortised under Net fee and commission income over the validity period of the guarantee. In addition, the total guaranteed amount relating to guarantees issued is reported off-balance as a contingent liability, see note G42.

Premiums for purchased financial guarantees are accrued and recognised as decreased interest income under Net interest income if the interest on the debt instrument to which the guarantee refers is recognised there.

Loan commitments are reported off-balance until the settlement date of the loan, see note G42. Fees received for loan commitments are accrued under net fee and commission income over the maturity of the commitment unless it is highly probable that the commitment will be fulfilled. In such cases, received fees are included in the effective interest of the loan.

Financial guarantees and irrevocable loan commitments are subject to impairment testing.

Combined financial instruments

A combined financial instrument consists of an embedded derivative and a non-derivative host contract. Some of the combined instrument's cash flows vary in a way similar to the cash flows of a stand-alone derivative.

If the host contract in a combined financial instrument is a financial liability, an embedded derivative must be separated from the host contract and recognised as a derivative if all of the following terms are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.
- The combined financial instrument is not measured at fair value through profit or loss. Consequently, derivatives embedded in financial liabilities measured at fair value through profit or loss are not recognised separately.

Such separate recognition is applied, for example, to issues of equity-linked bonds and other structured products.

Separate recognition is not applied to combined financial instruments when the host contract is a financial asset. Financial assets with embedded derivatives are regarded as a whole when assessing whether their contractual cash flows constitute solely payments of principal and interest.

The inherent value of the option to convert in issued convertible debt instruments is recognised separately in equity. The value of the equity component is determined at the time of issue as the difference between the fair value of the convertible debt instrument in its entirety reduced by the fair value of the liability component. The carrying amount of the equity component is not adjusted during the life of the convertible debt instrument. The liability component is recognised at fair value on the balance sheet at the time of issue. After initial recognition, the liability component is recognised at amortised cost based on the original effective interest rate.

Repurchase agreements and reverse repurchase agreements

Repurchase agreements, or repo transactions, refer to agreements where the parties simultaneously agree on the sale of specific securities and the repurchase of these securities at a pre-determined price. Securities sold in a repo transaction (repurchase agreement) remain on the balance sheet during the life of the transaction, as the Group is exposed to the value change risk applying to the security during this period. The sold instrument is also reported off-balance as a pledged asset. Depending on the counterparty, payment received is recognised under Due to credit institutions or as Deposits and borrowing from the public. Securities bought in a repo transaction (reverse repurchase agreement) are accounted for in the corresponding way, i.e. they are not recognised on the balance sheet during the life of the transaction. Depending on the counterparty, the payment made is recognised under Other loans to central banks, Loans to other credit institutions or Loans to the public. Collateral received which is sold on under repurchase agreements is recognised off-balance as a commitment.

Agreements for borrowing and lending of securities

Lent securities remain on the balance sheet, as the Group is still exposed to the value change risk applying to the security, as well as being reported off-balance as pledged assets. Borrowed securities are not recognised on the balance sheet unless they are sold (known as shortselling). If they are sold, a value corresponding to the sold instrument's fair value is recognised as a liability. Borrowed securities which are lent to a third party are recognised off-balance as commitments.

Derivative instruments

All derivatives are recognised on the balance sheet at fair value. Derivatives with positive fair values are recognised on the assets side under Derivative instruments. Derivatives with negative fair values are recognised on the liabilities side under Derivative instruments. Realised and unrealised gains and losses on derivatives are recognised in the income statement under Net gains/losses on financial transactions. For the recognition of derivatives through hedge accounting, see section 11.

Offset of financial assets and liabilities

Financial assets and liabilities are offset on the balance sheet if the Bank has a contractual right to offset, in its operating activities and in the event of bankruptcy, and if the intention is to settle the items on a net basis or to simultaneously liquidate the asset and settle the liability. Further information about set-off of financial assets and liabilities is provided in note G23.

G1 Cont.

9. PRINCIPLES FOR FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants.

For financial instruments traded on an active market, the fair value is the same as the quoted market price. An active market is one where quoted prices are readily and regularly available from a regulated market, execution venue, reliable news service or equivalent, and where the price information can be verified by means of regularly occurring transactions. The current market price corresponds to the price between the bid price and the offer price which is most representative of fair value under the circumstances. For groups of financial instruments which are managed on the basis of the Bank's net exposure to market risk, the current market price is presumed to be the same as the price which would be received or paid if the net position were divested.

When there is no reliable information about market prices for financial instruments, fair value is established using valuation models. The valuation models used are based on input data which essentially can be verified using market observations such as market interest rates and share prices. If necessary, an adjustment is made for other variables which a market participant would be expected to take into consideration when setting a price. The assumptions used in the valuation are based on internally generated experience and are continuously reviewed by the risk control function. The result is compared with the actual outcome so as to identify any need for adaptations of assumptions and forecasting models.

Interest-bearing securities

Interest-bearing securities issued by governments and Swedish mortgage bonds are valued using current market prices. Corporate bonds are valued using valuation techniques based on market yields for the corresponding maturity adjusted for credit and liquidity risk. The values are regularly reviewed in order to ensure that they reflect the current market price. The reviews are mainly performed by obtaining prices from several independent price sources and by reconciliation with recently performed transactions in the same or equivalent instruments.

Shares

Shares listed on an active market are valued at market price. When valuing shares and participations in level 3, the choice of model is determined by what is deemed appropriate for the individual instrument. Holdings of shares in level 3 mainly consist of shares in companies which engage in activities to support the Bank. In all material respects, shares in level 3 are classified at fair value through other comprehensive income. In general, such holdings are valued at the Bank's share of the company's net asset value. For shares in level 3 for which the company agreement regulates the price at which the shares can be divested, the holdings are valued at the predetermined divestment price.

When valuing level 3 units in private equity funds, valuation principles adopted by the European Venture Capital & Private Equity Association (EVCA) are used. In these models, the market value of the investments is derived from a relative valuation of comparable listed companies in the same sector. Adjustments are made for profit/loss items that prevent comparison between the investment and the compared company, and the value of the investment is then determined on the basis of profit multiples such as P/E and EV/EBITA. Changes in value and capital gains on holdings in private equity funds which comprise part of the investment assets in the insurance operations are not reported directly in the income statement but are included in the basis for calculating the yield split in the insurance operations. See section 13.

Derivatives

Derivatives which are traded on an active market are valued at market price. Most of the Group's derivative contracts, including interest rate swaps and various types of linear currency derivatives, are valued using valuation models based on market rates and other market prices. The valuation of non-linear derivative contracts that are not actively traded is also based on a reasonable assumption of market-based input data such as volatility.

When performing model valuation for derivatives, in some cases there are differences between the transaction price and the value measured by a valuation model upon initial recognition. Such differences occur when the applied valuation model does not fully incorporate all the components that affect the value of the derivative. Unrealised results due to positive differences between the transaction price and the value measured by a valuation model (day 1 effect) are not recognised in profit/loss upon initial recognition, but are amortised over the life of the derivative. In addition, the Bank makes an independent valuation of the total credit risk component (own credit risk (DVA) as well as counterparty risk (CVA)) in outstanding model-valued derivatives. Changes in fair value due to changed credit risk are recognised in profit/loss to the extent that the overall effect exceeds non-recognised day 1 effects.

Assets and liabilities where the customer bears the value change risk

Assets where the customer bears the value change risk mainly comprise shares in unit-linked insurance contracts. These shares are valued using the fund's current market value (NAV). Each asset corresponds to a liability where the customer bears the value change risk. The valuation of these liabilities reflects the valuation of the assets. Since the policyholders/shareholders have prior rights to the assets, there is no motive to adjust the valuation for credit risk. Assets and liabilities where the customer bears the value change risk have essentially been classified at fair value through profit or loss.

10. CREDIT LOSSES

Expected credit losses

The impairment rules presented in IFRS 9 apply to financial assets at amortised cost, financial assets at fair value through other comprehensive income, as well as financial guarantees and irrevocable loan commitments, and are based on a model for the recognition of expected credit losses (ECL). This model stipulates that the provision must reflect a probability-weighted amount determined through the evaluation of a number of potential outcomes, with consideration given to all reasonable and verifiable information available on the reporting date without unreasonable expense or exertion. The assessment takes into account historical, current and future-oriented factors. The assets to be tested for impairment are divided into the following three stages, depending on the degree of credit impairment:

- Stage 1 comprises financial assets with no significant increase in credit risk since initial recognition.
- Stage 2 comprises financial assets with a significant increase in credit risk since initial recognition, but for which there is no objective evidence that the claim is credit-impaired at the time of reporting.
- Stage 3 comprises financial assets for which objective circumstances have been identified indicating that the claim is credit-impaired. For a definition of credit-impaired assets, refer to the heading Default/Credit-impaired asset below.

In Stage 1, provisions are to be recognised which correspond to the loss expected to occur within 12 months as a result of default. In Stage 2 and Stage 3, provisions are to be recognised corresponding to the loss expected to occur at some time during the whole of the remaining maturity of the asset as a result of default.

For agreements in Stage 1 and Stage 2, there is a Group-wide, central process using model-based calculation. The process begins for all agreements with an assessment of whether there has been a significant increase in the credit risk since initial recognition (start date of the agreement). For a detailed description of significant increases in credit risk, see the 'Credit risks' section of note G2. The provisions in the different impairment stages are calculated on an individual basis. Manual calculation is used for agreements in Stage 3, with the exception of a small portfolio of homogeneous claims which have a model-calculated provision in Stage 3. In conjunction with each reporting date, an assessment is made at agreement level as to whether

G1 Cont.

an agreement will be subject to a model-based calculation or a manual calculation.

The calculations of expected credit losses are primarily affected by the risk parameters 'probability of default' (PD), 'exposure at default' (EAD) and 'loss given default' (LGD). Expected credit losses are determined by calculating PD, EAD and LGD up to the expected final maturity date of the agreement. The three risk parameters are multiplied and adjusted by the survival probability or, alternatively, the probability that a credit exposure has not defaulted or been repaid in advance. The estimated expected credit losses are then discounted back to the reporting date using the original effective interest rate and are totalled. Total credit losses in Stage 1 is calculated using the probability of default during the coming 12-month period. For Stage 2 and Stage 3, credit losses are calculated using the probability of default during the asset's remaining time to maturity.

Model-based calculation

The calculation of the expected credit losses takes into consideration at least three macroeconomic scenarios (one neutral, one positive and one negative scenario) with relevant macroeconomic risk factors, such as unemployment, key/central bank rates, GDP, inflation and property prices, by country. The various scenarios are used to adjust the risk parameters. Every macroeconomic scenario is assigned a probability, and the expected credit losses are obtained as a probability-weighted average of the expected credit losses for each scenario.

For additional information on the models used to calculate expected credit losses for agreements in Stage 1 and Stage 2 (and for a small portfolio of homogeneous claims in Stage 3), and for an explanation of concepts such as PD, EAD and LGD, expected maturity, significant increase in credit risk and macroeconomic information, see the 'Credit risks' section in note G2. For sensitivity analyses for expected credit losses, see note G10.

Manual calculation

Assets in Stage 3 are tested for impairment on an individual basis using a manual calculation (with the exception of a small portfolio of homogeneous claims which have a model-calculated provision in Stage 3). This testing is carried out on a regular basis and in conjunction with every reporting date by the local branch with business responsibility (unit with customer and credit responsibility) and is decided by the regional and central credit departments.

Impairment testing is carried out when there are objective circumstances which indicate that the counterparty will not be able to fulfil its contractual obligations, according to the definition of default. Such objective circumstances could be, for example, late payment or non-payment, a change in the internal rating, or if the borrower enters bankruptcy.

Impairment testing involves an estimation of the future cash flows and the value of the collateral (including guarantees). Consideration is normally given to at least two forward-looking scenarios for expected cash flows, based on both the customer's repayment capacity and the value of the collateral. The outcome of these scenarios is probability-weighted and discounted with the loan's original effective interest rate. The scenarios used can take into account both macroeconomic and agreement-specific factors, depending on what is deemed to affect the individual counterparty's repayment capacity and the value of the collateral. The assessment takes into account the specific characteristics of the individual counterparty. An impairment loss is recognised if the estimated recoverable amount is less than the carrying amount.

Expert-based calculation

Expert-based calculation is carried out for credit losses, in order to incorporate the estimated impact of factors not deemed to have been considered in the model (Stage 1, Stage 2 and a small portfolio of homogeneous claims in Stage 3), or which have not been considered in manual calculations (Stage 3). The model-based calculations are constructed with the ambition of making as accurate estimations as possible of the individual contributions to the overall provision requirement. However, it is very difficult to incorporate all of the particular characteristics that define an individual agreement into a general model. For this reason, a manual analysis is carried out of the agreements which give the largest contributions to the overall provision requirement. The manual analysis aims to apply expert knowledge about the individual credits to an assessment of whether the model-based or manual calculations need to be replaced with an expert-based calculation. An expert-based calculation may entail either a higher or lower provision requirement than the original calculation.

Expert-based calculation can also be carried out at a more aggregate level to adjust the model-based calculations for a sub-portfolio or similar. These adjustments are distributed proportionally over the agreements involved. An expert-based calculation may entail either a higher or lower provision requirement than the original calculation.

Recognition and presentation of credit losses

- Financial assets measured at amortised cost are recognised on the balance sheet at their net amount, after the deduction of expected credit losses.
- Off-balance sheet items (financial guarantees and irrevocable loan commitments) are recognised at their nominal amounts. Provisions for expected credit losses on these instruments are recognised as a provision on the balance sheet.
- Financial assets at fair value through other comprehensive income are recognised at fair value on the balance sheet. Provisions for expected credit losses on these instruments are recognised in the fair value reserve in equity and do not, therefore, reduce the carrying amount of the instrument.
- For financial assets measured at amortised cost and off-balance sheet items, the period's credit losses (expected and actual) are recognised in the income statement under the item Credit losses. The item Credit losses consists of the period's provisions for expected credit losses, less reversals of previous provisions, as well as write-offs and recoveries during the period.
- For financial assets measured at fair value through other comprehensive income, the credit losses for the period (expected and actual) are recognised in the income statement under the item Net gains/losses on financial transactions.
- Write-offs consist of actual credit losses, less reversals of previous provisions for expected credit losses in Stage 3 and may refer to either the entirety or parts of a financial asset. Write-offs are recorded when there is deemed to be no realistic possibility of repayment. Following a write-off, the claim on the borrower and any guarantor normally remains and is thereafter, as a rule, subject to enforcement activities. Enforcement activities are not pursued in certain situations, such as when a trustee in bankruptcy has submitted their final accounts of the distribution of assets in conjunction with the bankruptcy, when a scheme of arrangement has been accepted or when a claim has been conceded in its entirety. Claims for which a concession is granted in conjunction with a restructuring of financial assets are always recognised as actual credit losses.
- Payments to the Bank in relation to written-off financial assets are recognised in income as recoveries.

Further information on credit losses is provided in note G10.

Default/Credit-impaired asset

The Bank's definition of default is identical to the definition applied in the Capital Requirements Regulation (CRR), entailing either that the counterparty is over 90 days overdue with a payment or that an assessment has been made that the counterparty will be unable to fulfil its contractual payment obligations. Such an assessment implies that it is deemed to be more likely that the borrower will be unable to pay than that they will be able to pay. The assessment is founded on all available information about the borrower's repayment capacity. Consideration is given to indicators of insolvency such as insufficient liquidity, late and cancelled payments, records of non-payment or other signs of impaired repayment capacity. Other signals may include the borrower entering

G1 Cont.

into bankruptcy or the granting of a substantial concession entailing a decrease in the value of the Bank's claim on the borrower.

The probability of default is calculated before each reporting date and is incorporated in the assessment of whether there has been a significant increase in the credit risk since the initial recognition, as well as in the calculation of expected credit losses for financial assets in Stage 1 and Stage 2.

A credit-impaired financial asset, which is an exposure in Stage 3, is defined as an exposure in default. This means that the assessment for accounting purposes is consistent with the assessment used in the Group's credit risk management.

Interest

In Stage 1 and Stage 2, recognition of interest income attributable to items on the balance sheet is based on gross accounting, which means that the full amount of interest income is recognised under Net interest income.

In Stage 3, interest income is recognised net, that is, taking into account impairment. Interest rate effects arising due to discounting effects, attributable to the decrease of the period until the expected payment, result in a reversal of previously provisioned amounts and are recognised as interest income in accordance with the effective interest method.

Valuation of repossessed property and equipment to protect claims

Upon initial recognition, repossessed property and equipment is recognised at fair value on the balance sheet. Repossessed property and equipment (including repossessed lease assets) which is expected to be divested in the near future is valued at the lower of the carrying amount and fair value less costs to sell. Repossessed property which is not expected to be divested in the near future is reported as investment properties at fair value through profit or loss. Unlisted shareholdings taken over to protect claims are normally recognised at fair value through profit or loss.

Modified financial assets

A loan is seen as modified when the terms and provisions which determine the cash flows are amended relative to those in the original agreement as the result of forbearance or commercial renegotiations. Forbearance refers to changes in terms and conditions in in conjunction with restructurings or other financial relief measures. Such changes are implemented with the objective of securing repayment in full, or of maximising the repayment of the outstanding loan amount, from lenders experiencing, or facing, financial difficulties. Commercial renegotiations refer to changes to terms and conditions which are not related to a borrower's financial difficulties, such as changes in the cash flow for a loan arising due to changes in the market conditions for repayment or interest.

If the cash flows from a financial asset which is classified as measured at amortised cost have been modified, but the cash flows have not significantly changed, the modification does not normally cause the financial asset to be derecognised from the balance sheet. In such cases, the gross carrying amount is recalculated on the basis of the changed cash flows of the financial asset, and the adjustment amount is recognised in the income statement.

As there may be various reasons for carrying out a modification, there is no unconditional connection between modifications and assessed credit risk. When a financial asset is subject to forbearance measures and the asset remains on the balance sheet, it is classified in Stage 2 or Stage 3, based on the outcome of the assessment made when granting the concession. The assessment involves a check of whether a provision is required for credit loss, or other circumstance which results in classification in Stage 3.

If a financial asset is modified in a way that results in significantly changed cash flows, the modified financial asset is derecognised from the balance sheet and replaced with a new agreement. In such cases, the modification date constitutes the initial recognition date for the new agreement and this date is used thereafter for the calculation of expected credit losses and for the assessment of whether there has been a significant increase in the credit risk since the initial recognition.

11. HEDGE ACCOUNTING

Handelsbanken has elected to continue to apply the hedge accounting rules in IAS 39, in accordance with the transitional rules in IFRS 9. The Group applies different methods for hedge accounting, depending on the purpose of the hedge. Derivatives – mainly interest rate swaps and cross-currency interest rate swaps – are used as hedging instruments. In addition, when hedging foreign exchange risks related to net investments in foreign operations, liabilities in the functional currency of the respective foreign operation are used as a hedging instrument. As part of the Group's hedging strategies, the value changes of a hedging instrument are sometimes divided into separate components and included in more than one hedge relationship. Therefore, one and the same hedging instrument can hedge different risks. Division of hedging instruments is only done if the hedged risks can clearly be identified, the efficiency can be reliably measured, and the total value change of the hedging instrument is included in any hedge relationship.

Cash flow hedges are applied to manage exposures to variations in cash flows relating to changes in the floating interest rates on lending and funding. The expected maturity for this type of lending and funding is normally much longer than the interest rate adjustment period, which is very short. Cash flow hedging is also used to hedge foreign exchange risk in future cash flows deriving from lending and funding. Foreign exchange risks deriving from intragroup monetary items can also be subject to this type of hedging, if they give rise to currency exposures which are not fully eliminated on consolidation. Derivatives which are hedging instruments in cash flow hedges are measured at fair value. If the derivative's value change is effective – that is, it corresponds to future cash flows related to the hedged item – it is recognised as a component of Other comprehensive income and in the hedge reserve in equity. Ineffective components of the derivative's value change are recognised in the income statement under Net gains/losses on financial transactions. When a cash flow hedge is terminated early, the cumulative gain or loss on the hedging instrument previously recognised in other comprehensive income is amortised under Net gains/losses on financial transactions during the period in which the hedged cash flows are expected to occur. If cash flow hedges are terminated early and the hedged cash flows are no longer expected to occur, the accumulated value change is reclassified in the hedge reserve to Net gains/losses on financial transactions.

Fair value hedges are used to protect the Group against undesirable impact on profit/loss due to exposure to changes in market prices. Fair value hedges are applied for individual assets and liabilities and for portfolios of financial instruments. Hedged risks in hedging packages at fair value comprise the interest rate and foreign exchange risk on lending and borrowing at fixed interest rates and also lending with interest rate caps. The hedging instruments in these hedging relationships consist of interest rate swaps, cross-currency interest rate swaps and interest rate options. In the case of fair value hedges, the hedge instrument and hedged risk are both recognised at fair value. Changes in value are recognised directly in the income statement under Net gains/losses on financial transactions. When portfolio hedging is applied, the value of the hedged item is reported as a separate line item in the balance sheet in conjunction with Loans to the public. When fair value hedges are terminated early, the accrued value change on the hedged item is amortised under Net gains/losses on financial transactions during the remaining time to maturity. When a fair value hedge is terminated early, and the hedged item no longer exists, the value change generated is reversed directly under Net gains/losses on financial transactions. Accumulated changes in the value of portfolio hedges which have been terminated early are reported on the balance sheet under Other assets.

Hedging of net investments in foreign units is applied to protect the Group from exchange differences due to operations abroad. Cross-currency interest rate swaps and loans in foreign currencies are used as hedging instruments. The hedged item in these hedges is made up of net investments in the form of direct investments, as well as claims on foreign operations

G1 Cont.

that are not expected to be settled in the foreseeable future. Loans in foreign currency that hedge net investments in foreign operations are recognised in the Group at the exchange rate on the balance sheet date. The effective part of the exchange differences for such loans is recognised as a component of Other comprehensive income and in the translation reserve in equity. The effective part of changes in value in cross-currency interest rate swaps that hedge foreign exchange risk in claims on foreign operations is recognised in the same manner. The ineffective components of hedges of net investments in foreign operations are recognised in the income statement under Net gains/losses on financial transactions.

12. LEASES

The Bank as lessor

A lessor must classify all leases as either finance leases or operating leases. A finance lease substantially transfers all the risks and rewards incidental to legal ownership of the leased asset from the lessor to the lessee. Other leases are classified as operating leases. All leases where the Group is the lessor have been defined as finance leases. Lease agreements of this kind are accounted for as loans on the balance sheet, initially for an amount corresponding to the net investment. Lease fees received are recognised on a continual basis as interest income or repayments.

Finance leases are subject to impairment testing, in the same way as other financial assets measured at amortised cost.

The Bank as lessee

At the commencement of a lease agreement, the lessee recognises a lease liability and right-of-use asset. The lease liability is initially recognised at the present value of future lease fees, discounted by the Bank's incremental borrowing rate. Lease fees included in the valuation of the lease liability are primarily comprised of fixed fees and variable index-linked charges. The right-of-use asset is initially recognised at cost, which corresponds to the original valuation of the lease liability, prepaid lease fees, any initial direct expenditure, and an estimation of future restoration costs. Restoration costs are only included in the cost of acquisition when these are an obligation under the terms of the lease.

In subsequent valuations of the lease liability, the carrying amount increases due to interest and decreases in accordance with lease payments made. In addition, the lease liability may increase or decrease in conjunction with reassessments of or amendments to the lease agreement. In subsequent valuations of the right-of-use asset, the asset is measured at cost less accumulated depreciation and any impairment, taking into account any revaluations of the lease liability. The right-of-use asset is depreciated over the term of the lease. Right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. See the section on impairment testing under point 15.

The right-of-use assets are included in the Property and equipment balance sheet item, while the lease liability is included in the Other liabilities balance sheet item.

Lease agreements with a term of less than 12 months, or for which the underlying asset is of a low value, are recognised as an expense on a straight-line basis over the term of the lease, and are thus not included in lease liabilities and right-of-use assets.

13. INSURANCE OPERATIONS

The Group's insurance operations are run through the subsidiary Handelsbanken Liv. Products consist mainly of legal life insurance in the form of traditional life insurance, unit-linked insurance and risk insurance in the form of health insurance and waiver of premium.

Classification and unbundling of insurance contracts

Contracts that include significant insurance risk are classified in the consolidated accounts as insurance contracts. 'Insurance risk' refers to risk other than financial risk that is transferred from the contract's owner to the issuer. Contracts that do not transfer significant insurance risk are classified in their entirety as investment contracts. Generally, this means that insurance policies with repayment cover are classified as investment contracts and other contracts are classified as insurance contracts. Insurance contracts consisting of both insurance components and savings (financial components) are unbundled and recognised separately in accordance with the principles described below.

Accounting for insurance components in insurance contracts

Premium income and insurance claims paid for insurance contracts are recognised in the income statement as a net amount under the item Risk result – insurance. The change in the Group's insurance liability is also reported under this item.

Premiums received which have not yet been recognised as income are carried as a liability for paid-in premiums under Insurance liabilities on the balance sheet. The balance-sheet item Insurance liabilities also includes liabilities for sickness annuities, life annuities and other outstanding claims. The insurance liability is valued by discounting the expected future cash flows relating to insurance contracts entered into. The valuation is based on assumptions concerning interest, longevity, health and future charges. The assumptions concerning longevity vary depending on when the policy was taken out and take into account expected future increases in longevity. The assumptions concerning fees also depend on when the policy was taken out. Principally, this means a fee that is proportional to the premium and a fee that is proportional to the life insurance provisions. Applied assumptions regarding the beneficiaries' future health are based on internally accrued experience and vary depending on the product. Interest rate assumptions are based on current market rates and depend on the maturity of the liability. The Group's insurance liabilities are subject to regular review, at least annually, to ensure that the reported insurance liability is sufficient to cover expected future claims. If necessary, an additional provision is made. The difference is recognised in the income statement.

Accounting for investment contracts and financial components of insurance contracts

Incoming and outgoing payments referring to customers' savings capital originating in investment contracts and financial components of insurance contracts are recognised directly on the balance sheet as deposits and withdrawals.

The financial components of traditional life insurance policies that are separated from the insurance contract are recognised on the balance sheet as borrowing from the public. These liabilities are valued at the higher of the guaranteed amount and the current value of the insurance contract. The guaranteed amount earns interest at the guarantee rate of interest and corresponds to the amortised cost of the insurance contract. The current value of the insurance contract is equal to the value of the assets managed on behalf of the policyholders, and earns interest with a return that is based on the total return for the assets with a deduction for any yield split. The yield split implies that the insurer is allocated a contracted part of the total return if this return exceeds the guaranteed return during the calendar year. The calculation is performed annually and is accumulated for each individual insurance contract. This means that the conditional bonus is reduced in those cases where the yield in an individual year is less than the guaranteed interest rate and vice versa. The share that accrues to the Group under the yield split model is reported as Fee and commission income. If the yield is less than the guaranteed yield per contract, the difference is recognised in the income statement under Net gains/losses on financial transactions.

Assets and liabilities arising from unit-linked insurance contracts are recognised at fair value on the balance sheet under the items Assets/Liabilities where the customer bears the value change risk, respectively.

Premium fees, asset fees and administrative charges for investment contracts and insurance contracts are recognised in the income statement under Fee and commission income. Acquisition costs are recognised directly in the income statement.

Reinsurance

The reinsurer's share of the Group's insurance liabilities is recognised under Reinsurance assets on the balance sheet.

G1 Cont.

14. INTANGIBLE ASSETS

Recognition in the balance sheet

An intangible asset is an identifiable, non-monetary asset without physical form. An intangible asset is only recognised on the balance sheet if the probable future economic benefits attributable to the asset will flow to the Group and if the acquisition cost can be reliably measured. This means that internally generated values in the form of goodwill, trademarks, customer databases and similar are not recognised as assets on the balance sheet.

Investments in software developed in-house are carried as an expense on a current basis to the extent that the expenditure refers to maintenance of existing business operations or software. In the case of in-house development of new software, or development of existing software for new business operations, the expenditure incurred that can be reliably measured, is capitalised from the time when it is probable that economic benefit will arise. Expenditure arising from borrowing costs is capitalised from the date on which the decision was made to capitalise expenditure for the development of an intangible asset.

When accounting for business combinations, the acquisition price is allocated to the value of acquired identifiable assets, liabilities and contingent liabilities in the acquired business. These assets may also include intangible assets that would not have been recognised on the balance sheet if they had been acquired separately or internally generated. The part of the acquisition price in a business combination that cannot be allocated to identifiable assets and liabilities is recognised as goodwill.

Goodwill and intangible assets with an indefinite useful life

Goodwill and other intangible assets with an indefinite useful life are recorded at cost less any impairment losses. These assets are tested annually for impairment when preparing the annual report or when there is an indication that the asset is impaired. Impairment testing is performed by calculating the recoverable amount of the assets, i.e. the higher of the value in use and the fair value less costs to sell. As long as the recoverable amount exceeds the carrying amount, no impairment loss needs to be recognised. Impairment losses are recognised directly in the income statement.

Since it is not possible to differentiate between cash flows arising from goodwill and cash flows arising from other assets, impairment testing of goodwill takes place at the level of cash-generating unit. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is followed up at business segment level. Material assessments and assumptions in the impairment testing of goodwill are described in note G24. Previously recognised impairment losses on goodwill are not reversed.

Intangible assets with a finite useful life

Intangible assets for which it is possible to establish an estimated useful life are amortised. The amortisation is on a straight-line basis over the useful life of the asset. Currently this means that customer contracts are amortised over 20 years and that internally developed software is normally amortised over five years. In certain infrastructure projects, the useful life is assessed to be more than five years. For these types of investment, the amortisation period is up to 15 years. Brand names which are subject to amortisation are amortised over five years. The amortisation period is tested on an individual basis at the time of new acquisition and also continually if there are indications that the useful life may have changed. Intangible assets with a finite useful life are reviewed for impairment when there is an indication that the asset may be impaired. The impairment test is performed according to the same principles as for intangible assets with an indefinite useful life, i.e. by calculating the recoverable amount of the asset.

15. PROPERTY AND EQUIPMENT

The Group's tangible non-current assets consist of property and equipment. With the exception of real property that constitutes investment assets in the insurance business, and repossessed properties to protect claims, these assets are recorded at cost of acquisition less accumulated depreciation and impairment losses.

Depreciation is based on the estimated useful lives of the assets. A linear depreciation plan is usually applied. The estimated useful lives are reviewed annually. The tangible assets that consist of components with different estimated useful lives are sub-divided into different categories with separate depreciation plans. Such depreciation of components is normally only applied for real property. Only components of the property whose acquisition costs are substantial in relation to the total acquisition cost are separately depreciated. The remaining parts of the real property (building structure) are depreciated as a whole over their expected useful life. Currently, the useful life for the building structure is 100 years, for water and drains 35 years, for roofs 30 years, for frontage, heating, ventilation and electricity 25 years, for lifts 20 years and for permanent equipment, service facilities etc. in buildings 10 years. Personal computers and other IT equipment are usually depreciated over three years and investments in bank vaults and similar investments in premises over 10 years. Other equipment is normally depreciated over five years.

Impairment testing of property and equipment is carried out when there is an indication that the value of the asset may have decreased. Impairment loss is recognised in cases where the recoverable amount is less than the carrying amount. Any impairment losses are recognised immediately in the income statement. An impairment loss is reversed if there is an indication that there is no longer any impairment loss and there has been a change in the assumptions underpinning the estimated recoverable amount.

16. PROVISIONS

Provisions consist of recognised expected negative outflows of resources from the Group and which are uncertain in terms of timing or amount. Provisions are reported when the Group, as a consequence of past events, has a legal or constructive obligation, and it is probable that an outflow of resources will be required to settle the obligation. For recognition it must be possible to estimate the amount reliably. The amount recognised as a provision corresponds to the best estimate of the expenditure required to settle the obligation at the balance sheet date. The expected future date of the settlement is taken into account in the estimate.

Provisions are reported for restructuring. Restructuring refers to major organisational changes, for example when employees receive termination benefits relating to early termination of employment, or branches are closed. In order for a provision to be reported, a restructuring plan must have been established and communicated so that a valid expectation has been created in those affected, that the enterprise will carry out the restructuring. A restructuring provision only includes the direct expenditures arising from the restructuring and which are not related to the future operations.

17. EQUITY

Equity comprises the components described here.

Share premium reserve

The share premium reserve comprises the options component of issued convertible debt instruments and the amount that in the issue of shares and conversion of convertible debt instruments exceeds the quotient value of the shares issued.

Hedge reserve

Unrealised changes in the value of derivative instruments which comprise hedge instruments in cash flow hedges are reported in the hedge reserve.

Fair value reserve

Unrealised changes in the value of financial assets classified as measured at fair value through other comprehensive income are recognised in the fair value reserve. Furthermore, the fair value reserve includes provisions for expected credit losses on debt instruments classified as measured at fair value through other comprehensive income. Realised changes in the value of these debt instruments are reclassified from the fair value reserve to the income statement. Realised changes in the value of equity instruments classified as measured at fair value through other comprehensive

G1 Cont.

income are reclassified from the fair value reserve to retained earnings.

Translation reserve

The translation reserve comprises unrealised foreign exchange effects arising due to translation of foreign units to the presentation currency of the consolidated accounts. In addition, effective parts of hedges of net investments in foreign operations are recognised in the translation reserve.

Defined benefit pension plans

The item Defined benefit pension plans is comprised of actuarial gains and losses on the pension obligation, as well as the return on plan assets that exceeds or falls below the return based on the discount rate.

Retained earnings including profit for the year

Retained earnings comprise the profits generated from the current and previous financial years. Dividends and repurchases of own shares are reported as deductions from retained earnings.

Realised gains/losses which are attributable to equity instruments classified as measured at fair value through other comprehensive income are reclassified from the fair value reserve to retained earnings.

Non-controlling interest

Non-controlling interest consists of the portion of the Group's net assets that is not directly or indirectly owned by holders of the parent company's ordinary shares. Non-controlling interest is recorded as a separate component of equity.

Accounting for own shares

Repurchased own shares are not recognised as assets but are offset against retained earnings in equity.

18. INCOME

Net interest income

Interest income and interest expenses are recognised as Net interest income in the income statement, with the exception of interest flows deriving from financial instruments mandatorily measured at fair value through profit or loss, which are recognised under Net gains/losses on financial transactions, where the overall activity in the trading book is recognised.

Interest income and interest expenses for financial instruments at amortised cost are calculated and recognised by applying the effective interest method or, where considered appropriate, by applying a method that results in an amount constituting a reasonable estimate of the results of a calculation based on the effective interest method. Effective interest includes fees which are considered an integral part of the effective interest rate of a financial instrument (generally fees compensating for risk). The effective interest rate corresponds to the rate used to discount future contractual cash flows to the carrying amount of the financial asset or liability.

Net interest income also includes interest from derivative instruments recognised through hedge accounting and interest from derivatives in economic hedges, as these hedge items for which the interest flows are recognised under Net interest income.

In addition to interest income and interest expenses, net interest income includes fees for state guarantees, such as deposit guarantees and the resolution fee.

Revenue from contracts with customers

The standard for Revenue from contracts with customers, IFRS 15, is applied for different types of services which are mainly recognised under Fee and commission income in the income statement. IFRS 15 is also applicable to certain services included in the item Other income. However, Other income does not, in all material respects, refer to income from contracts with customers.

The income is recognised at the point in time at which the performance obligation is satisfied, which corresponds to the transfer of control over the service to the customer. The total income is divided between each service and recognition in income depends on whether the services are fulfilled at a specific point in time, or over time.

The following principles apply to when income is recognised:

- Income earned gradually as the services are performed, such as management fees in asset management, is recognised at the rate these services are delivered, i.e. on a straight-line basis over time. This is due to the fact that the customer receives and consumes the service simultaneously, meaning that the Bank's obligation is fulfilled in line with the rendering of the service.
- Income attributable to a specific service or action is recognised when the service has been performed, i.e. at a specific point in time. Examples of such income are brokerage and payment commissions.

The income recognised must reflect the expected income. When the income includes variable reimbursement, such as a refund, bonus or performance-based element, the income is recognised only when it is highly probable that no repayment of the amount will take place.

Payments are made on a regular basis as the services are performed and advance payments refer to a maximum of 12 months into the future. Accrued income is recognised for services have been performed but which have not yet been paid for. Deferred income is recognised for payments received for services which have not yet been performed. Income from contracts with customers constitutes an immaterial proportion of the items Accrued income and Deferred income. Additional expenditure required to obtain a contract with a customer is not recognised as an asset (prepaid expense), and is instead recognised as an expense during the accounting period in which it arises.

Net fee and commission income

Income and expense for various kinds of services are recognised in the income statement under the items Fee and commission income and Fee and commission expense, respectively. This means that brokerage income and various types of management fees are recognised as commissions. Other forms of income recognised as commissions are payment commissions and card fees, premiums for financial guarantees issued, and commissions from insurance operations. Guarantee commissions that are comparable to interest and fees that constitute integrated components of financial instruments and therefore are included when calculating the effective interest are recognised under Net interest income and not commissions. Fee and commission expense is transaction-based and directly related to transactions for which the income is recognised as Fee and commission income.

Other income

The item Other income is primarily comprised of rental income and capital gains/losses arising from the divestment of participating interests in subsidiaries and associated companies. Other income therefore does not, in all material respects, refer to income from contracts with customers.

Net gains/losses on financial transactions

Net gains/losses on financial transactions includes all items with an impact on profit or loss that arise when measuring financial assets and liabilities at fair value through profit or loss, and when financial assets and liabilities are realised (with the exception of equity instruments classified as measured at fair value through other comprehensive income).

- Gains/losses on financial instruments at amortised cost consist of realised gains and losses on financial assets and liabilities classified as measured at amortised cost, such as early repayment charges for loans redeemed ahead of time, and capital gains/losses generated from repurchases of the Bank's own issued securities.
- Gains/losses on financial instruments at fair value through other comprehensive income consist of realised gains and losses on interest-bearing securities classified as measured at fair value through other comprehensive income. Realised gains and losses are reclassified from other comprehensive income to Net gains/losses on financial transactions in conjunction with a divestment/sale. The item also includes credit losses (expected and actual) on these assets.

G1 Cont.

- Gains/losses on financial instruments measured at fair value through profit or loss, fair value option, consist of unrealised and realised changes in the value of financial assets and liabilities that upon initial recognition were identified as measured at fair value through profit or loss.
- Gains/losses on financial instruments measured at fair value through profit or loss, mandatory, consist of unrealised and realised changes in value, dividend income and interest (with the exception of interest deriving from derivatives used to hedge items for which the interest flow is recognised in net interest income) on financial assets and liabilities held for trading, or which are managed and evaluated on the basis of fair value.
- Fair value hedges consist of unrealised and realised changes in the value of hedging instruments, and the hedged risk component in financial assets and liabilities which constitute hedged items in fair value hedges. Ineffective portion of cash flow hedges consists of changes in the value of hedging instruments which do not correspond to future cash flows attributable to the hedged item.
- Gains/losses on the financial component in an insurance contract consist of the gain or loss arising if the return is less than the guaranteed interest.

Dividend

Dividends on shares measured at fair value through other comprehensive income are recognised in the income statement under the item Other dividend income. Dividends on shares measured at fair value through profit or loss are recognised in the income statement under the item Net gains/losses on financial transactions. Dividends on shares in associated companies are not included in the Dividends item in the income statement. The recognition of Share of profit of associates is described in section 4.

19. EMPLOYEE BENEFITS

Staff costs

Staff costs consist of salaries, pension costs and other forms of direct staff costs including social security costs, special payroll tax on pension costs and other forms of payroll overheads. Any remuneration in connection with terminated employment is recognised as a liability when the agreement is reached and amortised over the remaining employment period.

Accounting for pensions

Post-employment benefits consist of defined contribution plans (defined premiums) and defined benefit plans. Benefit plans under which the Group pays fixed contributions into a separate legal entity, and subsequently has no legal or constructive obligation to pay further contributions if the legal entity does not hold sufficient assets to fulfil its obligations to the employee, are accounted for as defined contribution plans. Premiums paid for defined contribution plans are recognised in the income statement as staff costs as they arise. Other post-employment benefit plans are accounted for as defined benefit plans. For defined benefit pension plans, the pension payable is based on the salary and period of employment, implying that the employer bears all the material risks for fulfilling the pension obligation. For the majority of defined benefit plans, the Group has kept plan assets separate in pension foundations and a pension fund. For defined benefit plans, the pension obligations minus the plan assets are reported as a net liability on the balance sheet. Actuarial gains and losses on the pension obligation and any return which exceeds the return according to the discount rate on plan assets are reported in Other comprehensive income.

The pension cost recognised for defined benefit plans is the net amount of the following items, all included in staff costs:

\+ Accrued pension rights for the year, i.e. the year's proportion of the calculated final total pension payment. The calculation of accrued pension rights is based on an estimated final salary and is subject to actuarial assumptions.

\+ Interest expense for the year due to the increase in the present value of the pension liability during the year since the period up to payment has decreased. The interest rate applied in calculating interest expense for the year is the current corporate bond rate (the rate at the start of the year) for maturities corresponding to the period remaining until the pension liability is due to be disbursed.

\- Estimated yield (interest) on the plan assets. Interest on the plan assets is reported in profit/loss using the same interest rate as when establishing the year's interest expenses.

\+ The estimated cost of special payroll tax is accrued using the same principles as for the underlying pension cost.

Calculation of costs and obligations resulting from the Group's defined benefit plans depends on several assessments and assumptions which may have a considerable impact on the amounts reported. A more detailed description of these assumptions and assessments is provided in section 21 and in note G8.

20. TAXES

The tax expense for the period consists of current tax and deferred tax. Current tax refers to taxes relating to the period's, or previous periods', taxable result. Deferred tax is tax referring to temporary differences between the carrying amount of an asset or liability and its taxable value. Deferred taxes are valued at the tax rate which is deemed to be applicable when the item is realised. Deferred tax claims related to deductible temporary differences and loss carry forwards are only recognised if it is probable that they will be utilised. Deferred tax liabilities are carried at nominal value. Tax is recognised in the income statement, either in Other comprehensive income or directly in equity depending on where the underlying transaction is reported.

21. ESTIMATES AND MATERIAL ASSESSMENTS

In certain cases, the application of the Group's accounting policies means that assessments must be made that have a material impact on amounts reported. The amounts reported are also affected, in a number of cases, by estimates and assumptions about the future. Such assumptions always imply a risk for adjustment of the reported value of assets and liabilities. The assessments and assumptions applied always reflect the management's best and fairest assessments and are continually subject to examination and validation.

The assessments and assumptions that have had a material impact on the financial reports are described below.

Estimates and material assessments concerning the following areas are provided in specific notes:

- financial instruments measured at fair value, see note G40, Fair value measurement of financial instruments
- impairment testing of goodwill, see note G24, Intangible assets
- claims in civil suits, see note G35, Provisions.

Actuarial calculation of defined benefit pension plans

Calculation of the Group's expense and obligations for defined benefit pensions is based on a number of actuarial, demographic and financial assumptions that have a significant impact on the recognised amounts. Note G8 contains a list of the assumptions used when calculating this year's provision. The calculation of defined benefit obligations for employees in Sweden is based on DUS14, which are assumptions on longevity that are generally accepted in the market, based on statistics produced by Insurance Sweden. The assumptions on future salary increases and inflation are based on the anticipated long-term trend.

The discount rate is based on a number of first-class corporate bonds with varying maturities. For corporate bonds with maturities corresponding to the estimate average maturity of the pension obligation, this being 20 years, the discount rate is determined of the basis of market interest rates. Due to the fact that that there are too few issuers of first-class corporate bonds with a maturity corresponding to that of the pension obligation, the Bank uses first-class corporate bonds with a shorter maturity as a supplementary basis to determine the discount rate. For these, the discount rate is determined on the basis of a yield curve. The yield curve is constructed as a spread over the Swedish swap curve. The spread, which is based on corporate bonds, excluding own issues, is applied to the swap curve. In this way, a yield curve is modelled and a 20-year yield can be derived from this.

Note G8 provides a sensitivity analysis of the Group's defined benefit obligation for all major actuarial assumptions. This shows how the obligation would have been affected by reasonably feasible changes in these assumptions.

Credit losses

The calculation of expected credit losses involves a number of assumptions and assessments. The valuation of expected credit losses is inherently associated with a certain degree of uncertainty. Areas involving a high degree of assumptions and assessments are described below under the respective headings.

Future-oriented information in macroeconomic scenarios

Handelsbanken continuously monitors macroeconomic developments, with a particular focus on the home markets. Through this monitoring, the Bank develops the macroeconomic scenarios which form the basis for the future-oriented information used in the model-based calculation of expected credit losses. The capacity of the Bank's customers to fulfil their contractual payments varies in line with macroeconomic developments. Consequently, future macroeconomic developments have an impact on the Bank's view of the provision needed to cover expected losses. The calculation of the provision requirement for expected credit losses is based on the neutral scenario proposed by the Bank's macroeconomic research unit. As the losses may be more highly affected by a future deterioration of economic trends than by the equivalent improvement, the Bank uses at least two alternative scenarios to take into account the non-linear aspects of expected credit losses. These alternative scenarios represent conceivable developments, one significantly worse and one significantly better than the neutral scenario. The most significant macroeconomic risk factors have been selected on the basis of the Bank's loss history over the past decade, supplemented with experience-based assessments. These macroeconomic risk factors are then used as macroeconomic risk factors in the Bank's quantitative statistical models for forecasting migrations, defaults, loss rates and exposures. The macroeconomic risk factors include unemployment, key/central bank rates, GDP, inflation and property prices. The Bank's business model, to offer credit to customers with a high repayment capacity, means that the connection between the macroeconomic developments and the provision requirement is not always especially pronounced. For a detailed description of macroeconomic information, see the 'Credit risks' section of note G2 and for a sensitivity analysis, see note G10.

Significant increase in credit risk

The Bank makes an assessment at agreement level at the end of each reporting period as to whether there has been a significant increase in credit risk since initial recognition. For a detailed description of significant increases in credit risk, see the 'Credit risks' section of note G2.

Model-based calculation

The quantitative models which form the basis for the calculation of expected credit losses for agreements in Stage 1 and Stage 2 make use of several assumptions and assessments. One key assumption is that the quantifiable relationships between macroeconomic risk factors and risk parameters in historical data are representative of future events. The quantitative models applied are based on a history of approximately 10 years, although this history varies by product and region due to inconsistency in the availability of historical outcomes. The quantitative models have been constructed with the help of econometric models, applying the assumption that the observations are independently conditioned by the risk factors. This means that the risk parameters can be predicted without distortion. Furthermore, a selection of the most significant macroeconomic risk factors is made on the basis of the macroeconomic risk factors' ability to demonstrate to individual risk parameters. The selection of the macroeconomic risk factors and specification of the model are based on achieving a balance between simplicity, demonstrative ability and stability.

Manual and expert-based calculation

As a rule, manual calculation is used for agreements in Stage 3, with the exception of a small portfolio of homogeneous claims in Stage 3. Expert-based calculation is carried out for model outcomes on agreements in Stage 1 and Stage 2, in order to incorporate the estimated impact of factors not deemed to have been considered in the model, as well as for manually assessed agreements in Stage 3. For more detailed descriptions of manual and expert-based calculation, see point 10 under the headings 'Manual calculation' and 'Expert-based calculation'.

G2 Risk and capital management

The numbering of certain tables and figures in this Note is consistent with the numbering used in Handelsbanken's publication "Risk and Capital – Information according to Pillar 3".

Handelsbanken works on the basis of a well-tested business model which has been unchanged for almost 50 years. The Bank has a decentralised way of working and a strong local presence through nationwide branch networks. The Bank attaches great importance to availability and long-term customer relationships, has low tolerance of risk and achieves international growth by applying its business model to selected markets. Handelsbanken's business model focuses on taking credit risks in the branch operations and works to minimise other risks.

For the past few decades, Handelsbanken's credit loss ratio has been significantly lower than the average of other Nordic banks. The Bank's goal is always that no credit will lead to a loss. This approach completely determines the branches' granting of credit and work with their credit portfolios.

By maintaining large liquidity reserves and by matching cash flows, the Bank has worked for a long time to safeguard its low liquidity risk. This is also a natural consequence of the Bank's low risk tolerance.

Market risks at Handelsbanken are also very low.

RISK TOLERANCE

Handelsbanken has a low risk tolerance. Credit risks arise as an inherent part of lending operations. The Bank focuses on long-term relationships with customers with a good repayment capacity and strong financial position. The quality requirement must never be neglected in favour of higher credit volumes, higher prices or market share.

There is low tolerance of market risk and liquidity risk. Market risks only occur as part of customer business, in connection with the Bank's funding and liquidity management, and in its role as a market maker. Market risks also arise in the pension system.

The Bank's low tolerance of market risk has resulted in a comparatively low proportion of the Bank's earnings coming from net gains/losses on financial transactions. All funding and liquidity management is centralised to Group Treasury. Liquidity risk is limited by means of requirements on matching cash flows and satisfactory liquidity reserves of high quality.

Tolerance is also low for operational risk and compliance risks. As far as possible, the Bank endeavours to prevent these risks and to reduce the losses in this area. Losses must remain low.

RISK STRATEGY

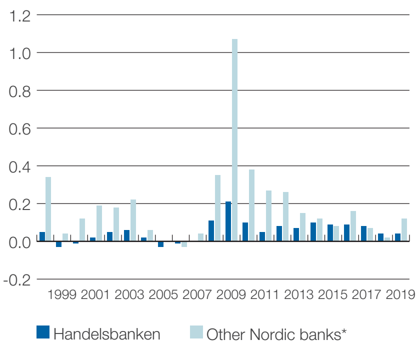
Handelsbanken offers a wide range of different banking and insurance products. These entail a variety of risks that are systematically identified, measured, managed and reported in all parts of the Group. Handelsbanken's restrictive approach to risk means that the Bank deliberately avoids high-risk transactions, even if the expected financial reward may be high at that time.

This low risk tolerance is maintained through a strong risk culture that is sustainable in the long term and applies to all areas of the Group. The risk culture is an integral part of the Bank's work and is deeply rooted among the Bank's employees. The Bank is characterised by a clear division of responsibility where each part of the business operations bears full responsibility for its business and for risk management. As a consequence, there are strong incentives for high risk awareness and for prudence in business operations. However, the decentralised business model is combined with strong centralised controls. The low risk tolerance is also reflected in the view of remuneration. The main principle is that remuneration must be fixed since this contributes to the long-term perspective which is a central feature of Handelsbanken's business model. Employees whose professional activities have a material impact on the Bank's risk profile are not permitted to receive variable remuneration. The employees are also one of the largest owners of the Bank via the Oktogonen Foundation, which also contributes to a high level of risk awareness and a long-term approach.

Lending has a strong local involvement, where the close customer relationship and local knowledge promote low credit risks. In addition, the Group must be well capitalised at all times in relation to the risks in the operations and hold liquid assets so that it can always meet its payment commitments when they fall due, including in situations of financial stress when funding is not possible in the financial markets. In this way, Handelsbanken aims for a business model which is not affected by fluctuations in the business cycle.

This restrictive approach to risk means that the Bank is a stable and long-term business partner for its customers, regardless of the business cycle or market situation. It contributes both to good risk management and to sustaining a high service level even when operations and the markets where the Bank operates are subject to strain. The same principles for the Bank's approach to risks apply in all countries where the Bank operates and they are guiding principles in the Bank's continued international expansion.

Figure AR:1 Credit losses as a percentage of lending 1999–2019



* Only Swedish banks are included for the period up to and including 2000.

RESILIENT RISK MANAGEMENT

Handelsbanken has a strong capital situation and liquidity position. The Bank maintains continuous access to the financial markets via its short-term and long-term funding programmes. The Bank has a large and high quality liquidity reserve, which provides a high degree of resistance to possible disruptions in the financial markets. Group Treasury's liquidity portfolio, which is part of the Bank's liquidity reserve, has a low risk profile and consists mainly of balances with central banks, government bonds and covered bonds. In addition, there is a comprehensive unutilised issue amount for covered bonds at Stadshypotek. Liquidity reserves are kept in all currencies that are important to the Bank. The total liquidity reserve covers the Bank's liquidity requirements for more than three years in a stressed scenario, entirely without access to new market funding. Operations can also be maintained for a considerable period of time even in an extreme situation when the foreign exchange markets are closed.

The Bank's capital situation remains strong. Good earnings and low credit losses during the year have contributed to this.

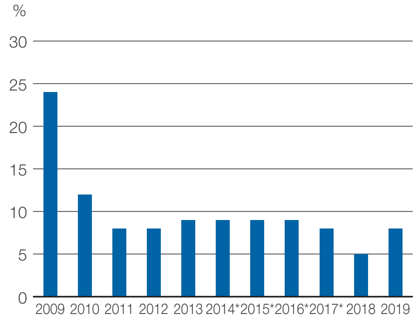
Handelsbanken's low tolerance of risk, sound capitalisation and strong liquidity situation mean that the Bank is well equipped to operate under substantially more difficult market conditions than those experienced during the last few years.

RISK ORGANISATION

Handelsbanken's Board has overall responsibility for the Bank's risk management and establishes internal regulations for this. The Board establishes policy documents and the CEO establishes guidelines describing how various risks should be managed and reported. For a description of the risk management framework, please refer to Handelsbanken's Corporate Governance Report on pages 63-76.

The Board has established a credit committee (composed of the CEO and the Chief Credit Officer, together with several Board members). The credit committee decides on credit cases

Figure AR:2 Net gains/losses on financial transactions as a proportion of profit 2009–2019



Source: Annual report
* Excluding non-recurring items.

where the amount exceeds the decision limit which the Central Board has delegated to another unit.

The Board has also established several other committees which inter-alia prepare matters to be decided by the Board. These committees are as follows: risk committee, audit committee and remuneration committee. The members of the risk committee, audit committee and remuneration committee are comprised entirely of Board members. For a description of the committees' work please refer to Handelsbankens Corporate Governance Report on pages 63–76. The Bank also has the following internal committees to advise management: Risk Committee, Liquidity Committee, Capital Committee and Valuation Committee.

Figure AR:3 Risks at Handelsbanken

	Description
Credit risk	Credit risk is defined as the risk of the Bank facing economic loss because the Bank's counterparties cannot fulfil their contractual obligations.
Market risk	Market risks arise from price and volatility changes in the financial markets. Market risks are divided into interest rate risk, equity price risk, exchange rate risk and commodity price risk.
Liquidity risk	Liquidity risk is the risk that the Bank will not be able to meet its payment obligations when they fall due without being affected by unacceptable costs or losses.
Operational risk	Operational risk refers to the risk of loss due to inadequate or failed internal processes, human error, erroneous systems or external events. The definition includes legal risk.
Compliance risk	Compliance risk refers to risks associated with inadequate compliance. Compliance, in this case, means the observance of regulations, laws, directives and recommendations from public authorities, internal rules, as well as generally accepted business practices or standards relating to all operations that are subject to a licence.
Remuneration risk	Remuneration risk is the risk of loss or other damage arising due to the remuneration system.
Insurance risk	Insurance risk is the risk in the outcome of an insurance that depends on the insured party's longevity or health.

Figure AR:4 Handelsbanken's risk management and risk control

Business operations

The Bank is characterised by a clear allocation of responsibilities, where each part of the business operations bears full responsibility for its own business activities and its management of all risks. Those who know the customer and market conditions best are in the best position to assess the risk and can also act at an early stage if problems arise. Each branch and each profit centre is responsible for dealing with any problems that arise. This creates strong incentives for high risk awareness and for prudence in the business operations.

However, the decentralised credit decisions are conditional on a joint credit process, for which Group Credits is responsible. Group Credits prepares the credit limits which the Board or the credit committee set up by the Board decide on. Group Credits also ensures that credit assessments are consistent throughout the Group and that loans are granted in accordance with the credit policy decided by the Board.

Financial risks in the Bank's business operations mainly arise at Group Treasury, Handelsbanken Capital Markets, and Handelsbanken Liv, and are managed there. Handelsbanken has a highly decentralised business model, but all funding and liquidity risk management in the Group is centralised in Group Treasury. The market risks that arise to meet customers' demand for financial instruments with exposure to the fixed income, foreign exchange, equity or commodity markets are managed in Handelsbanken Capital Markets. Operational risk occurs in all of the Bank's operations, and the responsibility for managing operational risk is an integral part of managerial responsibility at all levels in Handelsbanken. The management of market risks, the management of the Bank's operational risk, and funding and liquidity management are all governed by policies established by the Board.

Stress tests – capital and liquidity planning

If Handelsbanken were to suffer serious losses, it holds capital and a liquidity reserve to ensure its survival both during and after extreme events. Capital planning is based on an assessment of the capital situation in terms of the legal capital requirement, combined with calculation of economic capital and stress tests. Liquidity planning ensures that the Group can always meet its payment commitments when they fall due, even in situations of financial stress when funding is not possible in the financial markets. Stress tests and scenario analyses identify the measures that need to be prepared or implemented to ensure a satisfactory liquidity situation and capitalisation at any given time, and which measures are needed to restore the Group's capital and liquidity in a recovery situation following a serious crisis.

Group Risk Control and Group Compliance

The risk control function at Handelsbanken is independent of the functions that are to be monitored. Risk Control verifies that all material risks to which the Group is exposed, or may be exposed in the future, are identified and managed by the relevant functions, Risk Control monitors and verifies the Group's risk management, and ensures that relevant internal rules, processes and procedures concerning risk management are followed, while also ensuring that the risks fall within the risk tolerance established by the Central Board, and that management has reliable information to use as a basis for managing risks in critical situations. Its responsibilities also include monitoring the limits for market, liquidity and counterparty risks, and operational risk, and evaluating breaches of these limits and credit limits. Risk Control must also evaluate the risk analysis performed in the operations for new and materially changed products and services, markets, processes and IT systems, and in conjunction with significant changes to the operations or organisation.

As business decisions become more decentralised, the need for monitoring of the risk and capital situation increases. Risk Control is therefore a natural and vital component of the Bank's business model. Furthermore, Group Risk Control also has functional responsibility for ensuring that risks are measured in a fit-for-purpose and consistent manner across the Group, and that the Bank's management and Board receive regular reports and analyses of the current risk situation

Compliance risks and risks related to the processes for preventing money laundering and terrorist financing are monitored by Group Compliance. Compliance is independent of the business operations and organisationally separate from the functions and areas which are subject to control. Compliance works actively to ensure a high level of compliance and to ensure that Handelsbanken's low tolerance of compliance risks is adhered to. Compliance identifies, monitors and scrutinises risks and deficiencies related to regulatory compliance, and also provides recommendations, advice and support to the Bank's staff, management and units in matters concerning compliance, as well as reporting to the management and Board on compliance issues.

REPORTING AND MONITORING OF THE RISK AND CAPITAL SITUATION

Each quarter, the CRO presents a Group risk report compiled by Group Risk Control to the Board's risk committee, and also presents the risk situation to the Board once a year. Reports are also presented to the CEO and Risk Forum. The Group risk reports include the CRO's assessment of the Group's material risks and an assessment of whether there are significant deficiencies in the operation to report and address. Where applicable, the report also includes proposed actions and a follow-up of previously reported risks and deficiencies. The Group risk reports include forward-looking risk assessments and must make possible an assessment of whether Handelsbanken is fulfilling the risk strategy and the risk tolerance decided by the Board. The Group risk report is formulated in accordance with the Board's Policy for risk control.

The risk committee, chaired by the Bank's CRO, acts in an advisory capacity to the CEO and CFO and met on ten occasions during 2019. At meetings of the risk committee, the committee performs an in-depth follow-up of the Group's current risk situation, potential risks and actions for credit risks, financial risks, operational risk and risks in the insurance operations. Other types of risk are commented on where necessary. Indicators for the recovery plan are monitored and any actions, including an assessment of their necessity, are discussed. In addition, limit utilisation for financial risks is subject to follow-up for the Group as a whole. The capital situation, utilisation of market risk limits and the liquidity situation are reported to the Board at each normal Board meeting.

The credit risk situation, including counterparty risk, is reported periodically to the Bank's Board and to the boards of the subsidiaries. This includes volume growth, risk-reported credits and information from the Bank's credit risk models. The boards of the regional banks monitor the credit situation on an ongoing basis. Each branch compiles a quarterly risk report, where it reviews all its credit exposures where the borrower's repayment capacity is impaired and the Bank's collateral is insufficient, or there is a risk that it will be insufficient. Moreover, Group Risk Control reports on the development of credit risk at the Bank to the CEO, CFO, Chief Credit Officer and Heads of Credit in the Group on a monthly basis.

Limit utilisation for market risks and liquidity risks is compiled and checked on a daily basis by Group Risk Control. Exceeded limits are immediately reported to the person who makes the decision about the limits. The liquidity risk is summarised by Group Risk Control and reported daily to the CFO, weekly to the CEO and to the Board at every normal Board meeting. The Liquidity Committee, chaired by the Head of Group Treasury, acts in an advisory capacity to the CEO and CFO and meets before each regular Board meeting and on other occasions when necessary. At this committee meeting, reports are presented on the current liquidity situation, on results of stress tests, scenario analysis, and other information which is relevant for the assessment of the Group's liquidity situation.

Operational risks and incidents which have occurred are reported continuously by branches and units throughout the Handelsbanken Group to Risk Control, where they are subsequently monitored. In turn, Group Risk Control reports operational risk and incidents which have occurred to the Risk Committee and the Board's risk committee. Risks in the remuneration system are evaluated on an annual basis and reported to the Board's remuneration committee and risk committee. Operational risk reporting includes information regarding significant events, major losses, important proactive measures and an aggregated risk assessment at Group level. In addition, Group Risk Control monitors that the actions which have been decided are implemented. The Chief Compliance Officer reports compliance risks at least quarterly to the CEO, semi-annually to the Boards risk committee and annually to the Board.

The Bank's capital requirement is reported weekly to the CFO and the CEO and at least quarterly to the Board. In cases where various thresholds are exceeded, or if the Head of Group Capital Management or the CFO deems it appropriate for some other reason, proposals for appropriate measures are presented to the CEO. The capital situation in a medium- and long-term perspective is summarised quarterly by the Capital Committee. Group Capital Management performs a complete update of the capital forecast on a quarterly basis, or when there are significant changes in conditions.

THE BOARD'S RISK DECLARATION AND RISK STATEMENT

The Board has decided on the following risk declaration and risk statement.

Risk declaration:

Handelsbanken has satisfactory arrangements for risk management which are fit for purpose in relation to the Bank's business goal, overall risk profile and the risk strategy which the Board has decided for the operations.

Risk statement

Handelsbanken's business goal is to have better profitability than the average of peer competitors in our home markets. This goal is mainly to be achieved by having more satisfied customers and lower costs than those of competitors. Handelsbanken is a bank with a strong local presence and a decentralised way of working.

The Bank's overall risk profile is that risks are to be kept low. The Group must also be well capitalised at all times in relation to the risks, fulfil all requirements imposed by resolution authorities, and hold liquid assets so that it can meet its payment commitments, including in situations of financial stress in the short and long term. The risk strategy and Bank's overall risk profile support Handelsbanken's aim to have a business model that is independent of changes in the business cycle.

The Bank has, and will maintain, a low level of credit risk. This is achieved by such measures as its strong local presence and close customer relations. The quality of credits must never be neglected in favour of achieving higher volume or a higher margin. The Bank is selective when choosing customers with the requirement that borrowers have a good repayment capacity. As a consequence of this, the credit portfolio has a clear concentration on risk classes where the probability of loss is low. This consistent approach is reflected in the Bank's low credit losses over time. In 2019, credit losses were 0.04 per cent (0.04) of lending.

To ensure that the Bank is well capitalised in relation to the risks and has a good liquidity situation, the Board stipulates the Bank's risk tolerance for capitalisation and liquidity. When the risk tolerance for capitalisation is decided, the capital measure is set partly in relation to the statutory requirements and partly in relation to Handelsbanken's assessed capital requirement based on the Bank's model for Economic Capital (EC), which encompasses all of the Group's risks in one single metric. The risk tolerance for the Bank's liquidity risk is decided on the one hand through requirements that the Bank under stressed circumstances must have a sufficiently large liquidity reserve in the form of liquid assets and assets which can be pledged, and also liquidity-creating measures to be able to continue its operations during determined time periods, and on the other hand through requirements regarding the accumulated net amount of incoming and outgoing cash flows in different time intervals.

The Board has established that the common equity tier 1 ratio under normal circumstances must amount to between 1 and 3 percentage points above the total common equity tier 1 capital requirement communicated by the Swedish Financial Supervisory Authority (the Bank's assessment of the common equity tier 1 capital requirement at year-end 2019 was 15.8 per cent), and that the ratio between AFR (Available Financial Resources) and EC must exceed 120 per cent. At the end of 2019, the common equity tier 1 ratio was 18.5 per cent (16.8) and the AFR/EC ratio was 314 per cent (271). The Board has stipulated the goal that the Bank must have accumulated positive net cash flows over a period of at least one year, taking into account the liquidity reserve, and with the assumption that 10 per cent of the non-fixed-term deposits from households and companies disappear during the first month. With Handelsbanken's total liquidity reserve and liquidity-creating measures, the liquidity requirement would be covered for over three years during such stressed conditions. The Bank's risk profile falls within the risk tolerance established by the Board.

CREDIT RISK

Credit risk is defined as the risk of the Bank facing economic loss because the Bank's counterparties cannot fulfil their contractual obligations.

CREDIT RISK STRATEGY

At Handelsbanken, the credit process is based on a conviction that a decentralised organisation with local presence ensures high quality in credit decisions. The Bank is a relationship bank where the branches maintain regular contact with the customer, which gives the branch an in-depth knowledge of each individual customer and a continually updated picture of the customer's financial situation.

Rather than being a mass market bank, Handelsbanken is selective in its choice of customers, which means it seeks customers with a high creditworthiness. The quality requirement is never neglected in favour of higher credit volumes or to achieve higher returns. The Bank also avoids participating in financing where there are complex customer constellations or complex transactions which are difficult to understand.

When Handelsbanken assesses the credit risk of a specific customer, the assessment must start with the borrower's repayment capacity. According to the Bank's credit policy, weak repayment capacity can never be accepted on the grounds that good collateral has been offered to the Bank. Collateral may, however, substantially reduce the Bank's loss if the borrower cannot fulfil his or her obligations. Credits must therefore normally be adequately secured.

The local branch's close contact with its customers also enables the branch to quickly identify any problems and take action. In many cases, this means that the Bank can take action more rapidly than would have been possible with a more centralised management of problem loans. The branch also has full financial responsibility for granting credits, and therefore addresses problems that arise when a customer has repayment difficulties and also bears any credit losses. If necessary, the local branch obtains support from the regional head office and central departments. The Bank's method of working means that all employees whose work involves transactions linked to credit risk acquire a solid and well-founded approach to this type of risk. This approach forms an important part of the Bank's culture. The work method and approach described are important reasons for the Bank reporting very low credit losses over a long period.

CREDIT ORGANISATION

In Handelsbanken's decentralised organisation, each branch responsible for customers has total credit responsibility. Customer and credit responsibility lies with the branch manager or with the employees appointed by the manager of the local branch.

In Handelsbanken's decentralised organisation, the documentation that forms the basis for credit decisions is always prepared by the branch responsible for the credit, regardless of whether the final decision is to be made at the branch, at regional level, in the Board's credit committee or by the Board. Credit decision documentation includes general and financial information regarding the borrower, and an assessment of their repayment capacity, loans and credit terms, as well as a valuation of collateral.

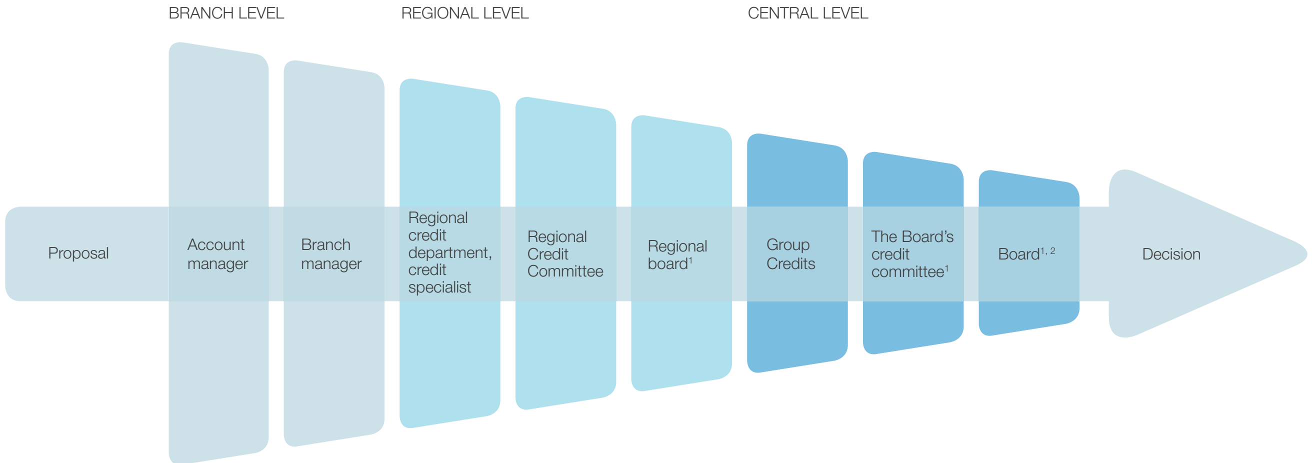
For regional bank boards, the Board's credit committee and the Board, the credit decision refers to the total amount of the credit limit with possible headroom for unsecured credits. For borrowers whose total loans exceed SEK 5 million, the credit decision is made in the form of a credit limit. In the case of loans to private individuals against collateral in the residential property, a limit requirement comes into play for amounts exceeding SEK 12 million. These amounts were raised during the year, from SEK 3 million and SEK 6 million, respectively. For loans to housing co-operative associations against collateral in the residential property, a limit is required for amounts exceeding SEK 12 million.

Credit limits granted are usually valid for a period of one year. When extending a credit limit, the decision procedure required is the same as for a new credit limit.

Branch managers and most branch staff have personal decision limits allowing them to decide on credits to the customers they are responsible for.

For decisions on larger credit limits, there are regional and central decision levels. Each additional level of decision adds credit expertise. Each decision level has the right to reject credit limits both within their own decision level and also credit limits which would otherwise have been decided at a higher level. All persons throughout the decision process with the responsibility for granting credits, regardless of level, must be in agreement in order for a positive credit limit decision to be made. If there is the slightest doubt among any of these persons, the credit application is rejected. The

Figure AR:5 Credit process and decision levels at Handelsbanken



Breakdown of limit decisions[3]

	Branch level	Regional level	Central level
Proportion of number of limits	59%	39%	2%
Proportion of limit amount	9%	35%	56%

[1] The decision refers to the total amount of the credit limit with possible headroom for unsecured credits.
[2] Decides only if the case is assessed to be of special or general interest and decides on credits to Board members and certain executive officers.
[3] Excluding sovereign and bank limits decided at central level.

Table AR:6 Credit risk exposures, geographical breakdown

Credit risk exposures, geographical breakdown 2019 SEKm		Sweden	UK	Norway	Denmark	Finland	The Netherlands	Other countries	Total
Balance sheet items									
Cash and balances with central banks		46551	85 069	22 097	270	106 105	7 996	59 870	327 958
Other loans to central banks	*Note G13*	183	1000	2881	15 483	-	-	-	19 547
Loans to other credit institutions	*Note G14*	12 849	368	139	24	68	139	4 352	17 939
Loans to the public	*Note G15*	1 412 328	262 623	283 003	109 060	146 710	56 975	21 904	2 292 603
Interest-bearing securities eligible as collateral with central banks	*Note G16*	102 363	-	-	18	-	-	1006	103 387
Bonds and other interest-bearing securities	*Note G16*	42 628	-	-	12	-	-	-	42 640
Derivative instruments[1]	*Note G21*	41 481	-	-	26	-	-	38	41 545
Total		**1 658 383**	**349 060**	**308 120**	**124 893**	**252 883**	**65 110**	**87 170**	**2 845 619**
Off-balance sheet items									
Contingent liabilities	*Note G42*	292 239	52 027	65 670	31 778	38 090	7 766	47 283	534 853
of which guarantee commitments		*37 438*	*7 424*	*6 370*	*8 541*	*7 679*	*195*	*27 539*	*95 186*
of which obligations		*254 801*	*44 603*	*59 300*	*23 237*	*30 411*	*7 571*	*19 744*	*439 667*
Total		**292 239**	**52 027**	**65 670**	**31 778**	**38 090**	**7 766**	**47 283**	**534 853**
Total on and off-balance sheet items		**1 950 622**	**401 087**	**373 790**	**156 671**	**290 973**	**72 876**	**134 453**	**3 380 472**

Credit risk exposures, geographical breakdown 2018 SEKm		Sweden	UK	Norway	Denmark	Finland	The Netherlands	Other countries	Total
Balance sheet items									
Cash and balances with central banks		55	73 393	3 549	505	129 633	3 096	106 986	317 217
Other loans to central banks	*Note G13*	10 129	846	-	22 582	-	-	-	33 557
Loans to other credit institutions	*Note G14*	12 830	453	394	41	44	154	8 221	22 137
Loans to the public	*Note G15*	1 379 534	234 554	258 819	105 061	139 111	47 319	24 694	2 189 092
Interest-bearing securities eligible as collateral with central banks	*Note G16*	96 863	-	-	11	-	-	25386	122 260
Bonds and other interest-bearing securities	*Note G16*	43 694	-	-	-	-	-	7035	50 729
Derivative instruments[1]	*Note G21*	57 552	0	-	35	26	-	428	58 041
Total		**1 600 657**	**309 246**	**262 762**	**128 235**	**268 814**	**50 569**	**172 750**	**2 793 033**
Off-balance sheet items								**0**	
Contingent liabilities	*Note G42*	303 254	55 534	64 748	30 485	40 107	7 233	50 350	551 711
of which guarantee commitments		*38 518*	*6 030*	*6 639*	*7 842*	*7 179*	*186*	*26 545*	*92 939*
of which obligations		*264 736*	*49 504*	*58 109*	*22 643*	*32 928*	*7 047*	*23 805*	*458 772*
Total		**303 254**	**55 534**	**64 748**	**30 485**	**40 107**	**7 233**	**50 350**	**551 711**
Total on and off-balance sheet items		**1 903 911**	**364 780**	**327 510**	**158 720**	**308 921**	**57 802**	**223 100**	**3 344 744**

Geographical breakdown refers to the country in which the exposures are reported.

[1] Refers to the sum total of positive market values. If legally enforceable master netting agreements are included, the exposure amounts to SEK 29,522m (45,437).

Table AR:7 Loans to the public subject to impairment testing, geographical breakdown

Loans to the public **Geographical breakdown 2019** SEKm	Gross			Provisions			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Net
Sweden	1 388 088	22 960	3 620	-131	-169	-2 040	1 412 328
UK	252 905	9 094	949	-78	-75	-172	262 623
Norway	272 812	9 264	1 625	-48	-51	-599	283 003
Denmark	105 365	3 123	986	-42	-43	-329	109 060
Finland	139 721	6 160	1 447	-51	-99	-468	146 710
The Netherlands	56 717	266	-	-7	-1	-	56 975
Other countries	21 063	802	204	-3	-3	-159	21 904
Total	**2 236 671**	**51 669**	**8 831**	**-360**	**-441**	**-3 767**	**2 292 603**

Loans to the public **Geographical breakdown 2018** SEKm	Gross			Provisions			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Net
Sweden	1 351 484	26 914	2 505	-124	-211	-1 034	1 379 534
UK	225 304	8 583	1 056	-48	-114	-227	234 554
Norway	247 382	10 395	1 712	-48	-80	-542	258 819
Denmark	100 473	4 033	1 025	-41	-54	-375	105 061
Finland	130 669	7 947	1 221	-42	-91	-593	139 111
The Netherlands	47 284	40	-	-5	0	-	47 319
Other countries	24387	267	212	-4	-2	-166	24 694
Total	**2 126 983**	**58 179**	**7 731**	**-312**	**-552**	**-2 937**	**2 189 092**

largest credits have been reviewed by Group Credits and decided by the Board or the credit committee set up by the Board. However, no credit application may be processed in the Bank without the recommendation of the branch manager who is responsible for the credit, with the exception of credit decisions made via automatic modelling. Automatic models used in such decisions require the approval of the CEO.

The decision procedure for credits and credit limits is illustrated in Figure AR:5 Credit process and decision levels at Handelsbanken. The figure also shows the percentage of credit limit decisions and amounts at the various decision levels.

In Handelsbanken's decentralised organisation, where a large proportion of the credit and credit limit decisions are made by individual branches, it is important that there is a well-functioning review process to ensure that the decisions are of high quality. The branch manager examines the quality of the staff's decisions and the regional credit departments examine the quality of decisions made by branch managers.

The purpose of the quality review is to ensure that the Bank's credit policy and internal instructions are complied with, that credit quality is maintained, and that credit and credit limit decisions show that there is good credit judgement and a sound business approach. A corresponding review of the quality is also performed for credit limit decisions made at higher levels in the Bank. Credit limits granted by regional Credit Committees and regional bank boards are examined by Group Credits, which also prepares and examines credit limits decided by the Board or the credit committee set up by the Board.

Ecster

The subsidiary, Ecster AB, offers payment solutions to selected vendors located throughout Sweden. The nature of this type of financing requires that quick and correct credit decisions can be provided year-round, all hours of the day, meaning that the majority of the decisions are made via automatic models. Decisions which cannot be processed using these models are made manually, whereby the employees involved abide by individually determined credit limits. Decisions on larger credit limits are made by Ecster's credit committee or by its Board. For proposals regarding larger commitments when the customer is an existing Handelsbanken customer, the decision is made by the customer's branch or the relevant unit at the Bank.

Table AR:8 Loans to the public subject to impairment testing, broken down by sector and industry

Loans to the public, breakdown by sector 2019 SEKm	Gross			Provisions			
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Net**
Private individuals	1 130 885	19 804	2 301	-133	-119	-759	1 151 979
of which mortgage loans	*924 628*	*13 901*	*666*	*-40*	*-34*	*-49*	*939 072*
of which other loans with property mortgages	*160 282*	*4 159*	*575*	*-14*	*-17*	*-155*	*164 830*
of which other loans, private individuals	*45 975*	*1 744*	*1 060*	*-79*	*-68*	*-555*	*48 077*
Housing co-operative associations	243 357	1 825	102	-7	-4	-12	245 261
of which mortgage loans	*210 053*	*709*	*35*	*-4*	*0*	*-10*	*210 783*
Property management	630 825	14 738	1 746	-104	-115	-336	646 754
Manufacturing	25 801	3 368	1292	-11	-36	-1215	29 199
Retail	26 354	2 228	171	-15	-26	-115	28 597
Hotel and restaurant	8 425	418	20	-8	-7	-7	8 841
Passenger and goods transport by sea	5 220	56	1 616	-1	-3	-496	6 392
Other transport and communication	9 893	739	96	-5	-10	-79	10 634
Construction	17 307	1 798	262	-14	-19	-213	19 121
Electricity, gas and water	17 148	2 300	8	-3	-10	-8	19 435
Agriculture, hunting and forestry	17 679	1491	91	-8	-14	-36	19 203
Other services	18 943	1217	349	-14	-23	-148	20 324
Holding, investment, insurance companies, mutual funds, etc.	57 044	1 051	145	-16	-13	-111	58 100
Sovereigns and municipalities	9 773	164	-	-1	0	-	9 936
of which the Swedish National Debt Office	-	-	-	-	-	-	-
Other corporate lending	18 017	472	632	-20	-42	-232	18 827
Total	**2 236 671**	**51 669**	**8 831**	**-360**	**-441**	**-3 767**	**2 292 603**

Loans to the public, breakdown by sector 2018 SEKm	Gross			Provisions			
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Net**
Private individuals	1 075 441	21 118	2 326	-117	-110	-755	1 097 903
of which mortgage loans	*881 551*	*14 777*	*588*	*-35*	*-33*	*-36*	*896 812*
of which other loans with property mortgages	*145 349*	*4 267*	*509*	*-12*	*-17*	*-119*	*149 977*
of which other loans, private individuals	*48 541*	*2 074*	*1 229*	*-70*	*-60*	*-600*	*51 114*
Housing co-operative associations	226 387	2 989	72	-10	-12	-15	229 411
of which mortgage loans	*191 140*	*1 358*	*26*	*-4*	*0*	*-10*	*192 510*
Property management	579 606	17 689	1 365	-88	-203	-367	598 002
Manufacturing	23 508	3 548	445	-10	-66	-272	27 153
Retail	20 311	1 774	153	-12	-27	-110	22 089
Hotel and restaurant	8 721	256	31	-6	-5	-22	8 975
Passenger and goods transport by sea	5 665	150	1 574	-1	-3	-405	6 980
Other transport and communication	12 744	1 684	107	-6	-10	-80	14 439
Construction	20 264	1 036	171	-15	-38	-122	21 296
Electricity, gas and water	19 400	1 109	53	-2	-9	-53	20 498
Agriculture, hunting and forestry	14 791	892	83	-7	-13	-40	15 706
Other services	22 800	884	353	-13	-23	-168	23 833
Holding, investment, insurance companies, mutual funds, etc.	72 371	3 083	283	-12	-20	-202	75 503
Sovereigns and municipalities	10 598	277	-	-1	0	-	10 874
of which the Swedish National Debt Office	*120*	-	-	-	-	-	*120*
Other corporate lending	14 376	1 690	715	-12	-13	-326	16 430
Total	**2 126 983**	**58 179**	**7 731**	**-312**	**-552**	**-2 937**	**2 189 092**

CREDIT PORTFOLIO

The Bank's credit portfolio is presented in this section based on the categorisation of balance sheet items. The section on Capital requirements for credit risks presents the credit portfolio based on CRR.

Based on the consolidated balance sheet, credits are categorised as loans to the public or loans to credit institutions, while off-balance sheet items are broken down by product type. 'Exposure' refers to the sum of items on and off the balance sheet. Loans to the public is the dominant item. See Table AR:6 Credit risk exposures, geographical breakdown.

Handelsbanken strives to maintain its historically low level of credit losses compared to other banks, thus contributing to the Bank's profitability target and retaining its sound financial position. In granting credits, the Bank never strives toward goals such as a predetermined volume or market share in particular sectors, and is instead selective when choosing its customers, adopting the mindset that credit customers must be of high quality. The demands on quality must never be neglected in favour of achieving a high credit volume. This is clearly stated in the Bank's credit policy, endorsed each year by the Board.

Handelsbanken regularly evaluates the quality of the credit portfolio in order to identify and limit impairment requirements. For a more

Table AR:9 Loans to the public subject to impairment testing, geographical breakdown by sector

Loans to the public after deduction of provisions, geographical breakdown by sector 2019 SEKm	Sweden	UK	Norway	Denmark	Finland	The Netherlands	Other countries	Total
Private individuals	834 052	82 036	105 047	64 429	42 514	16 819	7 082	1 151 979
of which mortgage loans	*798 418*	*-*	*72 503*	*48 254*	*19 897*	*-*	*-*	*939 072*
of which other loans with property mortgages	*6 423*	*77 089*	*30 504*	*11 186*	*17 275*	*16 191*	*6 162*	*164 830*
of which other loans, private individuals	*29 211*	*4 947*	*2 040*	*4 989*	*5 342*	*628*	*920*	*48 077*
Housing co-operative associations	188 182	-	23 057	965	33 057	-	-	245 261
of which mortgage loans	*174 378*	*-*	*22 003*	*-*	*14 402*	*-*	*-*	*210 783*
Property management	258 326	153 096	125 524	22 978	44 707	37 706	4 417	646 754
Manufacturing	11 730	2 757	3 065	4 925	2 175	0	4 547	29 199
Retail	14 222	4 040	4 987	2 734	1 008	41	1565	28 597
Hotel and restaurant	2 501	4 083	269	1 931	50	7	-	8 841
Passenger and goods transport by sea	2 464	69	1 607	346	1 906	-	-	6 392
Other transport and communication	5 897	944	740	1632	1 396	22	3	10 634
Construction	7 522	3 193	6 870	530	987	19	-	19 121
Electricity, gas and water	6 483	378	4 719	60	6 550	105	1140	19 435
Agriculture, hunting and forestry	16 274	1 998	308	399	181	31	12	19 203
Other services	7 640	5 829	3 420	1104	1 384	738	209	20 324
Holding, investment, insurance companies, mutual funds etc.	40 533	2 632	1 921	6 227	3 356	1 392	2 039	58 100
Sovereigns and municipalities	2 589	-	328	2	7 017	-	-	9 936
of which the Swedish National Debt Office	-							-
Other corporate lending	13 913	1 568	1 141	798	422	95	890	18 827
Total loans to the public, before collective provision	**1 412 328**	**262 623**	**283 003**	**109 060**	**146 710**	**56 975**	**21 904**	**2 292 603**
of which total provsions for expected credit losses (Stage 1-3)	*-2 340*	*-325*	*-698*	*-414*	*-618*	*-8*	*-165*	*-4 568*
Total loans to the public	**1 414 668**	**262 948**	**283 701**	**109 474**	**147 328**	**56 983**	**22 069**	**2 297 171**

Loans to the public after deduction of provisions, geographical breakdown by sector 2018 SEKm	Sweden	UK	Norway	Denmark	Finland	The Netherlands	Other countries	Total
Private individuals	806 379	71 668	95 482	63 042	40 995	13 698	6 639	1 097 903
of which mortgage loans	*766 746*	*-*	*63 683*	*46 316*	*20 067*	*-*	*-*	*896 812*
of which other loans with property mortgages	*6 151*	*66 933*	*29 376*	*12 775*	*15 594*	*13 284*	*5 864*	*149 977*
of which other loans, private individuals	*33 482*	*4 735*	*2 423*	*3 951*	*5 334*	*414*	*775*	*51 114*
Housing co-operative associations	180 162	-	20 295	891	28 063	-	-	229 411
of which mortgage loans	*161 651*	*-*	*19 161*	*-*	*11 698*	*-*	*-*	*192 510*
Property management	251 580	136 950	111 646	20 731	41 188	31 449	4 458	598 002
Manufacturing	12 996	2 409	2 054	1 743	2 104	1	5 846	27 153
Retail	10 675	4 241	3 483	2 288	1 302	38	62	22 089
Hotel and restaurant	2 159	3 918	514	2 305	77	2	0	8 975
Passenger and goods transport by sea	2 680	16	1 808	611	1 865	-	0	6 980
Other transport and communication	9 168	829	2 536	631	1 237	26	12	14 439
Construction	8 864	3 068	8 021	372	944	2	25	21 296
Electricity, gas and water	7 243	345	4 833	70	7 516	103	388	20 498
Agriculture, hunting and forestry	13 449	1 533	316	239	135	34	-	15 706
Other services	12 179	4 883	3 677	866	1 658	553	17	23 833
Holding, investment, insurance companies, mutual funds etc.	54 119	2 257	1 163	8 717	3 380	1 402	4 465	75 503
Sovereigns and municipalities	2 488	-	270	2	8 114	-	-	10 874
of which the Swedish National Debt Office	*120*							*120*
Other corporate lending	5 393	2 437	2 721	2 553	533	11	2 782	16 430
Total loans to the public, before collective provision	**1 379 534**	**234 554**	**258 819**	**105 061**	**139 111**	**47 319**	**24 694**	**2 189 092**
of which total provsions for expected credit losses (Stage 1-3)	*-1 369*	*-389*	*-670*	*-470*	*-726*	*-5*	*-172*	*-3 801*
Total loans to the public	**1 380 903**	**234 943**	**259 489**	**105 531**	**139 837**	**47 324**	**24 866**	**2 192 893**

detailed description of IFRS 9, refer to notes G1 and G2, under the heading Calculation of expected credit losses pursuant to IFRS 9.

Collateral

The Bank's credit policy states that credits must normally have satisfactory collateral. A weak repayment capacity can never be accepted on the grounds that good collateral has been offered to the Bank. Collateral may, however, substantially reduce the Bank's loss if the borrower cannot fulfil its obligations.

The Bank's measures to limit its credit risk include the acceptance of collateral from customers. The primary means of reducing credit risk in the Bank is the pledging of immovable property, such as residential properties and other real estate, floating charges on assets, guarantees (including guarantor commitments) and the use of netting agreements (see the section on Counterparty risks for more information).

The basic principle applied in property finance is that credits must be covered by collateral in the form of properties. For exposures with properties as collateral, a loan-to-value (LTV) ratio is calculated by dividing the credit exposure by the market value of the collateral. The Bank follows internal recommendations and external regulations which limit the maximum amount of a loan for which the collateral is property. For more information on the Loan-to-value ratio, refer to the "Risk and Capital – Information according to Pillar 3" report, under the heading Credit risk – Loan-to-value ratio for property lending.

The value of collateral is reviewed on an annual basis, and is based on the estimated market value. If the market value is deemed to have declined and the value of the collateral has therefore diminished, reviews are carried out more often. The Bank's instructions regarding collateral have not required any changes as a result of the introduction of IFRS 9. Since collateral is not generally utilised until a borrower faces serious repayment difficulties, the valuation of collateral focuses on the expected value in the case of a sale in unfavourable circumstances in connection with insolvency.

For unsecured long-term credit commitments to companies, the Bank often enters into an agreement with the customer on special credit terms which allow the Bank to renegotiate or terminate the loan in the case of unfavourable performance.

In special circumstances, the Bank may buy credit derivatives or financial guarantees to hedge the credit risk in claims, but this is not part of the Bank's normal lending process.

A minor part of loans to credit institutions consists of reverse repos. A reverse repo is a repurchase transaction in which the Bank buys interest-bearing securities or equities with a special agreement that the security will be resold to the seller at a specific price on a specific date. Handelsbanken regards reverse repos as secured lending.

Only collateral used in the calculation of the capital requirement for credit risk is specified in the tables below.

Table AR:10 Credit risk exposures, breakdown by type of collateral

Credit risk exposures Breakdown by type of collateral 2019 SEKm		Residential property[1]	Other property	Sovereigns, municipalities and county councils[2]	Guarantees as for own debt[3]	Financial collateral	Collateral in assets	Other collateral	Unsecured	Total
Balance sheet items										
Cash and balances with central banks				327 958						327 958
Other loans to central banks	*Note G13*			19 547						19 547
Loans to other credit institutions	*Note G14*	-	-	2 969	-	-	-	-	14 970	17 939
Loans to the public	*Note G15*	1 637 016	362 351	57 209	13 112	11 442	24 889	26 127	160 457	2 292 603
Interest-bearing securities eligible as collateral with central banks	*Note G16*			103 387						103 387
Bonds and other interest-bearing securities	*Note G16*			2 982					39 658	42 640
Derivative instruments	*Note G21*	463	875	1 739	60	29 993	-	184	8 231	41 545
Total		**1 637 479**	**363 226**	**515 791**	**13 172**	**41 435**	**24 889**	**26 311**	**223 316**	**2 845 619**
Off-balance sheet items										
Contingent liabilities	*Note G42*	64 146	41 183	26 675	3 714	4 769	515	22 063	371 788	534 853
of which guarantee commitments		*1 740*	*2 191*	*1 537*	*1 685*	*1 013*	*-*	*2 959*	*84 061*	*95 186*
of which obligations		*62 406*	*38 992*	*25 138*	*2 029*	*3 756*	*515*	*19 104*	*287 727*	*439 667*
Total		**64 146**	**41 183**	**26 675**	**3 714**	**4 769**	**515**	**22 063**	**371 788**	**534 853**
Total on and off-balance sheet items		**1 701 625**	**404 409**	**542 466**	**16 886**	**46 204**	**25 404**	**48 374**	**595 104**	**3 380 472**

Credit risk exposures Breakdown by type of collateral 2018 SEKm		Residential property[1]	Other property	Sovereigns, municipalities and county councils[2]	Guarantees as for own debt[3]	Financial collateral	Collateral in assets	Other collateral	Unsecured	Total
Balance sheet items										
Cash and balances with central banks				317 217						317 217
Other loans to central banks	*Note G13*			33 557						33 557
Loans to other credit institutions	*Note G14*	-	-	2 896	-	2 149	-	-	17 092	22 137
Loans to the public	*Note G15*	1 529 080	317 066	61 715	23 611	19 233	26 772	16 432	195 183	2 189 092
Interest-bearing securities eligible as collateral with central banks	*Note G16*									122 260
Bonds and other interest-bearing securities	*Note G16*									50 729
Derivative instruments	*Note G21*	101	65	2 372	68	43 709	-	-	11 726	58 041
Total		**1 529 181**	**317 131**	**417 757**	**23 679**	**65 091**	**26 772**	**16 432**	**224 001**	**2 793 033**
Off-balance sheet items										
Contingent liabilities	*Note G42*	62 380	49 247	35 689	12 391	16 072	407	5 897	369 628	551 711
of which guarantee commitments		*2 876*	*2 280*	*2 038*	*6 172*	*863*	*-*	*602*	*78 108*	*92 939*
of which obligations		*59 504*	*46 967*	*33 651*	*6 219*	*15 209*	*407*	*5 295*	*291 520*	*458 772*
Total		**62 380**	**49 247**	**35 689**	**12 391**	**16 072**	**407**	**5 897**	**369 628**	**551 711**
Total on and off-balance sheet items		**1 591 561**	**366 378**	**453 446**	**36 070**	**81 163**	**27 179**	**22 329**	**593 629**	**3 344 744**

[1] Including housing co-operative apartments.
[2] Refers to direct sovereign exposures and government guarantees.
[3] Does not include government guarantees.

Table AR:11 On and off-balance sheet items subject to impairment testing, breakdown by type of collateral

On and off-balance sheet items subject to impairment testing, breakdown by type of collateral 2019

		2019					
		Gross			Provisions		
SEKm		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balance sheet items							
Cash and balances with central banks		**327 958**	**-**	**-**	**0**	**-**	**-**
Sovereigns, municipalities and county councils[2]		327 958	-	-	0	-	-
Other loans to central banks	*Note G13*	**19 547**	**-**	**-**	**-**	**-**	**-**
Sovereigns, municipalities and county councils[2]		19 547	-	-	-	-	-
Loans to other credit institutions	*Note G14*	**17 750**	**193**	**-**	**-1**	**-3**	**-**
Sovereigns, municipalities and county councils[2]		2 900	71	-	-1	-1	-
Financial collateral		-	-	-	-	-	-
Unsecured		14 850	122	-	0	-2	-
Loans to the public	*Note G15*	**2 236 671**	**51 669**	**8 831**	**-360**	**-441**	**-3 767**
Residential property[1]		1 607 259	28 552	1 774	-110	-129	-330
Other property		350 198	11 567	1 168	-93	-101	-388
Sovereigns, municipalities and county councils[2]		55 917	1 014	283	-2	-3	-
Guarantees as for own debt[3]		12 839	199	80	-3	-3	-
Financial collateral		11 228	215	4	-3	-2	-
Collateral in assets		23 514	1 403	40	-21	-28	-19
Other collateral		22 823	2 476	1 882	-17	-54	-983
Unsecured		152 893	6 243	3 600	-111	-121	-2 047
Interest-bearing securities eligible as collateral with central banks	*Note G16*	**1 427**	**-**	**-**	**0**	**-**	**-**
Bonds and other interest-bearing securities	*Note G16*	**4 953**	**-**	**-**	**-2**	**-**	**-**
Total		**2 608 306**	**51 862**	**8 831**	**-363**	**-444**	**-3 767**
Off-balance sheet items							
Contingent liabilities	*Note G35, G42*	**400 479**	**7 985**	**712**	**-69**	**-66**	**-106**
of which guarantee commitments		*92 097*	*2 593*	*496*	*-7*	*-13*	*-71*
Residential property		1 675	62	4	-2	-1	-
Other property		2 114	68	8	-	-1	-
Sovereigns, municipalities and county councils[2]		1 396	121	20	-	-3	-
Guarantees as for own debt		1 669	10	5	-	-	-
Financial collateral		933	77	3	-	-	-
Collateral in assets		-	-	-	-	-	-
Other collateral		2 342	253	364	-1	-2	-55
Unsecured		81 968	2 002	92	-4	-6	-16
of which obligations		*308 382*	*5 392*	*216*	*-62*	*-53*	*-35*
Residential property[1]		61 870	502	34	-5	-2	-5
Other property		38 484	494	14	-4	-5	-
Sovereigns, municipalities and county councils[2]		25 029	106	4	-	-	-
Guarantees as for own debt[3]		1 853	174	3	-1	-1	-
Financial collateral		3 712	40	4	-	-	-
Collateral in assets		501	14	-	-	-	-
Other collateral		17 917	1 087	100	-7	-16	-23
Unsecured		159 016	2 975	57	-45	-29	-7
Total		**400 479**	**7 985**	**712**	**-69**	**-66**	**-106**
Total on and off-balance sheet items		**3 008 785**	**59 847**	**9 543**	**-432**	**-510**	**-3 873**

[1] Including housing co-operative apartments.
[2] Refers to direct sovereign exposures and government guarantees.
[3] Does not include government guarantees.

On and off-balance sheet items subject to impairment testing, breakdown by type of collateral 2018

mkr		2018 Gross Stage 1	Gross Stage 2	Gross Stage 3	Provisions Stage 1	Provisions Stage 2	Provisions Stage 3
Balance sheet items							
Cash and balances with central banks		**317 217**	**-**	**-**	**-**	**-**	**-**
Sovereigns, municipalities and county councils[2]		317 217	-	-	-	-	-
Other loans to central banks	*Note G13*	**33 557**	**-**	**-**	**-**	**-**	**-**
Sovereigns, municipalities and county councils[2]		33 557	-	-	-	-	-
Loans to other credit institutions	*Note G14*	**21 751**	**397**	**-**	**-3**	**-8**	**-**
Sovereigns, municipalities and county councils[2]		2 804	94	-	-1	-1	-
Financial collateral		2 149	-	-	-	-	-
Unsecured		16 798	303	-	-2	-7	-
Loans to the public	*Note G15*	**2 126 983**	**58 179**	**7 731**	**-312**	**-552**	**-2 937**
Residential property[1]		1 498 838	29 235	1 555	-100	-150	-298
Other property		305 121	11 309	1 221	-71	-146	-367
Sovereigns, municipalities and county councils[2]		59 606	2 103	21	-2	-13	-
Guarantees as for own debt[3]		22 446	1 157	25	-5	-13	-
Financial collateral		18 659	557	20	-2	-1	-
Collateral in assets		25 409	1 381	58	-20	-31	-25
Other collateral		15 250	1 145	231	-8	-27	-159
Unsecured		181 654	11 292	4 600	-104	-171	-2 088
Interest-bearing securities eligible as collateral with central banks	*Note G16*	**1 236**	**-**	**-**	**0**	**-**	**-**
Bonds and other interest-bearing securities	*Note G16*	**5 373**	**-**	**-**	**-1**	**-**	**-**
Total		**2 506 117**	**58 576**	**7 731**	**-316**	**-560**	**-2 937**
Off-balance sheet items							
Contingent liabilities	*Note G35, G42*	**420 024**	**7 619**	**411**	**-78**	**-64**	**-**
of which guarantee commitments		*89 801*	*2 755*	*383*	*-5*	*-9*	-
Residential property		2 768	94	15	-1	-1	-
Other property		2 215	52	13	-	-	-
Sovereigns, municipalities and county councils[2]		1 868	167	4	-	-1	-
Guarantees as for own debt		6 039	128	5	-1	-1	-
Financial collateral		756	106	1	-	-	-
Collateral in assets		-	-	-	-	-	-
Other collateral		554	36	11	-	-	-
Unsecured		75 601	2 172	334	-3	-6	-
of which obligations		*330 223*	*4 864*	*28*	*-73*	*-55*	-
Residential property[1]		47 698	259	-	-4	-	-
Other property		20 552	280	-	-2	-2	-
Sovereigns, municipalities and county councils[2]		21 941	194	-	-	-	-
Guarantees as for own debt[3]		5 407	293	-	-1	-1	-
Financial collateral		13 506	36	-	-1	-	-
Collateral in assets		406	-	-	-	-	-
Other collateral		4 283	392	-	-2	-6	-
Unsecured		216 430	3 410	28	-63	-46	-
Total		**420 024**	**7 619**	**411**	**-78**	**-64**	**-**
Total on and off-balance sheet items		**2 926 141**	**66 195**	**8 142**	**-394**	**-624**	**-2 937**

[1] Including housing co-operative apartments.
[2] Refers to direct sovereign exposures and government guarantees.
[3] Does not include government guarantees.

Credit risk concentrations

Handelsbanken's branches focus strongly on establishing long-term relationships with customers of sound creditworthiness. If a branch identifies a good customer, it should be able to do business with this customer, irrespective of whether the Bank as a whole has a major exposure to the business sector that the customer represents. As a consequence, the Bank has relatively large concentrations in some individual sectors. However, the Bank monitors the performance and quality of the credit portfolio and calculates concentrations for various business sectors and geographic areas. The Bank also measures and monitors exposures to major individual counterparties. Special limits are applied to restrict the maximum credit exposure to individual counterparties, to augment the credit risk assessment. If the credit portfolio has a concentration in a particular sector or counterparty that can be assumed to increase risk, this concentration is monitored. Concentration risks are identified in the Bank's calculation of economic capital for credit risks and in the stress tests conducted in the internal capital adequacy assessment. The Swedish Financial Supervisory Authority also calculates a separate capital adequacy requirement under Pillar 2 for concentration risks in the credit portfolio. This ensures that Handelsbanken has sufficient capital, also taking into account concentration risks. If the concentration risks are judged to be excessive, the Bank has the opportunity and capacity to reduce them using various risk mitigation measures.

In addition to mortgage loans and lending to housing co-operative associations, Handelsbanken has significant lending to property management of SEK 647 billion (598). Here, 'property management' refers to all companies classified as 'property companies' for risk assessment purposes. It is common for groups operating in other industries to have subsidiaries managing the properties in which the group conducts business, and such property companies are also considered here to belong to property management. However, the underlying credit risk in such cases is not solely property-related, because the counterparty's repayment capacity is determined by business operations other than property management. Also, private individuals with substantial property holdings are classified as property companies for risk-assessment purposes.

A very large part of property lending consists of property mortgages with low loan-to-value ratios, which reduces the Bank's credit loss risk. In addition, a large proportion of property lending is to government-owned property companies, municipal housing companies and other housing-related operations where the borrowers consistently have strong, stable cash flows and thus very high creditworthiness. Thus a

Table AR:12 Loans to the public subject to impairment testing, Property management

Loans to the public, Property management 2019 SEKm	Gross			Provisions			
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Net**
Loans in Sweden							
State-owned property companies	6 304	35	-	0	0	-	6 339
Municipally owned property companies	7 291	-	-	0	-	-	7 291
Residential property companies	118 042	1 456	69	-5	-5	-50	119 507
of which mortgage loans	*105 249*	*1 236*	*10*	*-3*	*-4*	*-4*	*106 484*
Other property management	122 326	2 791	168	-10	-13	-73	125 189
of which mortgage loans	*60 237*	*1 407*	*15*	*-3*	*-5*	*-2*	*61 649*
Total	**253 963**	**4 282**	**237**	**-15**	**-18**	**-123**	**258 326**
Loans outside Sweden							
UK	146 345	6 241	720	-45	-54	-111	153 096
Norway	123 541	1 994	67	-28	-16	-34	125 524
Denmark	22 242	635	151	-5	-11	-34	22 978
Finland	42 854	1 346	555	-3	-14	-31	44 707
The Netherlands	37 485	229	-	-7	-1	-	37 706
Other countries	4 395	11	16	-1	-1	-3	4 417
Total	**376 862**	**10 456**	**1 509**	**-89**	**-97**	**-213**	**388 428**
Total property management within loans to the public	**630 825**	**14 738**	**1 746**	**-104**	**-115**	**-336**	**646 754**

Loans to the public, Property management 2018 SEKm	Gross			Provisions			
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Net**
Loans in Sweden							
State-owned property companies	5 066	-	-	0	-	-	5 066
Municipally owned property companies	7 782	189	-	0	0	-	7 971
Residential property companies	110 102	1 510	44	-6	-6	-24	111 620
of which mortgage loans	*95 995*	*1 341*	*5*	*-4*	*-4*	*-*	*97 333*
Other property management	124 384	2 485	193	-12	-13	-114	126 923
of which mortgage loans	*55 132*	*1 182*	*2*	*-3*	*-5*	*0*	*56 308*
Total	**247 334**	**4 184**	**237**	**-18**	**-19**	**-138**	**251 580**
Loans outside Sweden							
UK	130 699	5 773	728	-28	-91	-131	136 950
Norway	106 962	4 625	175	-26	-38	-52	111 646
Denmark	20 102	585	98	-7	-19	-28	20 731
Finland	38 630	2 507	102	-3	-36	-12	41 188
The Netherlands	31 440	13	-	-4	0	-	31 449
Other countries	4 439	2	25	-2	-	-6	4 458
Total	**332 272**	**13 505**	**1 128**	**-70**	**-184**	**-229**	**346 422**
Total property management within loans to the public	**579 606**	**17 689**	**1 365**	**-88**	**-203**	**-367**	**598 002**

large part of lending to the property sector is to companies with a very low probability of encountering financial difficulties. The Bank's exposure to the property sector is specified in the tables below.

The proportion of exposures to property counterparties with a poorer rating than the Bank's risk class 5 (normal risk) is very low. 99 per cent (99) of total property lending in Sweden is in risk class 5 or better. The corresponding figures for property lending in the UK are 98 per cent (98), Norway 98 per cent (97), Denmark 97 per cent (97), and Finland 97 per cent (98). The capital requirement for the Netherlands is largely calculated with the application of the standardised approach, which uses prescribed risk weights – meaning that the risk classes are irrelevant to the calculation of the capital requirement. Nonetheless, the proportion of exposures that, in reality, is categorised in risk class 5 or higher is 99 per cent. For counterparties in poorer risk classes than normal, the majority are in risk classes 6 or 7 with only small volumes in the higher risk classes 8 and 9. For information about Handelsbanken's risk ratings, see the section titled Calculation of capital requirements for credit risks in note G2.

In the past few years, Handelsbanken's lending to property companies has grown thanks in part to the Bank's substantial credit growth in the UK as a result of an expansion of the branch network. A large part of the growth has been in property-related credits. In the UK, Handelsbanken has the same strict requirements on repayment capacity, LTVs and collateral quality as in its other home markets.

Table AR:13 Loans to the public, Property management, type of collateral and country (Gross)

Loans to the public, Property management, type of collateral and country	2019					2018				
SEKm	Loans	Sovereign and municipality[1]	Residential property	Commercial property and other collateral	Unsecured	Total	Companies owned by or property lending guaranteed by government or municipality	Residential property	Commercial property and other collateral	Unsecured
Sverige	258 482	14 552	134 987	98 139	10 804	251 755	13 920	126 098	101 345	10 392
Storbritannien	153 306	-	77 694	72 762	2 850	137 200	-	68 071	66 431	2 698
Norge	125 602	-	21 312	97 021	7 269	111 762	23	19 079	86 371	6 289
Danmark	23 028	-	12 179	10 146	703	20 785	-	11 848	7 886	1 051
Finland	44 755	22 734	7 371	13 972	678	41 239	20 363	7 196	12 818	862
Nederländerna	37 714	-	24 283	13 079	352	31 453	-	19 706	11 066	681
Övriga länder	4 422	474	779	2 105	1 064	4466	562	734	2374	796
Summa	**647 309**	**37 760**	**278 605**	**307 224**	**23 720**	**598 660**	**34 868**	**252 732**	**288 291**	**22 769**

[1] Companies owned by government and municipality/property lending guaranteed by government and municipality.

Table AR:14 Loans to the public, Property management, risk class and country

Loans to the public, Property management, risk class and country 2019
SEKm

Risk class	Sweden	UK	Norway	Denmark	Finland	The Netherlands	USA	Other countries	Total	%
1	17 027	427	905	6	12 637	-	-	31 002	4,79	
2	71 671	22 748	23 950	1 625	8 902	-	5	128 901	19,91	
3	111 256	68 186	66 041	12 678	11 392	-	-	269 553	41,64	
4	41 979	51 783	26 798	6 060	8 660	105	-	135 385	20,92	
5	14 144	7 729	5 016	2 063	1 828	-	-	30 780	4,76	
6	1 327	1 137	2 275	171	203	-	-	5 113	0,79	
7	470	395	411	226	285	-	-	1 787	0,28	
8	210	82	39	21	13	-	-	365	0,06	
9	152	1	98	24	48	-	-	323	0,05	
Defaults	237	720	67	151	555	-	-	1 730	0,27	
Standardised approach[1]	9	98	2	3	232	37 609	4 417	42 370	6,55	
Total	**258 482**	**153 306**	**125 602**	**23 028**	**44 755**	**37 714**	**4 422**	**647 309**	**100**	

Loans to the public, Property management, risk class and country 2018
SEKm

Risk class	Sweden	UK	Norway	Denmark	Finland	The Netherlands	USA	Other countries	Total	%
1	21 939	619	835	84	11 667	-	611	35 755	5,97	5.97
2	68 885	22 985	19 509	1 635	9 233	-	-	122 247	20,42	20.42
3	101 813	71 396	55 068	11 517	10 762	-	-	250 556	41,85	41.85
4	37 871	34 680	25 758	5 052	7 121	103	-	110 585	18,47	18.47
5	18 110	4 651	7 239	1 859	1 454	-	-	33 313	5,56	5.56
6	1 880	1 407	2 197	194	124	-	-	5 802	0,97	0.97
7	702	234	834	241	194	-	-	2 205	0,37	0.37
8	176	63	42	90	539	-	-	910	0,15	0.15
9	141	362	104	8	42	-	-	657	0,11	0.11
Defaults	238	727	175	98	102	-	-	1 340	0,22	0.22
Standardised approach[1]	0	76	1	7	1	31 350	3 855	35 290	5,89	5.89
Total	**251 755**	**137 200**	**111 762**	**20 785**	**41 239**	**31 453**	**4 466**	**598 660**	**100**	**100**

[1] The standardised approach uses predetermined risk weights, for which reason risk classes are not relevant.

Table AR:15 Loans to the public, Property management, risk class and collateral

Loans to the public, Property management, risk class and collateral 2019
SEKm

Risk class	Loans	Collateral				
		Residential property	Commercial property	Sovereign and municipality	Other collateral	Unsecured
1	31 002	11 172	3 732	14 370	721	1 007
2	128 901	58 833	50 828	12 132	1 076	6 032
3	269 553	110 344	146 562	4 521	1 421	6 705
4	135 385	57 961	66 614	4 927	730	5 153
5	30 780	12 488	14 146	1037	463	2 646
6	5 113	1 554	3 390	7	30	132
7	1 787	617	1 026	11	39	94
8	365	119	229	-	0	17
9	323	125	115	4	7	72
Defaults	1 730	277	663	276	19	495
Standardised approach[1]	42 370	25 115	14 926	475	487	1367
Total	**647 309**	**278 605**	**302 231**	**37 760**	**4 993**	**23 720**

Loans to the public, Property management, risk class and collateral 2018
SEKm

Risk class	Loans	Collateral				
		Residential property	Commercial property	Sovereign and municipal guarantees	Other collateral	Unsecured
1	35 755	13 633	3 638	14 624	2 134	1 726
2	122 247	58 385	45 856	10 134	1 027	6 845
3	250 556	98 862	138 273	3 931	2 457	7 033
4	110 585	46 933	53 798	4 454	1 882	3 518
5	33 313	11 683	17 445	816	988	2 381
6	5 802	1 621	3 787	18	268	108
7	2 205	583	1 286	3	275	58
8	910	320	221	321	30	18
9	657	81	450	5	102	19
Defaults	1 340	188	841	-	90	221
Standardised approach[1]	35 290	20 443	13 327	562	116	842
Total	**598 660**	**252 732**	**278 922**	**34 868**	**9 369**	**22 769**

[1] The standardised approach uses predetermined risk weights, for which reason risk classes are not relevant.

CALCULATION OF CAPITAL REQUIREMENTS FOR CREDIT RISKS

Risk rating system

The capital requirement for credit risk is calculated according to the standardised approach and the IRB approach in accordance with regulation (EU) No 575/2013 (CRR). The standardised approach entails that the risk weights in the calculation of capital requirements are predetermined, while the IRB approach means that the institution estimates the risk parameters which are used in the determination of risk weights for the calculation of capital requirements. There are two different IRB approaches: the IRB approach without own estimates of LGD and CCF, whereby CCF is used in the calculation of exposure amounts for unutilised overdraft facilities, committed loan offers, guarantees and other off-balance sheet commitments (the foundation approach), and the IRB approach with own estimates of LGD and CCF (the advanced approach).

When performing a credit assessment of a customer, the customer is assigned a rating, which is linked to the risk class distribution applied in the IRB approach.

The two dimensions of the rating are risk of financial strain (A) and the counterparty's financial powers of resistance in the case of such strain (B), on a five-point scale from very low risk to very high risk.

The rating is converted to an internal risk class for the application of the IRB approach (A+B-1) for retail and exposures to institutions, as well as for exposures to sovereigns, central banks, government agencies and municipalities (sovereign exposures).

The rating for retail exposures is not converted directly into a risk class as for corporate exposures; instead, the different exposures are sorted into a number of smaller groups on the basis of certain factors. Such factors include the type of credit, the counterparty's debt-servicing record and whether there are one or more borrowers. An average default rate is calculated for each of the smaller groups, and on the basis of this, the groups are sorted into one of the ten risk classes. Different models are used for exposures to private individuals and to small companies (that are also classified as retail exposures), but the principle is the same.

The risk classes applied in the IRB approach are thus distributed over a scale of 1 to 10.

A clear majority of the Bank's exposures are in risk classes 1–4, which means that the average risk level in the credit portfolio is significantly lower than the level which is assessed as normal risk. Risk class 5 corresponds to normal risk and risk class 10 is for counterparties in default.

Handelsbanken's internal risk rating system (the IRB approach) comprises a number of different systems, methods, processes and procedures to support the Bank's classification and quantification of credit risk.

The IRB approach is used to measure the credit risk in all operations reliably and consistently.

Exposure classes

The number of exposure classes depends on the method used to calculate the credit risk. Exposures to be calculated according to the standardised approach can be allocated to 17 different exposure classes, while there are seven exposure classes in the IRB approach.

The Bank uses different models for calculating credit risk, depending on the type of exposure. The overall division into exposure classes in the IRB approach comprises sovereign, institutional, corporate, retail and equity exposures, as well as positions in securitisations. In addition there are also non-credit-obligation assets, which do not require any performance by the counterparty, such as property, plant and equipment.

Exposures to states, central banks, government agencies and municipalities are classed as sovereign exposures. Exposures to institutions refer to exposures to counterparties defined as banks and other credit institutions, and certain investment firms.

Retail exposures include both exposures to private individuals and to SMEs, where the total exposure within the Group does not exceed SEK 5 million. Also included are legal entities where the total exposure within the Group does not exceed SEK 5 million (excluding mortgage loans). Retail exposures are divided into two sub-groups: property loans and other retail exposures.

Corporate exposures refer to exposures to non-financial companies, consisting of legal entities with a total exposure within the Group in excess of SEK 5 million or where the company's turnover is more than SEK 50 million, and SMEs with a total exposure within the Group in excess of SEK 5 million. Apart from ordinary non-financial companies, the exposure class includes insurance companies, housing co-operative associations and exposure in the form of "specialised lending".

Equity exposures refer to the Bank's holdings of shares that are not in the trading book.

For division into exposure classes according to the standardised approach, the Bank's volumes are put into the following exposure classes: multilateral development banks, international organisations, institutions, corporations, retail, exposures with collateral in property, exposures in default, other items and shares.

Table AR:16 Credit risk exposures by risk class

Credit exposures by risk class 2019 SEKm	**Balance sheet items**						**Off-balance sheet items**		
Risk class	**Loans to the public**	**Loans to other credit institutions**	**Cash and balances with central banks**	**Other loans to central banks**	**Derivative instruments**	**Interest-bearing securities**	**Contingent liabilities**	**Obligations**	**Total**
1	434 204	4 185	326 508	19 547	12 158	120 838	7 575	52 519	977 534
2	611 021	10 263	1 425	-	3 324	9 269	33 800	130 358	799 460
3	632 816	1 517	25	-	13 119	15 917	32 573	137 934	833 901
4	303 308	30	-	-	2 553	-	6 551	51 025	363 467
5	92 125	120	-	-	253	0	7 628	31 202	131 328
6	19 862	7	-	-	98	-	741	4 582	25 290
7	25 571	5	-	-	23	-	217	3 810	29 626
8	2 551	-	-	-	4	-	163	3 125	5 843
9	10 633	-	-	-	-	-	98	2 004	12 735
Defaults	4 486	-	-	-	4	-	410	153	5 053
Standardised approach[1]	156 026	1 812	-	-	10 009	3	5 430	22 955	196 235
Total	**2 292 603**	**17 939**	**327 958**	**19 547**	**41 545**	**146 027**	**95 186**	**439 667**	**3 380 472**

Credit exposures by risk class 2018 SEKm	**Balance sheet items**						**Off-balance sheet items**		
Risk class	**Loans to the public**	**Loans to other credit institutions**	**Cash and balances with central banks**	**Other loans to central banks**	**Derivative instruments**	**Interest-bearing securities**	**Contingent liabilities**	**Obligations**	**Total**
1	418 828	8074	316 545	33 557	20 756	168 373	7 541	55 098	1 028 772
2	596 415	5 951	672	-	3 152	2 870	28 545	139 014	776 619
3	621 175	4 058	-	-	18 034	1 731	30 830	143 146	818 974
4	269 425	1 854	-	-	4 467	15	5 479	49 048	330 288
5	81 394	12	-	-	290	-	12 859	28 800	123 355
6	20 628	7	-	-	248	-	505	6 049	27 437
7	26 888	28	-	-	33	-	340	5 360	32 649
8	3 776	-	-	-	1	-	76	1 798	5 651
9	11 311	-	-	-	1	-	288	3 682	15 282
Defaults	4 103	-	-	-	0	-	384	26	4 513
Standardised approach[1]	135 149	2153	-	-	11 059	-	6 092	26 751	181 204
Total	**2 189 092**	**22 137**	**317 217**	**33 557**	**58 041**	**172 989**	**92 939**	**458 772**	**3 344 744**

[1] The standardised approach uses predetermined risk weights, for which reason risk classes are not relevant.

Risk rating methods

In order to quantify the Bank's credit risks, calculations are made of 'probability of default' (PD), 'exposure at default' (EAD) and 'loss given default' (LGD). Default is defined as when the counterparty is either more than 90 days late in making a payment, or when an assessment has been made that the counterparty will not be able to pay as contractually agreed. The PD value is expressed as a percentage where, for example, a PD value of 0.5 per cent means that one borrower of 200 with the same PD value is expected to default within one year.

Corporate exposures are divided into four counterparty types and sovereign exposures into two counterparty types based on the business evaluation template used for the counterparty. PD is calculated individually for each risk class and counterparty type. For exposures subject to a capital requirement according to the IRB approach without own estimates of LGD and CCF, prescribed values are applied for LGD. The prescribed value that may be used is determined by the collateral provided for each exposure.

For retail exposures as well, an average default rate is calculated for each of the risk classes. Different models are used for exposures to private individuals and to small companies respectively (that are also classed as retail exposures), but the principle is the same.

For retail exposures and exposures to medium-sized companies, property companies and housing co-operative associations, the LGD is determined using the Bank's own loss history. For exposures to large corporates that are subject to a capital requirement using the IRB approach with own estimates of LGD and CCF, the LGD is determined on the basis of internal losses and external observations. For retail exposures secured by property in Sweden and for property exposures to medium-sized companies, property companies and housing co-operative associations, different LGD values are applied depending on the loan-to-value ratio of the collateral. For other exposures, the LGD value is determined by factors that may depend on the existence and valuation of collateral, the product type and similar factors.

For each exposure class, the PD is calculated for each of the risk classes that refer to non-defaulted counterparties or agreements. PD is based on calculations of the historical percentage of defaults for different types of exposures. The average default rate is then adjusted by various margins of conservatism.

When establishing LGD, the risk measure must reflect the loss rates during economically unfavourable circumstances, known as downturn LGD. For collateral in property, the downturn LGD is based on observed loss rates from the property crisis in the early 1990s. For other collateral relating to retail exposures, observed LGD is adjusted for downturns by a factor which depends on the PD and type of product. For corporate exposures in the IRB approach with own estimates of LGD and CCF, the LGD is adjusted for downturns so that the Bank's observed losses in the crisis years of 1991-1996 are taken into account. For exposures with collateral in property, the LGD is, in many cases, estimated on the basis of the property's loan-to-value ratio. Given that the value of properties, and thereby also the loan-to-value ratio, usually varies in line with the business cycle, this means that the capital requirement will also demonstrate a certain correlation with the business cycle.

When the exposure amount (EAD) is to be calculated, certain adjustments are made to the carrying amount. Examples of this are committed loan offers or revolving credits, where the Bank agrees with the customer that the customer may borrow up to a certain amount in the future. This type of commitment constitutes a credit risk that must also be covered by adequate capital. Normally, this means that the credit granted is adjusted using a certain credit conversion factor (CCF) for the part of the credit that is unutilised at the time of reporting. For certain product categories for corporate

Table AR:17 Balance sheet items subject to impairment testing, breakdown by risk class

Balance sheet items subject to impairment testing under IFRS 9 Breakdown by risk class 2019 SEKm	Gross			Provisions		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Risk class						
1	733 064	2 079	-	-4	-2	-
2	634 644	5 689	-	-22	-9	-
3	660 270	7 179	-	-43	-12	-
4	298 762	7 754	-	-99	-26	-
5	70 960	9 244	-	-106	-82	-
6	17 555	2 494	-	-39	-44	-
7	18 177	7 573	-	-20	-131	-
8	722	1 882	-	-1	-47	-
9	5 038	5 689	-	-14	-80	-
Defaults	-	-	8 173	-	-	-3 687
Standardised approach[1]	169 114	2 279	658	-15	-11	-80
Total	**2 608 306**	**51 862**	**8 831**	**-363**	**-444**	**-3 767**

Balance sheet items subject to impairment testing under IFRS 9 Breakdown by risk class 2018 SEKm	Gross			Provisions		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Risk class						
1	779 733	2 649	-	-4	-3	-
2	600 029	4 101	-	-20	-7	-
3	617 450	7 835	-	-38	-12	-
4	263 612	7 769	-	-84	-19	-
5	71 588	9 974	-	-100	-53	-
6	17 462	3 261	-	-38	-51	-
7	17 091	9 999	-	-9	-166	-
8	688	3 180	-	-1	-91	-
9	3 975	7 493	-	-11	-146	-
Defaults	-	-	6 932	-	-	-2 829
Standardised approach[1]	134 318	2 315	799	-11	-12	-108
Total	**2 505 946**	**58 576**	**7 731**	**-316**	**-560**	**-2 937**

[1] The standardised approach uses predetermined risk weights, for which reason risk classes are not relevant.

Table AR:18 Loans to the public subject to impairment testing, breakdown by risk class

Loans to the public subject to impairment testing under IFRS 9 Breakdown by risk class 2019 SEKm	Gross			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Risk class						
1	432 131	2 079	-	-4	-2	-
2	605 363	5 687	-	-20	-9	-
3	625 691	7 179	-	-42	-12	-
4	295 679	7 754	-	-99	-26	-
5	83 070	9 244	-	-107	-82	-
6	17 451	2 494	-	-39	-44	-
7	18 154	7 568	-	-20	-131	-
8	717	1 882	-	-1	-47	-
9	5 038	5 689	-	-14	-80	-
Defaults	-	-	8 173	-	-	-3 687
Standardised approach[1]	153 377	2 093	658	-14	-8	-80
Total	**2 236 671**	**51 669**	**8 831**	**-360**	**-441**	**-3 767**

Loans to the public subject to impairment testing under IFRS 9 Breakdown by risk class 2018 SEKm	Gross			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Risk class						
1	416 185	2 649	-	-3	-3	-
2	592 340	4 101	-	-19	-7	-
3	613 389	7 835	-	-37	-12	-
4	261 759	7 769	-	-84	-19	-
5	71 574	9 973	-	-100	-53	-
6	17 456	3 261	-	-38	-51	-
7	17 091	9 971	-	-9	-165	-
8	688	3 180	-	-1	-91	-
9	3 975	7 493	-	-11	-146	-
Defaults	-	-	6 932	-	-	-2 829
Standardised approach[1]	132 526	1 947	799	-10	-5	-108
Total	**2 126 983**	**58 179**	**7 731**	**-312**	**-552**	**-2 937**

Table AR:19 Off-balance sheet items subject to impairment testing, breakdown by risk class

Off-balance sheet items subject to impairment testing under IFRS 9 Breakdown by risk class 2019 SEKm	Gross			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Risk class						
1	39 710	384	-	-2	-1	-
2	133 002	662	-	-5	-1	-
3	121 064	1 310	-	-9	-1	-
4	36 561	1 033	-	-14	-3	-
5	29 770	1 831	-	-24	-11	-
6	4 923	412	-	-6	-6	-
7	3 113	927	-	-5	-17	-
8	2 670	628	-	0	-10	-
9	1 814	296	-	-1	-7	-
Defaults	-	-	669	-	-	-106
Standardised approach[1]	27 852	502	43	-3	-9	0
Total	**400 479**	**7 985**	**712**	**-69**	**-66**	**-106**

Off-balance sheet items subject to impairment testing under IFRS 9 Breakdown by risk class 2018 SEKm	Gross			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Risk class						
1	42 299	140	-	-1	-3	-
2	140 985	463	-	-4	-1	-
3	127 567	781	-	-9	-1	-
4	37 469	1 353	-	-16	-3	-
5	31 470	1 959	-	-37	-14	-
6	5 458	600	-	-5	-7	-
7	4 247	1 011	-	-2	-15	-
8	1 447	393	-	0	-7	-
9	3 368	503	-	-1	-9	-
Defaults	-	-	385	-	-	-
Standardised approach[1]	25 714	416	26	-3	-4	-
Total	**420 024**	**7 619**	**411**	**-78**	**-64**	**-**

[1] The standardised approach uses predetermined risk weights, for which reason risk classes are not relevant.

exposures and exposures to institutions, the credit conversion factors are determined by the regulatory code, while for retail exposures and certain product categories for large corporates, medium-sized companies, property companies and housing co-operative associations, the Bank uses its own calculated conversion factors. Here, it is the product referred to that mainly governs the conversion factor, but the utilisation level may also be of relevance.

In addition to the capital adequacy calculation, the risk parameters (PD, EAD, LGD) are used to calculate the cost of capital in each individual transaction and to calculate economic capital (EC).

Comparisons with external ratings
The Bank's risk classes are not directly comparable with the ratings applied by external credit rating agencies. The agencies' ratings do not correspond to a direct classification of the probability of the counterparty defaulting, as the Bank's rating model does. In addition, the rating agencies vary in the extent to which they factor in the seriousness of the losses that default can lead to. The time horizon for which creditworthiness is assessed is not always the same for the Bank as it is for the credit rating agencies. The Bank's risk classes do not state a uniform scale, whereby a certain risk class always corresponds to a certain probability of default. Furthermore, different PD scales are applied to different parts of the credit portfolio and the PD value changes over time.

Overall, it is impossible to unambiguously and consistently translate the internal risk classes into an external rating. However, by analysing the historical default rate in Handelsbanken's risk classes in relation to the default rate in the external rating classes according to the Moody's rating agency, a fair table of comparison can be obtained.

Quality assurance of the credit risk model
The Bank performs a detailed annual review of its internal rating model. The review checks that the internal ratings on which the Bank's risk ratings are based are applied in a consistent, correct and fit-for-purpose manner (evaluation) and also that the models used measure risk in a satisfactory manner (validation). For a more detailed description, refer to the "Risk and Capital – Information according to Pillar 3" report, under the heading Credit risk – Quality assurance of the rating system.

CALCULATION OF EXPECTED CREDIT LOSSES

The impairment rules presented in IFRS 9 apply to financial assets at amortised cost, financial assets at fair value through other comprehensive income, as well as financial guarantees and other irrevocable commitments. This section provides descriptions of the processes and methods applied in Handelsbanken's model-based calculations of provisions for expected credit losses (ECL).

Estimations of expected credit losses are made at agreement level, whereby the characteristics of the agreement and the counterparty govern the classification and quantification of the provision requirement. The estimation is made using either a model-based or manual calculation, with the choice of method mainly dependent on whether the agreement is deemed to be credit-impaired.

For information pertaining to the recognition and measurement of expected credit losses and for definitions, refer to note G1, section 10, Credit losses.

Model-based calculations for agreements in Stage 1 and Stage 2
Handelsbanken's Group-wide, central process for model-based calculations of expected credit losses incorporates a number of different processes and methods which support the quantification of the provision requirement in Stage 1 and Stage 2.

The model-based calculations factor in historical, current and forward-looking data. Historical data forms the basis for the construction of the model and parameters applied, current data comprises the prevailing balances on the reporting date (as included in the calculation requirements) and forward-looking data refers to the macroeconomic scenarios used to calculate future risk parameters and exposures.

The models use the same historical risk data as the IRB models, meaning that the accounting of provisions and calculations of capital requirements are based on the same basic loss history. Similar to how the risk rating system affects capital adequacy calculations, the internal rating (from which the risk rating derives) is a significant part of the models for calculating expected credit losses. The calculations are primarily affected by the risk parameters known as 'probability of default' (PD), 'exposure at default' (EAD) and 'loss given default' (LGD). The expected credit loss in a future period is obtained by multiplying the present value of the EAD by the PD and by the LGD. In contrast to the calculation of credit losses in the Capital Requirements Regulation, which also uses the risk parameters PD, EAD and LGD, the estimation of expected credit losses pursuant to IFRS 9 is based on current forward-looking assessments. As the regulations have different purposes, the calculation models differ in terms of how the risk parameters are set and in how they are constructed. The main differences between IFRS 9 and the IRB approach are presented in table AR:20 Differences between IFRS 9 and the IRB approach.

Macroeconomic information
The calculations regarding model-based assessments of significant increases in credit risk and expected credit losses are undertaken with the application of models for the respective risk parameters (PD, EAD and LGD). In order to ensure that the calculations take into account non-linear aspects, three forward-looking macroeconomic scenarios are used in the models (one neutral, one negative and one positive). Each scenario includes significant macroeconomic risk factors, such as unemployment, GDP, property prices, key/central bank rates and inflation, by country. The significant macroeconomic risk factors have been identified from an assessment of the Bank's historical data and the relation to the risk parameters is estimated using the same historical material. The various scenarios are used to adjust the risk parameters in question. Each macroeconomic scenario represents a probability determined by the Bank. These probabilities are presently set at 60 (70) per cent for the neutral scenario, 15 (15) per cent for the positive scenario and 25 (15) per cent for the negative scenario. Expected credit losses are recognised as a probability-weighted average of the expected credit losses for the respective scenarios.

All of the macroeconomic scenarios have been produced by the Bank's economic research unit, which is responsible for all economic analysis delivered by Handelsbanken, whether for internal or external use. These macroeconomic scenarios comprise region-specific, 30-year forecasts for Sweden, Norway, Finland, Denmark, the UK, the eurozone and the US, together with a global forecast. A change in the macroeconomic scenarios, or in the probability weights applied, affects both the assessment of significant increases in credit risk and the estimated expected credit losses. The scenarios are updated on a quarterly basis by the Bank's economic research unit and are presented for approval to the relevant decision-makers before being applied in the ECL calculations.

Portfolio segmenting
Statistical models are used in the model-based assessment. These have been developed for different segments in the portfolio, with each segment being comprised of similar risk exposures, and the risk parameters can be estimated on the basis of a common set of risk factors. For retail exposures, the portfolio segmenting is based on product type and, for other exposures, it is based on counterparty type. The segments have been identified on the basis of statistical analysis and expert assessment. For retail exposures, the portfolio has the following eight segments: exposures with residential property as collateral for private individuals, revolving credits including credit card exposures for private individuals, and for SMEs, other exposures for private individuals, and for SMEs, card credits for retail financial services for private individuals, and for SMEs, and hire purchase for retail financial services for private individuals, and for SMEs. Other exposures are split into the following six segments: property companies, housing co-operative associations, other large non-financial companies, other non-financial companies, financial companies and banks, and sovereigns.

Within the respective portfolio segments, the agreements are further categorised into different states, based on risk factors such as internal rating, payment history, country affiliation, collateral type and loan-to-value ratio. These states have been determined on the basis of statistical analysis of historical outcomes. For every state, statistical models are used for migrations between states in order to calculate the forward-looking probabilities for the risk parameters PD, LGD and EAD. One important risk factor for the states is the counterparty's internal rating, which is set in conjunction with the credit decision and which is updated at least annually, or whenever there are indications that the counterparty's repayment capacity has changed. There are states for 'not in default', 'in default' and 'early repayment' exposures. Retail exposures are divided into nine different states and other exposures into 12 states.

Significant increase in credit risk
A significant increase in credit risk reflects the risk of default and is a measurement by which the agreement's relative change in credit risk since initial recognition is measured. For calculating significant increases in credit risks, the same underlying model is used in Handelsbanken as is used for the calculation of expected credit losses, with consideration given to historical, current and future-oriented information. Collateral is not taken into account in the assessment. At each reporting date, the Group-wide, central, model-based process begins for all agreements with an assessment of whether there has been a significant increase in the credit risk since initial recognition (start date of the agreement). This assessment then determines whether the expected credit loss is assessed over a 12-month horizon after the reporting date (Stage 1) or during the agreement's remaining lifetime (Stage 2). An important aspect which affects the size of the provision for credit losses is therefore which factors and thresholds are defined as triggers for the transfer of assets from Stage 1 to Stage 2. The Bank's definition of a significant increase in credit risk, which is decisive in the transfer of agreements to Stage 2, is based on both qualitative and quantitative factors.

The quantitative indicator which is primarily used to assess the change in credit risk is the relative change, between the instrument's initial recognition and up to the most recent reporting date, in the probability of default (PD) during the agreement's remaining lifetime. In cases where it has required an unreasonable expense or exertion to establish the PD in conjunction with the initial recognition of an instrument, changes in the counterparty's or the agreement's internal rating or risk rating since initial recognition have been used to assess the significant change in the credit risk. For agreements recognised initially on or after 1 January 2018, the forecasts regarding the risk of default are based on three scenarios. For agreements recognised before 1 January 2018, the same criteria are applied but using a scenario based on the Bank's most recently published economic analysis at the time of initial recognition.

The primary criterion when assessing whether an agreement is deemed to have incurred a significant increase in credit risk and is thus transferred to Stage 2 is, as defined by Handelsbanken, that the estimated remaining probability of default (PD) on the reporting date is greater than a multiple of 2.5 times the corresponding probability of default upon initial recognition. The threshold level of 2.5 is based on statistical analysis of the Bank's historical data and compares the increase in the remaining risk that the counterparty will default with the corresponding estimated risk upon the initial recognition of the agreement. In addition, there are other qualitative factors which the Bank has assessed as entailing a significant increase in credit risk, such as the agreement having payments that are more than 30 days overdue, or that counterparty having been granted forbearance measures to be taken as the result of a deteriorated credit rating.

If a significant increase in credit risk has arisen since initial recognition, a provision is recognised which corresponds to the expected credit losses for the entirety of the remaining lifetime and the financial instrument is transferred to Stage 2. The model is symmetrical, meaning that, if the financial instrument's credit risk decreases and there is therefore no longer a significant increase in credit risk since initial recognition, the financial asset is transferred back to Stage 1.

Models for risk parameters and expected lifetime
The risk parameters PD, LGD and EAD are calculated for every agreement and future point in time, based on statistical models. These models are, as far as possible, founded on the relationships between the significant risk factors and relevant risk outcomes identifiable in the Bank's own loss history. The majority of risk parameters which are quantified are based on approximately 10 years of internal data. In cases where the Bank lacks sufficient information due to, for example, too few defaults, the data is complemented with external information. The historical outcomes are analysed with regard to the covariation in agreement-specific, counterparty-specific and region-specific risk factors, such as product type, internal rating, length of customer relationship, collateral type, loan-to-value ratio, unemployment and GDP growth. The risk factors identified as significant for a specific risk parameter are included in the model and the historical correlation is quantified.

Probability of default (PD)
PD refers to the probability that a customer or an agreement will go into default at a given point in time during the asset's remaining lifetime. 12-month PD refers to the probability of default during the coming 12-month period. Lifetime PD refers to the probability of default during the asset's remaining lifetime (up to a maximum of 30 years). The future PDs are forecast on the reporting date, using forward-looking macroeconomic scenarios and current agreement and counterparty information. The forecast risk of default takes into account the development of scenarios and the probability of migrations between different states over time. The models calculate annual migration and default probabilities, whereby the migration model presents a probability that the agreement will belong to a particular state with a given risk of default in the future. The agreement's expected PD for a given year is calculated as the probability-weighted PD over all conceivable states and scenarios. Expected PD for the remaining lifetime is based on the annual expected default forecasts and the probability that the agreement will be subject to early repayment. The degradation of an economic outlook based on forecast macroeconomic risk factors for each scenario, or an increase in the probability that the negative scenario will be realised, results in a higher PD.

Exposure at default (EAD)
EAD refers to the expected credit exposure at default. On the reporting date, future exposure at default is forecast on the basis of current repayment plans, the probability of early repayment and the expected utilisation of, for example, credit facilities, financial guarantees and loan commitments. EAD is forecast on an annual basis and comprises the amount at which losses and recoveries take place in conjunction with future defaults.

Expected lifetime
An instrument's expected lifetime is relevant to both the assessment of significant increase in credit risk, which takes into account changes in PD during the expected remaining lifetime, and the measurement of expected credit losses for the asset's expected remaining lifetime. The expected lifetime is considered when calculating the remaining PD, by weighing the forecast annual PD values during the agreement's contractual duration against the probability that the agreement will not be subject to early repayment before defaulting.

The probability of the agreement being subject to early repayment is based on statistical analysis and on the Bank's internal history for approximately the past ten years, and is included as a component of the model for EAD. Potential risk factors in the form of agreement, counterparty and macroeconomic risk factors have been assessed in the analysis. The risk factors identified as significant are included in the model. In several cases, no significant risk factors for early repayment are identified other than counterparty type and rating. These risk factors are, however, affected by forward-looking macroeconomic scenarios, which means that early repayment is indirectly dependent on forward-looking macroeconomic scenarios.

For revolving credits with no maturity date, such as credit cards, and mortgage loans with interest-rate fixing periods of a maximum of three months, a 30-year maturity from the reporting date is applied, meaning that the expected lifetime is, in practice, defined by the behaviour-based statistical model.

Table AR:20 Differences between IFRS 9 and the IRB approach

Risk parameter	IRB	IFRS 9
PD, probability of default	Average risk of default within 12 months over one business cycle, including statistical margins of conservatism and regulatory floors. The definition of default as presented in the Capital Requirements Regulation is applied at agreement level for retail exposures and at counterparty level for other exposures.	Business cycle-dependent (“point-in-time”) risk of default within 12 months. “Lifetime PD” refers to the risk of default during the agreement’s expected remaining lifetime. The definition of default as presented in the Capital Requirements Regulation is applied at agreement level for retail exposures and at counterparty level for other exposures.
LGD, loss given default	The maximum value of expected loss rate on exposure at default within 12 months in the long term and in conjunction with an economic downturn, including statistical margins of conservatism and regulatory floors. The quantification of loss for corporate exposures is based on recoveries within 12 months and remaining reserves (24 months for retail exposures)	Business cycle-dependent expected loss rate on exposure at default. LGD is adjusted on the basis of forward-looking macroeconomic scenarios.
EAD, exposure at default	The maximum value of expected exposure at default within 12 months in the long term and in conjunction with an economic downturn, including statistical margins of conservatism and regulatory floors.	Business cycle-dependent expected exposure at default within 12 months. EAD is adjusted on the basis of contractual terms and conditions, and forward-looking macroeconomic scenarios.
Lifetime	The agreement’s contractual maturity, with consideration given to the customer’s option to extend	The expected lifetime. The agreement’s contractual maturity, with consideration given to the probability of early repayment.
Forecast horizon	12 months	Up to 12 months or the remaining lifetime (depending on whether Stage 1 or Stage 2-3).
Discounting	Forecast losses are not discounted to the reporting date. When quantifying the recovery rate, observed recoveries are discounted to the date of default using the average cost of capital.	Forecast losses are discounted to the reporting date using the agreement’s effective interest rate on the initial reporting date. When quantifying the recovery rate, observed recoveries are discounted to the date of default using the average cost of capital.
Significant increase in credit risk	N/A	Based on the relationship between the current remaining risk of default on the reporting date and the expected current remaining risk of default calculated on the initial reporting date.
Forward-looking scenarios	N/A	The calculations of forward-looking risk parameters (PD, LGD, EAD) use a regional base scenario (neutral macroeconomic scenario) and two alternative regional macroeconomic scenarios (one positive and one negative).
Initial reporting date	N/A	Initial reporting date for the agreement identity.

Loss given default (LGD)

LGD reflects the financial loss which the Bank expects to incur in the event of default. The most important risk factors when calculating LGD are the value and type of collateral, and the characteristics of the counterparty. Forward-looking macroeconomic risk factors are reflected in the LGD calculations through their impact on the value of collateral and the loan-to-value ratio. The quantification of the loss is divided between a probability that the counterparty recovers without causing the Bank any financial loss, and a recovery rate if the counterparty does not recover. The recovery rate is affected by the loan-to-value ratio, in that a higher loan-to-value ratio is associated with a lower recovery rate. The market value of the collateral is included in the majority of LGD models. The collateral value of properties, and thus the loan-to-value ratio and the recovery rate, is affected by the price trend for the property, whereby an expected decline in real estate values pushes up the loan-to-value ratio and the expected loss given default.

Differences between IFRS 9 and the IRB approach

Handelsbanken’s IFRS 9 models are based on the same historical data and the same overall model-based approach as the Bank’s IRB models, which use the risk parameters PD, LGD and EAD. As the regulations have different purposes, the calculation models differ in terms of how the risk parameters are set and in how they are constructed and, in certain cases, new models have been implemented to fulfil the requirements of IFRS 9. The main differences between IFRS 9 and the IRB approach are presented in the table above.

Validation of IFRS 9 models and model-based calculations

The models and the risk parameters used in these are validated on an annual basis, and ensure that the model-based calculations demonstrate a good forecasting accuracy and identify unexpected deviations between forecasts and the most recent outcomes. Validation takes place at several aggregation levels and encompasses all significant risk parameters, as well as the weighted estimated expected credit losses at the individual and aggregate levels. The validation is reported to the Head of Group Credits, CRO and CFO.

The principles for the evaluation and validation of the models are determined by Group Risk Control, and the validation is carried out or reviewed by a party independent of the model development process. The observations made in the 2019 validation related to the methodology applied, and it is not deemed that these will result in any material effects on the calculated reserves that have not already been taken into account. The observations will be addressed as part of the development activities during 2020.

MANUAL CALCULATIONS FOR AGREEMENTS IN STAGE 3

Assets in Stage 3 are tested for impairment at the individual level using a manual calculation (with the exception of a small portfolio of homogeneous claims which have a model-calculated provision in Stage 3). This testing is carried out on a regular basis and in conjunction with every reporting date by the local branch with business responsibility (unit with customer and credit responsibility) and is decided by the regional Credit Committee or central credit department.

Impairment testing is carried out when there are objective circumstances which indicate that the counterparty will not be able to fulfil its contractual obligations, according to the definition of default. Such objective circumstances could be, for example, late payment or non-payment, a change in the internal rating, or if the borrower enters bankruptcy.

Impairment testing involves an estimation of the future cash flows and the value of the collateral (including guarantees). Consideration is normally given to at least two forward-looking scenarios for expected cash flows, based on both the customer’s repayment capacity and the value of the collateral. The outcome of these scenarios is probability-weighted and discounted with the loan's original effective interest rate. The scenarios used can take into account both macroeconomic and agreement-specific factors, depending on what is deemed to affect the individual counterparty's repayment capacity and the value of the collateral. The assessment takes into account the specific characteristics of the individual counterparty. An impairment loss is recognised if the estimated recoverable amount is less than the carrying amount.

GOVERNANCE AND INTERNAL CONTROL

For calculating the expected credit losses on agreements in Stage 1 and Stage 2, Handelsbanken has a Group-wide, central process using internally developed statistical models (model-based calculation). Manual calculation is used for agreements in Stage 3. The description below primarily refers to the model-calculated provisions for expected credit losses. This process is covered by a number of internal controls, which are described below. The various stages of the process also entail different approvals/adoptions, creating a governance structure, which is also described below.

Verification of input data in reports

On each reporting date, the information which constitutes the basis for the calculations of expected credit losses is checked for correctness and completeness. This is carried out in the form of automatic reconciliation of loaded data from delivery sources. Furthermore, a reasonability assessment is undertaken, whereby system balances are compared with the balances recorded on the previous reporting date. The balances which are ultimately used are then reconciled against the volumes recorded in the general ledger.

Models

Before a new quantitative model is included in the overall model system, it is subject to validation and must be approved for use by the Head of Group Credits. On the reporting date, only this model system can be used for calculations, meaning that only approved models are usable.

The quantitative models which form the basis for the calculations of expected credit losses involve several assumptions and assessments. Examples include the assumption that the quantifiable aspects of relationships between macroeconomic risk factors and risk parameters in historical data are representative for future events, and the assumption that an agreement's expected lifetime can be based on historical behavioural data. Furthermore, a selection of the most significant macroeconomic risk factors is made on the basis of the macroeconomic risk factors' explanatory power as regards individual risk parameters. The selection of the macroeconomic risk factors and specification of the model are based on achieving a balance between simplicity, explanatory power and stability. All assumptions and discretionary decisions are presented to the Head of Group Credits for approval.

Any expert-assessed calculations in model-calculated agreements in Stage 1 and Stage 2 or in manually calculated agreements in Stage 3 require the approval of the Head of Group Credits before they are applied.

Macroeconomic scenarios

The macroeconomic scenarios have been produced by the Bank's economic research unit, based on instructions issued by the Head of Group Credits. These instructions specify the desired macroeconomic risk factors, geographical areas to be included, and the number of scenarios and probability-weighting between them.

Before every reporting date, the current macroeconomic scenarios are presented to the Head of Group Credits and the CFO, who approve the scenarios for use in the reporting process. The approved macroeconomic scenarios are then automatically loaded into the reporting flow.

Size of the provisions

The total estimated provisions in Stage 1 and Stage 2 require the approval of the Head of Group Credits. Estimated provisions in Stage 3 are proposed by the Bank branch with business responsibility (unit with customer and credit responsibility) and are approved by either the regional Credit Committee or a central unit, depending on the size of the provision. Credit provisions in Stage 3 which are approved at regional level are reviewed/quality controlled by a central unit. In addition, Group Risk Control submits an independent review on every reporting date of a selection of the credit provisions in Stage 3 which are approved centrally.

The role of the control functions

Group Risk Control determines the validation principles and ensures that models are validated. An independent review is conducted on every reporting date of a selection of the credit provisions in Stage 3 which are approved centrally. Group Risk Control is described in more detail on page 65. Group Audit reviews the estimations of expected credit losses as part of its assignment to independently examine internal governance and control, and to evaluate the reliability of the Group's financial reporting. Group Audit is described in more detail on page 65.

COUNTERPARTY RISK

Counterparty risk arises when the Bank has entered into derivative contracts or contracts with a counterparty regarding loans of securities. In addition to derivatives, the capital adequacy regulations therefore treat both repurchase transactions and equity loans as counterparty risks.

In calculating both the capital requirement and economic capital (EC), counterparty exposures are taken into account based on the exposure amounts stipulated by the capital adequacy regulations. Handelsbanken applies the mark to market method to calculate exposure amounts on derivative contracts for capital adequacy purposes. The current remuneration amount for all contracts with a positive value is ascertained by assigning the current market values to the contracts. In order to estimate the potential future credit exposure, the contracts' nominal amounts are multiplied by the percentages designated in the regulatory framework, which vary depending on the type of derivative and the lifetime of the exposure.

Counterparty risk is regarded as a credit risk where the market value of the contract determines the size of the exposure. If the contract has a positive value, the default of the counterparty means a potential loss for the Bank.

Reduction of counterparty risk

Counterparty risk arises from the trade date until the date of delivery, whereby the Bank could be charged a termination fee if the counterparty is unable to meet its commitments. This risk exists in all derivative transactions and in securities transactions where the Bank has not secured payment in advance.

The size of counterparty exposures is restricted by setting credit limits in the regular credit process. The size of the exposures may vary substantially due to fluctuations in the price of the underlying asset. In order to take account of the risk that the exposure may increase, supplements are added to the value of the exposure when setting credit limits. These add-ons are calculated using standard amounts that depend on the type of contract and the time to maturity. The exposures are calculated and followed up daily.

The counterparty risk in derivatives is reduced through close-out netting agreements, which involve setting off positive values against negative values in all derivative transactions with the same counterparty. Netting agreements are supplemented with agreements for issuing collateral for the net exposure (Credit Support Annex, CSA), which further reduce the credit risk. The collateral for these transactions is mainly cash, but government securities are also used. Due to the high proportion of cash, the concentration risks in the collateral are limited.

The majority of Handelsbanken's agreements include close-out netting, and the agreements with the largest exposures also include CSAs.

Derivatives which are cleared via central counterparties also give rise to capital requirements. Central counterparties are clearing houses which act as the counterparty for both the buyer and seller in various transactions, and thus take over the responsibility for fulfilling the parties' obligations. All parties which use a central counterparty must provide collateral for all transactions. In most cases the risk weight for centrally cleared derivatives is considerably lower than for other types of derivatives.

Table 3.24 (Pillar 3) Counterparty risk, breakdown by exposure classes, exposure amounts and risk-weighted exposure amounts, IRB approach

The exposure amount consists of derivatives, repos and equity loans.

Counterparty risk, breakdown by exposure classes, exposure amounts and risk-weighted exposure amounts, IRB approach	2019		2018	
SEKm	Exposure amount	Risk-weighted exposure amount	Exposure amount[1]	Risk-weighted exposure amount
Exposure classes, IRB approach				
Exposures to institutions	41 109	8 516	60 561	9 218
Corporate exposures	8 509	2 604	10 050	2 986
Sovereign exposures	3 918	76	3 915	96
Total IRB approach	**53 536**	**11 196**	**74 526**	**12 300**

[1] From 30 September 2019, the Bank reports exposure amounts for repos and equity loans at a net amount. The comparative figures for 31 December 2018 have been adjusted according to the same method.

Table 3.25 (Pillar 3) Counterparty risk, breakdown by exposure classes, exposure amounts and risk-weighted exposure amounts, standardised approach

The exposure value consists of derivatives, repos and equity loans.

Counterparty risk, breakdown by exposure classes, exposure values and risk-weighted exposure amounts, standardised approach	2019		2018	
SEKm	Exposure amount	Risk-weighted exposure amount	Exposure amount	Risk-weighted exposure amount
Exposure classes, standardised approach				
Exposures to institutions	7 169	144	6 776	136
of which cleared via central counterparties	7 165	143	6 776	136
Other exposures	*299*	*19*	*378*	*162*
Total standardised approach	**7 468**	**163**	**7 154**	**298**
Total IRB and standardised approach	**61 004**	**11 359**	**81 680**	**12 598**

[1] From 30 September 2019, the Bank reports exposure amounts for repos and equity loans at a net amount. The comparative figures for 31 December 2018 have been adjusted according to the same method.

Table 3.26 (Pillar 3) Counterparty risks in derivative contracts excluding standard add-ons for potential future exposure

Counterparty risks in derivative contracts excluding standard add-ons for potential future exposure SEKm	2019	2018
Positive gross market value for derivative contracts	66 877	79 091
Netting gains	-29 673	-28 547
Current set-off exposure	37 204	50 544
Collateral[1]	-30 022	-43 805
Net credit exposure for derivatives	7 182	6 739

[1] Includes collateral offset against market values on the balance sheet.

Table 3.27 (Pillar 3) Counterparty risks in derivative contracts including potential future exposure

Counterparty risks in derivative contracts including potential future exposure 2019 SEKm	Current set-off exposure	Potential future exposure	Exposure amount	Risk-weighted exposure amount	Capital requirement
Sovereign exposures	1 433	577	2 010	76	6
Exposures to institutions	24 023	21 870	45 893	8 419	674
Corporate exposures	5 103	4 634	9 737	2 604	208
Others	7	15	22	15	1
Total	**30 566**	**27 096**	**57 662**	**11 114**	**889**
of which operations in the trading book	*7 557*	*10 459*	*18 016*	*3 960*	*317*

Counterparty risks in derivative contracts including potential future exposure 2018 SEKm	Current set-off exposure	Potential future exposure	Exposure amount	Risk-weighted exposure amount	Capital requirement
Sovereign exposures	1 714	658	2 372	95	8
Exposures to institutions	37 528	26 531	64 059	8 900	711
Corporate exposures	6 120	3 767	9 887	3 021	242
Others	75	45	120	88	7
Total	**45 437**	**31 001**	**76 438**	**12 104**	**968**
of which operations in the trading book	*10 665*	*11 993*	*22 658*	*4 185*	*335*

MARKET RISK

Market risks arise from price and volatility changes in the financial markets. Market risks are divided into interest rate risks, equity price risks, foreign exchange risks and commodity price risks.

In Handelsbanken's operations, market risks arise when the Bank's customers request services for which the Bank must have flexible funding. The Bank can also obtain funding on other markets than those where it has its lending so that it can diversify its sources of funding. The funding can also have different interest-fixing periods than the assets which are to be funded. Market risks can also arise in Group Treasury's liquidity portfolio, which can be converted into liquidity at short notice in conjunction with possible disruptions in the markets where the Bank conducts its operations. The portfolio secures the Group's payments in the daily clearing operations and forms part of the Bank's liquidity reserve.

Market risks also arise to meet customers' demand for financial instruments with exposure to the fixed income, foreign exchange, equity or commodity markets. As a consequence, it may be necessary for the Bank to hold certain positions. This situation arises for example when the Bank has undertaken to quote prices in its role as a market maker.

Market risks in the Bank's business operations arise – and thus are managed – mainly at Group Treasury and Handelsbanken Capital Markets, although they also exist at Handelsbanken Liv. The market risks at Handelsbanken Liv are described in a separate section. Consequently, the information on market risks given in this section refers to risks excluding Handelsbanken Liv.

MARKET RISK STRATEGY

Handelsbanken has a restrictive view of market risks. Essentially, market risks in the banking operations are only taken as part of meeting customers' investment and risk management needs. Market risks must be limited by matching cash flows and interest-fixing periods, hedging open positions and taking other actions to limit risk.

Market risks at Handelsbanken are thus very low. One result of the low market risks is that a much smaller part of the Bank's earnings come from net gains/losses on financial transactions.

ORGANISATIONAL STRUCTURE

The Bank's limit system restricts the size of the exposure to market risks. Measurement methods and limits are established by the Board. The CFO has the functional responsibility for liquidity and funding, while the Head of Group Treasury, who reports to the CFO, is responsible for the Group's liquidity and funding. This responsibility includes managing the Group's liquidity, foreign exchange and interest rate risks in its banking operations. The limits for interest rate, foreign exchange and liquidity risk are allocated by the CEO and CFO to the Head of Group Treasury, who in turn allocates these to the business-operating units. Limits for equity price risk and commodity price risk are allocated directly to Capital Markets by the CFO.

The CEO and the CFO also decide on supplementary risk measures, intraday limits and detailed guidelines. The supplementary limit measures aim to reduce the Bank's sensitivity to volatility changes in the financial markets, and to limit the risks of specific holdings and the liquidity risk per currency. These measures also limit the risks from a maturity perspective. The CFO, CEO and Board continually receive reports on the market risks and utilisation of the limits.

MARKET RISK AT HANDELSBANKEN

Market risks are measured using several different methods. The sensitivity measures used show which changes in value would occur in the event of predefined changes in prices and volatilities. Position-related risk measures and probability-based Value at Risk models (VaR) are also used.

VaR

VaR (Value-at-Risk) is calculated for the portfolios at Handelsbanken Capital Markets and Group Treasury which are classified as trading book. VaR is a probability-based measure and expresses the losses in Swedish kronor that may arise in risk positions due to movements in the underlying markets over a specified holding period and for a given confidence level. VaR is calculated using historical simulation and is determined for individual risk factors, classes of risk and at portfolio level with a 99-per cent confidence level and a one-day holding period. This means that the Bank would be expected to make a loss exceeding the VaR outcome on one out of every 100 trading days. The model means that different risk classes can be handled in a uniform way so that they can be compared and aggregated into a total market risk. The overall risk in the portfolios which are classified as trading book was SEK 8 million (9) at year-end. VaR is reported on a regular basis to the CFO, the CEO and the Board. The VaR model uses historical, observed outcomes and does not thus cover all potential outcomes, nor does it always cover the risk of extreme, rapid market movements. The calculations are therefore supplemented with stress tests where the portfolios are tested against scenarios based on all events in the financial markets since 1994. The results of these stress tests are also reported to the CFO, CEO and the Board's risk committee on a regular basis.

Figure AR:21 Decision levels for market and liquidity risks

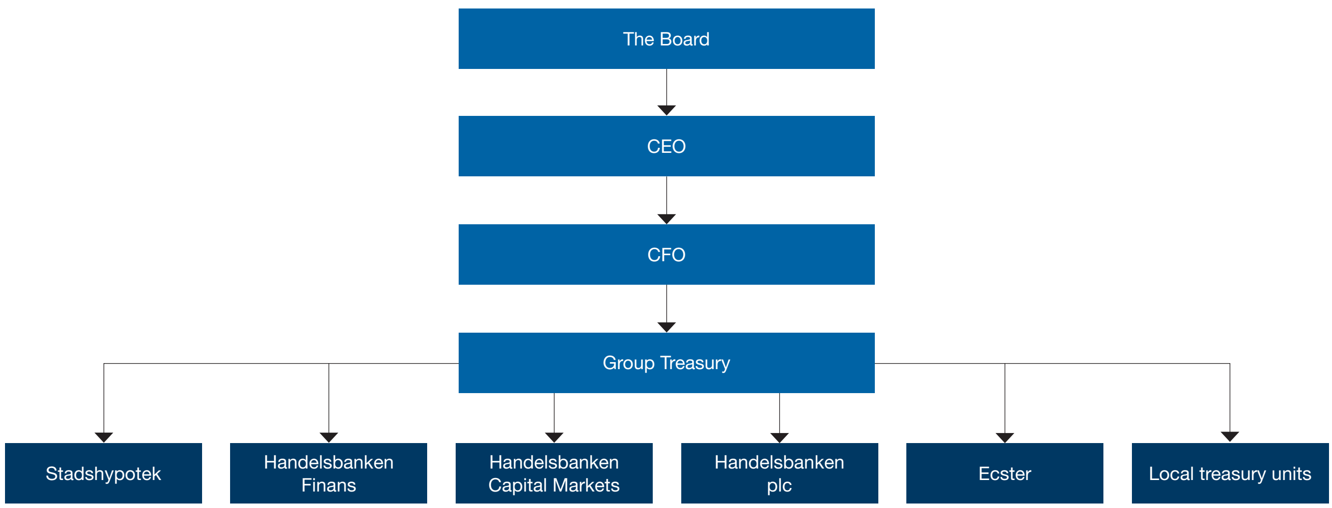


Table AR:22 VaR for trading book – Handelsbanken Capital Markets and Group Treasury[1]

VaR for trading book – Handelsbanken Capital Markets and Group Treasury[1]

	Total		Equities		Fixed income		Currency		Commodities	
SEKm	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Average	9	11	1	0	10	11	2	2	1	1
Maximum	16	16	3	3	15	13	5	5	3	4
Minimum	6	8	0	0	6	8	1	1	0	0
Year-end	8	9	1	0	8	8	2	4	1	0

[1] Portfolios classified as trading book are subject to special instructions and guidelines.

Table AR:23 Worst outcome in stress test for trading book – Handelsbanken Capital Markets and Group Treasury

Worst outcome in stress test for trading book – Handelsbanken Capital Markets and Group Treasury SEKm	2019	2018
Average	83	76
Maximum	244	243
Minimum	31	35
Year-end	56	57

Interest rate risk

Interest rate risk mainly arises at Handelsbanken Capital Markets, Group Treasury and in the lending operations. Interest rate risk is measured in several ways at the Bank. General interest rate risk is measured daily, and limits are set as the absolute sum of the least favourable changes in fair value per currency in the case of substantial instantaneous upward or downward parallel shifts of one percentage point for all interest rates. At year-end, the Bank's total general interest rate risk was SEK 1,060 million (944). Interest rate adjustment periods for deposits that lack a contractual maturity are established using an internal method. The basic assumption for such deposits is the shortest possible interest-fixing period, and adjustments are made only for the part that can be regarded as stable and insensitive to interest-rate movements based on historical observations. The risk measure includes interest-bearing items measured at market value as well as items not measured at market value and is therefore not appropriate when assessing the impact on amounts recognised on the balance sheet and income statement.

Specific interest rate risk is measured and limits set using sensitivity to changes in credit spreads, that is, the difference between the interest on the current holding and the yield on a government bond with the same maturity. This risk mainly arises at Handelsbanken Capital Markets and in Group Treasury's liquidity portfolio.

The risk is measured and limits set on the basis of different rating classes and is calculated as the least favourable change in market value in the case of an upward or downward shift of one basis point in all credit spreads. This is performed for each individual counterparty and the outcomes are summed as an absolute total. The total specific interest rate risk at year-end was SEK 6 million (8).

Interest rate risk in the trading book

The trading book at Handelsbanken comprises Capital Markets' and Group Treasury's portfolios that are classified as trading book. The general interest rate risk in the trading book was SEK 61 million (83) and the specific interest rate risk was SEK 4 million (5). Yield curve twist risks, which show changes in the risks in the case of hypothetical changes in various yield curves, are measured and followed up on a regular basis. The non-linear interest rate risk, for example, part of the risk in interest rate options, is measured and a limit set with pre-defined stress scenarios expressed in matrices. This means that the risk is measured as changes in underlying market interest rates and volatilities. VaR and other risk measures are also used for the trading book, supplemented by various stress scenarios.

Interest rate risk in the non-trading book

In the lending operations, interest rate risk arises as a result of the lending partly having different interest-fixing periods than the funding. Interest rate risk is mainly managed by means of interest rate swaps. In general, interest rate risk exposure is in markets which are characterised by good liquidity. The general interest rate risk in the non-trading book was SEK 1,066 million (941) and the specific interest rate risk was SEK 2 million (2).

To estimate the effect of interest rate changes on the income statement, the net interest income effect is also measured. The net interest income effect when interest rates change is measured as the change in net interest income over a twelve-month period in the case of a general increase of market rates by one percentage point. This effect reflects the differences in interest-rate fixing periods and volume composition between assets, liabilities and derivatives outside the trading book, assuming that the size of the balance sheet is constant. In this calculation, interest rate adjustment periods for deposits that lack a contractual maturity are established using an internal method. This model is based on historical observations and only adjusting the portion that is stable and insensitive to interest-rate movements. The net interest income effect at year-end was SEK 267 million (337).

Table AR:24 General interest rate risk in the non-trading book

General interest rate risk in the non-trading book (change in fair value as the worst outcome in the case of a one percentage point parallel shift of all interest rates) SEKm	2019	2018
SEK	18	218
DKK	292	297
EUR	320	84
NOK	200	142
USD	9	119
GBP	219	67
Other currencies	8	14
Total	**1 066**	**941**

Table AR:25 Interest rate adjustment periods for assets and liabilities

The table shows the interest rate adjustment periods for interest-rate related assets and liabilities as at 31 December 2019. Non-interest-bearing assets and liabilities have been excluded.

Interest rate adjustment periods for assets and liabilities 2019 SEKm	**Up to 3 mths**	**3-6 mths**	**6-12 mths**	**1-5 yrs**	**Over 5 yrs**	**Total**
Assets						
Loans	1 498 765	99 266	122 178	524 187	48 207	2 292 603
Banks and other financial institutions	334 350	3 616	5 543	1 354	1 035	345 898
Bonds, etc.	74 324	9 800	5 461	44 828	10 466	144 879
Total assets	**1 907 439**	**112 682**	**133 182**	**570 369**	**59 708**	**2 783 380**
Liabilities						
Deposits	1 044 190	34 617	30 713	6 207	2 100	1 117 827
Banks and other financial institutions	116 525	8 458	8 498	9 419	5 089	147 989
Issued securities	445 435	195 046	117 596	593 385	69 045	1 420 507
Other liabilities	-	-	-	-	-	-
Total liabilities	**1 606 150**	**238 121**	**156 807**	**609 011**	**76 234**	**2 686 323**
Off-balance sheet items	-123 510	-40 396	38 602	96 982	-15 227	-43 549
Difference between assets and liabilities including off-balance sheet items	177 779	-165 835	14 977	58 340	-31 753	53 508

Interest rate adjustment periods for assets and liabilities 2018 SEKm	**Up to 3 mths**	**3-6 mths**	**6-12 mths**	**1-5 yrs**	**Over 5 yrs**	**Total**
Assets						
Loans	1 354 571	142 841	142 413	514 625	34 642	2 189 092
Banks and other financial institutions	362 307	5 054	2 058	3 492	0	372 911
Bonds, etc.	73 147	1 121	1 793	78 379	14 149	168 589
Total assets	**1 790 025**	**149 016**	**146 264**	**596 496**	**48 791**	**2 730 592**
Liabilities						
Deposits	983 327	5 841	15 820	1 603	1 896	1 008 487
Banks and other financial institutions	185 334	3 029	976	2 382	2 361	194 082
Issued securities	291 071	168 226	208 324	693 818	84 293	1 445 732
Other liabilities	-	-	-	-	-	-
Total liabilities	**1 459 732**	**177 096**	**225 120**	**697 803**	**88 550**	**2 648 301**
Off-balance sheet items	-85 413	-66 497	23 063	126 152	23 624	20 929
Difference between assets and liabilities including off-balance sheet items	244 880	-94 577	-55 793	24 845	-16 135	103 220

Equity price risk

The Bank's equity price risk mainly arises at Handelsbanken Capital Markets through customer trading and in the Bank's own equity portfolio.

The risk is measured as the market value change in the Bank's total equity positions in the case of an instantaneous change in equity prices of +/-10 per cent and in volatilities of +/-25 per cent. At year-end, the Bank's worst case outcome for this risk was SEK 221 million (174). The largest exposure in equities comes from the UK market.

Equity price risk in the trading book

The equity price risk at Handelsbanken Capital Markets arises in customer-driven, equity-related transactions. Handelsbanken Capital Markets is a market maker for structured products, which gives rise to equity price risk, both linear and non-linear. The non-linear equity price risk arises via options mainly included in the structured products.

The Bank limits and measures the equity price risk at Handelsbanken Capital Markets using matrices. The advantage of this method is that it effectively identifies equity price risk including the non-linear risk. VaR is used, together with other risk measures and stress scenarios, as a complement when measuring the equity price risk. At year-end, the Bank's VaR for equity price risk in the trading book was SEK 1 million (0).

Equity price risk outside the trading book

The Group's holdings of equities outside the trading book include level 3 shares, mainly consisting of various types of jointly owned operations related to the Bank's core business. The holdings are classified as measured at fair value through other comprehensive income and are measured at fair value on the balance sheet in accordance with accounting regulations. In general, such holdings are valued at the Bank's share of the company's net asset value, or alternatively at the price of the last completed transaction. The equity price risk is very small.

Table AR:26 Equity price risk

Equity price risk SEKm	**Change in volatility**					
	2019			**2018**		
Change in equity price	**-25%**	**0%**	**25%**	**-25%**	**0%**	**25%**
10%	228	229	229	183	184	186
-10%	-221	-219	-217	-174	-173	-172

Table AR:27 Equity exposures outside the trading book

Equity exposures outside the trading book under IFRS 9 SEKm	2019	2018
Holdings classified as measured at fair value through other comprehensive income	2 303	1 840
of which Levels 1 and 2	*1 051*	*783*
of which Level 3	*1 252*	*1 057*
Holdings classified as measured at fair value through other comprehensive income	2 303	1 840
of which business-related	*1 995*	*1 633*
of which other holdings	*308*	*207*
Fair value reserve at beginning of year	361	547
Unrealised market value change during the year for retained and new holdings	336	-181
Realised due to sales and settlements during the period	15	-5
Fair value reserve at year-end	712	361
Included in tier 2 capital	0	0

Foreign exchange risk

Handelsbanken has home markets outside Sweden and also operations in a number of other countries. Consequently, foreign exchange exposure of a structural nature arises, because the Group's accounts are presented in Swedish kronor. This structural risk is managed by considering the trade-off between the respective impacts of foreign exchange movements on either capital ratios or equity. The Board has established the maximum impact on equity which the structural foreign exchange position is permitted to give rise to in the hedging of the capital ratios. The foreign exchange movements that affect the Bank's equity are shown in the table on page 81 of the Annual Report: Statement of changes in equity, Group

The Bank's direct foreign exchange exposure arises as a consequence of customer-driven, intra-day trading in the international foreign exchange markets. This trading is conducted at Handelsbanken Capital Markets. The Board, the CEO and the CFO have set VaR limits for this foreign exchange risk.

Some foreign exchange exposure also arises in the normal banking operations as part of managing customer payment flows and in funding operations at Group Treasury. The Board, CEO and CFO have set position limits for these risks. At year-end, the aggregate net position amounted to SEK 632 million (455), not including the structural foreign exchange position.

This foreign exchange risk does not depend on trends for an individual currency or group of currencies, because the positions are very short and arise in management of customer-driven flows. The total foreign exchange risk in the trading book and the non-trading book was SEK 56 million (11), measured as the impact on the Bank of an instantaneous five per cent change in the Swedish krona.

Table AR:28 Exchange rate sensitivity

Exchange rate sensitivity (worst outcome +/-5% change in SEK against the respective currency) SEKm	2019	2018
EUR	98	13
NOK	17	8
DKK	5	7
USD	5	9
GBP	9	2
Other currencies	8	5

Commodity price risk

Trading in commodities is conducted exclusively at Handelsbanken Capital Markets. Exposure in commodity-related instruments only occurs as a result of customer-driven trading in the international commodity markets. Commodity price risk, both linear and non-linear, is measured as the absolute total of risk for all commodities to which the Bank is exposed. At year-end, the commodity price risk was SEK 5 million (4), measured as the maximum loss on price changes up to 20 per cent in underlying commodities and changes in volatility up to 35 per cent. At year-end, the Bank's VaR for commodity price risk was SEK 1 million (0).

Other market risks

Market risk also arises in the Bank's pension system (pension risk). The risk comprises the risk of changes in the value of the pension assets securing the Bank's pension obligations, together with changes in discount rates.

Fair value measurement

The risk control function checks that the Group's financial instruments are valued correctly. This includes responsibility for checking the market data upon which the valuation is based and for ensuring that this check is independent of the risk-taking parties. Sources of market data are independent of the business operations. In the case of market data having been obtained from the business operations, documented controls are performed against external sources and to assess whether the data is reasonable. Market prices and market data for models must be verified at least once a month but are also essentially verified daily. Valuation models are validated by the risk control function which is independent of the developer of the model. The Valuation Committee, whose purpose is to co-ordinate valuation matters in the Handelsbanken Group, fulfils an important function in ensuring that each valuation is correct and adheres to current market practices.

The valuation of financial instruments measured at fair value is performed in accordance with IFRS 13. Refer to note G40 for more information about the assets and liabilities measured at fair value and for additional information on the Bank's valuation process.

Prudent valuation

In accordance with Article 105 of the CRR, the Bank must calculate additional valuation adjustments for the purpose of statutory adjustments of own funds. Article 34 expands the scope of application from including only trading book positions to encompass all positions measured at fair value. The requirements and methods for these additional valuation adjustments have since been clarified in the European Commission's Delegated Regulation (EU) 2016/101, with regard to the technical standards under Article 105 (14). Handelsbanken uses the primary method defined in the technical standard to calculate additional valuation adjustments for all positions measured at fair value.

FUNDING AND LIQUIDITY RISK

Liquidity risk is the risk that the Bank will not be able to meet its payment obligations when they fall due without being affected by unacceptable costs or losses.

FUNDING STRATEGY

Handelsbanken has a low tolerance of liquidity risks and works actively to minimise them, both at aggregate level and in each individual currency. The aim is to have good access to liquidity, a low level of variation in results and a considerable capacity to meet customers' funding needs, even in difficult times. This is achieved by maintaining a good matching of incoming and outgoing cash flows over time in all currencies essential to the Bank and by maintaining large liquidity reserves of good quality. The Bank thus minimises the economic risks in funding and can thereby maintain stable and long-term internal interest rates to the business-operating units.

Furthermore, the Bank aims for breadth in its funding programmes and their use. This ensures that the Bank can keep its core business intact for a long period of time, even if there is extensive disruption in the financial markets.

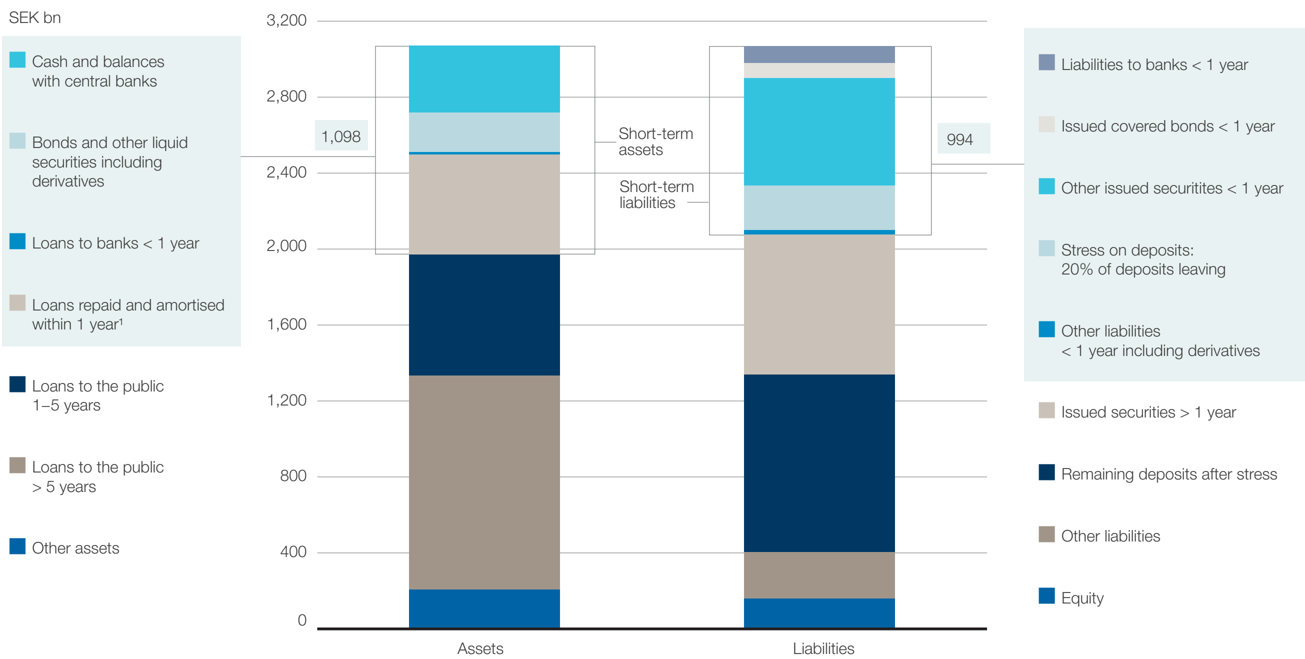
The starting point of this work is a well-matched balance sheet, where illiquid assets are financed using stable funding. The illiquid assets comprise credits to households and companies; these credits constitute the Bank's core business. The long-term stable funding of these assets consists of covered bonds issued by Stadshypotek, senior bonds issued by Handelsbanken, deposits from households and a certain amount of deposits from companies, subordinated liabilities and equity. Part of the core operations is comprised of short-term lending to households and companies and on the liabilities side, some of the deposits for these customers are shorter term.

A balance sheet is a snapshot of assets and liabilities. To ensure that the Bank's obligations to customers and investors are fulfilled, it is important to adopt a future-oriented perspective in funding and liquidity risk management. The balance sheet is therefore structured in such a way that the real economy players in the form of companies and households and their needs for credit can be supported even during lengthy periods of stress in the financial markets. Short-term assets cover short-term liabilities by a good margin. Figure AR:29 describes the balance sheet in a stressed scenario where 20 per cent of deposits are assumed to disappear within one year and all access to new market funding disappears. Despite the stress, short-term assets are estimated to exceed short term liabilities by a considerable amount at year-end. A long-term crisis could result in a reduced balance sheet with retained core business, whereby the volume of short-term assets is gradually used to pay back maturing short-term liabilities. In the event of an even longer crisis, measures have been prepared to create liquidity which will provide more support to the business operations.

The market has great confidence in Handelsbanken, and its assessment is that Handelsbanken has a low credit risk. One illustration of this is that the cost of insuring a credit risk on the Bank, referred to as the CDS spread, is one of the lowest among European banks, and Handelsbanken has the lowest funding costs of peer banks. Handelsbanken has a high rating with the external rating agencies. Handelsbanken's combined long-term rating is AA, meaning that the Bank has the highest rating in Europe of all peer banks.

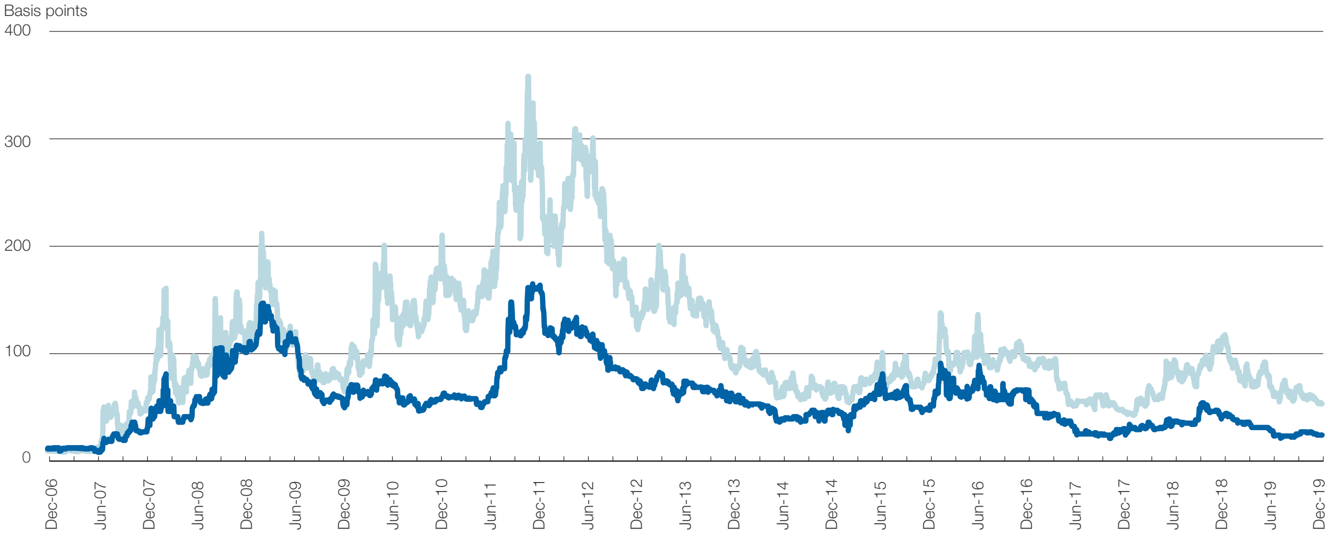
Good diversification between different types of funding sources in various markets, currencies and forms of funding instruments is a key component of the funding strategy. This reduces the significance of individual markets or sources of funding. Handelsbanken's long-term international funding is geographically well diversified, and the Bank has issued significant volumes of bonds in, among others, the US dollar, the euro, the Pound Sterling, and in Asian currencies. The most important sources of funding are deposits from households and companies as well as covered and senior bonds. The short-term funding mainly comprises deposits from financial companies and institutions as well as issues of certificates and CDs. Group Treasury has a number of different funding programmes for market funding at its disposal. Bonds and certificates are issued under these programmes in the Bank's, Stadshypotek's and Handelsbanken plc's names. The funding programmes ensure well-diversified access to funding in terms of different currencies, the number of investors and geographic breakdown.

Figure AR:29 Composition of the balance sheet from a maturity perspective



[1] Scheduled amortisations, contractual maturities and estimated additional loan repayments.

Figure AR:30 Handelsbanken's 5-year CDS spread compared with ITRAXX Financials
ITRAXX Financials is an index of CDS spreads for the 25 largest bond issuers in the European banking and insurance sector. It describes the average premium that an investor requires in order to accept credit risk on the companies.



Source: Ecowin, Bloomberg

ORGANISATIONAL STRUCTURE

Handelsbanken has a completely decentralised business model, but all funding and liquidity risk management in the Group is centralised to Group Treasury. Funding and liquidity risk management is governed by policies established by the Board, which also decides on limits. Guidelines from the CEO and instructions from the CFO make these policies concrete. The guidelines establish parameters such as limits, the composition of the funding, and benchmarks in the case of disruptions in the funding markets. Furthermore, all liquidity risk limits are channelled to the operations via Group Treasury.

Group Treasury is also responsible for the Bank's clearing operations, and monitors liquidity flows during the day to ensure that the Bank has sufficient collateral in its payment systems at any given time to meet the Bank's payment obligations. The Bank's liquidity monitoring takes place locally, near the transactions, and is supplemented by central management of collateral and the liquidity reserve for the whole Group.

The size of collateral in the clearing systems is determined on the basis of what the Bank deems is required to fulfil its obligations, both in normal circumstances and in case of larger flows. If the flow changes, the size of collateral and liquidity is adjusted, and in times of crisis, collateral can also be redistributed and the liquidity reserve can be activated. The Bank secures liquidity in its nostro accounts for expected payment and settlement undertakings through active liquidity planning and monitoring in all currencies.

MARKET FUNDING – COMPOSITION

During the year, Handelsbanken issued a total of SEK 376 million (389) in long-term market funding (securities with an original maturity longer than one year) in all currencies that are important to the Bank. An important component of the long-term market funding is issues of covered bonds. The breakdown by currency of the outstanding stock is presented in Figure AR:32. Short-term funding is mainly raised by issuing certificates of deposit under the various loan programmes, primarily in Europe and the US. These loan programmes are supplemented by funding in the international interbank market. During the year, the Bank thus continued to meet investors to the same extent as previously, updated its funding programmes and also in other respects maintained the conditions for bond funding in all relevant funding markets worldwide. This enables funding operations to be maintained in circumstances that are much more difficult than those which have existed in the past few years.

Figure AR:31 Maturity profile of long-term market funding
Refers to issued securities as at 31 December 2019 with an original maturity exceeding one year.

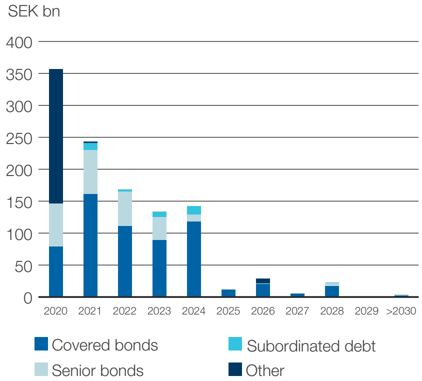


Figure AR:32 Market funding of covered bonds by currency 2019
Refers to the currency breakdown as at 31 December 2019 for issued covered bonds. Amounts in parentheses in SEK billion.

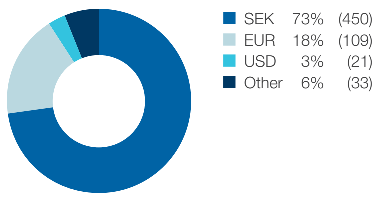


Figure AR:33 Short-term market funding by currency 2019
Refers to the currency breakdown as at 31 December 2019 for issued securities with original time to maturity of less than one year. Amounts in parentheses in SEK billion.

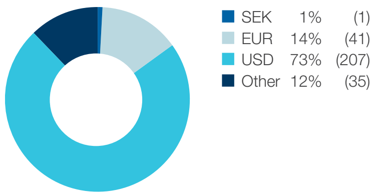


Figure AR:34 Long-term market funding by currency 2019
Refers to the currency breakdown as at 31 December 2019 for issued securities with original time to maturity of more than one year. Amounts in parentheses in SEK billion.

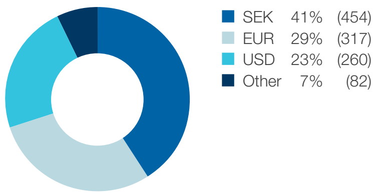
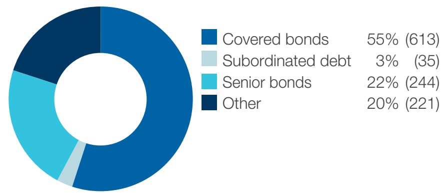


Figure AR:35 Long-term market funding by instrument 2019
Refers to breakdown by instrument as at 31 December 2019 for issued securities with original time to maturity of more than one year. Amounts in parentheses in SEK billion.



ENCUMBERED ASSETS AND COVER POOLS

Another important part of Handelsbanken's liquidity management consists of retaining significant volumes of unutilised collateral that can be used in the event of disruptions in the financial markets. One prerequisite for being able to pledge additional collateral is for the Bank to have collateral at its disposal from the outset. The Bank therefore retains substantial volumes of non-encumbered assets that could be used as collateral in the issue of covered bonds and liquid securities with very high credit ratings.

The Bank is restrictive about entering into agreements with other parties than credit institutions, such as CSA agreements that stipulate that the Bank, according to certain criteria, may be forced to provide collateral to a counterparty. Cash collateral pledged under CSA agreements for outstanding derivatives totalled SEK 7,172 million (3,993). For more information about the Bank's encumbered assets, see the Pledged assets table in Handelsbanken's Fact Book. In addition to securing the Bank's liquidity, this restrictive approach contributes to limiting the extent to which the Bank's senior lenders have lower priority than lenders who invest in covered bonds, known as subordination.

To assess the degree of subordination between investors of unsecured funding and secured funding, the volume and credit quality of the non-encumbered assets are the relevant factors. Handelsbanken's restrictive approach to risk-taking means that the non-encumbered assets are of high quality. Since Handelsbanken wishes to have a balanced utilisation of covered and senior bonds, there is a large volume of mortgage loans which are not encumbered. Other non-encumbered loans also have a low risk measured, for example, in terms of the Bank's internal rating.

Table AR:36 shows that the volume of non-encumbered assets for Handelsbanken is 238 per cent (216) of the outstanding volume of unsecured funding.

The majority of the encumbered assets consist of Stadshypotek's cover pools, which comprise mortgage loans provided as collateral for outstanding covered bonds. The Bank also has voluntary OC (over-collateralisation – extra assets in addition to those which are needed to cover the issued bonds, and in addition to the two per cent statutory requirement) of eight per cent which is included in the pool. These extra assets are in the pool in case the value of the mortgage loans were to fall to a level such that further assets are needed to match the volume of outstanding bonds.

When assessing the risk that it will be necessary to add further assets, the loan to value (LTV) of the mortgage loans in the cover pool is of fundamental importance. The lower the LTV, the lower the risk that more mortgage loans are required in the pool if prices fall in the property market. Handelsbanken's average volume-weighted LTV – LTV Max – was 54.8 per cent (53.1) in the Swedish pool, 55.7 per cent (55.1) in the Norwegian pool, and 49.2 per cent (49.2) in the Finnish pool. The conditions are also in place for a Danish pool, but this asset pool has not yet been used for issues. The Danish asset book's average volume-weighted LTV was 62.4 per cent (63.1). This shows that the Bank can withstand substantial drops in prices of underlying property assets before further mortgage loans have to be added to the pools.

The assets which the Bank has chosen to keep outside the cover pools are shown in table AR:36 and can be used for issues of covered bonds if necessary.

Table AR:36 Non-encumbered/non-pledged assets

Non-encumbered/non-pledged assets	2019		2018	
SEK bn	(NEA)[1]	Accumulated share of non-secured funding, %[2]	(NEA)[1]	Accumulated share of non-secured funding, %[2]
Cash and balances with central banks	**337**	**37**	**351**	**36**
Liquid bonds in liquidity portfolio[3]	**157**	**55**	**176**	**55**
Loans to households including derivatives	**553**		**550**	
of which mortgage loans	*351*	*94*	*366*	*93*
of which loans secured by collateral in property	*5*	*94*	*6*	*93*
of which other household lending	*197*	*116*	*178*	*112*
Loans to companies including derivatives	**1 079**		**985**	
of which mortgage loans	*350*	*155*	*279*	*141*
of which loans to housing co-operative associations excl. mortgage loans	*65*	*162*	*62*	*147*
of which loans to property companies excl. mortgage loans				
- risk class 1–3	*299*	*195*	*288*	*177*
- risk class 4–5	*134*	*210*	*114*	*189*
- of which risk class > 5	*8*	*211*	*9*	*190*
of which other corporate lending				
- risk class 1–3	*142*	*227*	*151*	*205*
- risk class 4–5	*70*	*235*	*69*	*212*
- risk class > 5	*11*	*236*	*13*	*214*
Loans to credit institutions including derivatives	**16**		**18**	
- risk class 1–3	*15*	*238*	*16*	*215*
- risk class > 3	*1*	*238*	*2*	*216*
Other lending	**0**	**238**	**0**	**216**
Other assets	**0**	**238**	**0**	**216**
Total	**2 142**	**238**	**2 080**	**216**

[1] NEA: Non-encumbered assets.
[2] Issued short and long non-secured funding and due to credit institutions.
[3] Relates to eligible as collateral in central banks.

Table AR:37 Cover pool data

Cover pool-data	Sweden		Norway		Finland	
SEKm	2019	2018	2019	2018	2019	2018
Stadshypotek total lending, public	1 174 773	1 115 985	97 201	85 659	51 963	51 066
Available assets for cover pool	1 073 220	1 015 275	93 893	82 527	48 816	48 176
Utilised assets in cover pool	623 660	606 294	27 952	26 613	18 400	18 248
Substitute assets, cash on a blocked account	5 000	5 000	-	-	-	-
Maximum LTV %, weighted average ASCB definition[1]	54.80	53.14	55.68	55.09	49.18	49.20
LTV, breakdown						
0–10%	21.9	24.0	21.2	21.9	27.7	27.9
10–20%	19.7	19.9	20.5	20.9	23.5	23.4
20–30%	17.3	16.7	16.9	16.6	19.9	19.8
30–40%	14.6	13.9	14.1	13.9	13.0	13.3
40–50%	11.6	11.0	11.7	11.5	8.3	8.3
50–60%	8.2	7.9	8.7	8.6	4.9	4.8
60–70%	5.1	5.0	5.5	5.3	2.1	2.0
70–75%	1.6	1.6	1.4	1.3	0.6	0.5
Loan amount, weighted average, SEK	664 000	651 800	4 109 415	3 839 623	1 101 925	1 032 477
Loan term, weighted average, no. of months[2]	66	65	26	26	59	56
Interest rate adjustment periods, breakdown						
Floating rate, %	46.1	48.2	99.5	99.2	100	99.8
Fixed rate, %	53.9	51.8	0.5	0.8	0.0	0.2

[1] Association of Swedish Covered Bond issuers.
[2] Calculated from the date on which the loan is granted.

LIQUIDITY RISK

The Bank handles a large number of incoming and outgoing cash flows every day. The gap between incoming and outgoing cash flows is restricted by means of limits. Group Risk Control reports risk utilisation daily to the CFO, weekly to the CEO, and on a regular basis to the Board.

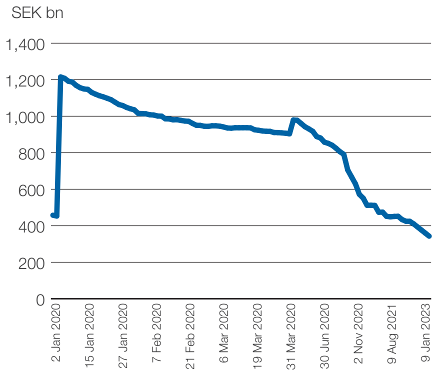
Liquidity planning is based on an analysis of cash flows for the respective currency. As a general rule, a larger exposure is permitted in currencies with high liquidity than in currencies where the liquidity is low. The strategy is that expected outgoing cash flows from the Bank must always be matched with incoming cash flows into the Bank that are at least of the same amount, and that a positive cash flow and positive cash position must be maintained – even in stressed conditions. This kind of gap analysis is supplemented by scenario tests, in which the effect on liquidity is stressed and analysed using various assumptions.

The governance of the Bank's liquidity situation is based on these stress tests, which are performed at an aggregate level and also individually for the currencies that are essential to the Bank. The stress tests ensure that the Bank has sufficient liquidity in various stressed scenarios and assuming various actions are taken, which are also included in the Bank's recovery plan. The stress tests are carried out with the application of both market-wide and idiosyncratic stress, on a regular basis and an ad hoc basis. These are also supplemented with scenario analyses which consider substantial falls in housing prices. Resistance to more long-term disruptions in the market is measured on a daily basis through stress testing of cash flows based on certain assumptions. For example, it is assumed that the Bank cannot obtain funding in the financial markets, at the same time as 10 per cent of non-fixed-term deposits from households and companies disappears gradually in the first month. It is further assumed that the Bank will continue to conduct its core activities, i.e. that fixed-term deposits from and loans to households and companies will be renewed at maturity and that issued commitments and credit facilities will be partly utilised by customers. The Bank also takes into account that balances with central banks and banks will be utilised and that Group Treasury's securities can immediately supply liquidity if provided as collateral, primarily in the market and as a last resort in central banks.

In addition, the Bank can create liquidity through utilising the unutilised issue amount for covered bonds and by implementing other liquidity-creating measures to gradually provide the Bank with liquidity. With these conditions, the Bank will be liquid for more than three years. Thus, the Bank also has major powers of resistance to serious, long-term disruptions in the funding markets.

A condition for the Bank to be able to maintain such substantial resistance to disruptions in the financial markets as stated above is that the balance sheet is well balanced. Figure AR:29 Composition of the balance sheet from a maturity perspective shows that the volume of current assets significantly exceeds the volume of current liabilities in a stressed scenario where 20 per cent of the deposits are assumed to disappear within one year. Furthermore, the volume and quality of unutilised collateral must be able to give the Bank the liquidity it needs in times of

Figure AR:38 Stress test of liquidity, including liquidity-creating measures – accumulated liquidity position



crisis. Consistently steering the Bank towards positive future net cash flows, instead of point-in-time ratios, also secures this over time.

Table AR:40 Maturity analysis for financial assets and liabilities shows cash flows for the contracted payment commitments, including interest flows, due for payment at the latest within the stated time intervals. The table shows holdings of bonds and other interest-bearing securities in the time intervals in which they can be converted to liquidity if they are pledged as collateral or sold. Assets, liabilities and interest flows are also shown that mature in the time intervals corresponding to the contractual maturity dates. Interest flows for lending in the mortgage operations are matched in time with the liabilities that funded the lending. Financial guarantees, committed loan offers and unutilised overdraft facilities are reported in their entirety in a time interval of up to 30 days. The total outstanding amount of these commitments does not necessarily represent future funding requirements. For derivative instruments, cash flows are reported net for interest rate swaps and gross for instruments where gross cash flows are paid or received, such as currency swaps.

The liquidity coverage ratio (LCR) has been a binding requirement for banks in the EU since the European Commission introduced its Delegated Regulation. The figure states the ratio between the Bank's liquidity buffer and net cash flows in a very stressed scenario during a 30-day period. The requirement applies to LCR at aggregate level and the ratio must be at least 100 per cent. The Swedish Financial Supervisory Authority also exercises supervision of LCR in individual currencies within the framework of the supervisory review and evaluation process in Pillar 2. At year-end, the Group's aggregated LCR, was 147 per cent (146), which shows that the Bank has large resistance to short-term disruptions on the funding markets.

The minimum requirement for the net stable funding ratio (NSFR) – the structural liquidity measure that is the ratio between available stable funding and the stable funding required – will be introduced in the EU in June 2021. At year-end 2019, NSFR was 113 per cent according to CRR2 (104 per cent according to the Basel Committee 2014 proposal) at Group level.

PRICING OF LIQUIDITY RISK

An important part of liquidity risk management is that deposits and lending are priced internally, taking into account the liquidity risks that they give rise to. For example, when the Bank grants a loan with a long maturity this creates the need to obtain additional long-term funding – which is more expensive than shorter-term funding. This is because investors who purchase the Bank's long-term bonds normally demand higher compensation for the maturity. This is taken into account in the Bank's internal pricing by ensuring that the price which internal units in the Bank have to pay for the loans they obtain from Group Treasury varies according to factors such as the maturity period. No liquidity risks can be taken locally. The internal pricing is important in order to create the right incentive and to avoid unsound risk-taking. The Bank has worked with maturity-based internal prices for a long time. They ensure that the price at contract level takes into account the liquidity risk that the agreement has given rise to.

Table AR:39 Liquidity coverage ratio (LCR) – subcomponents

Liquidity coverage ratio (LCR) – subcomponents SEKm	31 Dec 2019	31 Dec 2018
High quality liquidity assets	**484 489**	**508 009**
Cash outflows	**379 970**	**404 045**
Retail deposits and deposits from small business customers	58 136	58 078
Unsecured wholesale funding	264 686	300 759
Secured wholesale funding	3 568	4 609
Other cash outflows	53 580	40 599
Cash inflows	**49 911**	**55 956**
Inflows from fully performing exposures	26 619	25 418
Other cash inflows	23 292	30 538
Liquidity coverage ratio (LCR), %	**147**	**146**

The subcomponents are defined as stated in Commission Delegated Regulation (EU) 2015/61.

Table AR:40 Maturity analysis for financial assets and liabilities

For deposit volumes, the column "Unspecified maturity" refers to deposits payable on demand. The table contains interest flows, which means that the balance sheet items are not reconcilable with the Group's balance sheet. Maturity tables without interest flows, including maturity tables in foreign currencies, can be found in the Fact Book at handelsbanken.com/ir.

Maturity analysis for financial assets and liabilities 2019 SEKm	Up to 30 days	31 days–6 mths	6–12 mths	1–2 yrs	2–5 yrs	Over 5 yrs	Unspecified maturity	Total
Cash and balances with central banks	347 438	-	-	-	-	-	-	347 438
Interest-bearing securities eligible as collateral with central banks[1]	103 387	-	-	-	-	-	-	103 387
Bonds and other interest-bearing securities[2]	42 639	-	-	-	-	-	-	42 639
Loans to credit institutions	11 403	1 777	289	935	2 097	3 261	-	19 762
of which reverse repos	-	-	-	-	-	-	-	*0*
Loans to the public	59 185	284 961	204 305	226 877	456 662	1 145 149	-	2 377 139
of which reverse repos	*10 438*	-	-	-	-	-	-	*10 438*
Other	24 442	-	-	-	-	-	244 868	269 310
of which shares and participating interests	*21 390*	-	-	-	-	-	-	*21 390*
of which claims on investment banking settlements	*3 052*	-	-	-	-	-	-	*3 052*
Total assets	**588 494**	**286 738**	**204 594**	**227 812**	**458 759**	**1 148 410**	**244 868**	**3 159 675**
Due to credit institutions	87 261	26 344	4 984	3 426	547	1 283	24 931	148 776
of which repos	-	-	-	-	-	-	-	*0*
of which deposits from central banks	*40 025*	*12 795*	-	-	-	-	*26*	*52 846*
Deposits and borrowing from the public	2 139	27 824	4 098	504	340	6 576	1 075 844	1 117 325
of which repos	-	-	-	-	-	-	-	*0*
Issued securities[3]	53 199	366 519	244 008	247 550	443 595	74 562	-	1 429 433
of which covered bonds	*85*	*63 942*	*26 761*	*172 344*	*333 168*	*58 595*	-	*654 895*
of which certificates and other securities with original maturity of less than one year	*48 203*	*275 095*	*117 376*	-	-	-	-	*440 674*
of which senior bonds and other securities with original maturity of more than one year	*4 911*	*27 482*	*99 871*	*75 206*	*110 427*	*15 967*	-	*333 864*
Subordinated liabilities	-	1 125	29	12 623	24 631	-	-	38 408
Other	4 783	381	383	716	1 692	1 304	381 156	390 415
of which short positions	*1 865*	-	-	-	-	-	-	*1 865*
of which liabilities on investment banking settlements	*2 904*	-	-	-	-	-	-	*2 904*
Total liabilities	**147 382**	**422 193**	**253 502**	**264 819**	**470 805**	**83 725**	**1 481 931**	**3 124 357**
Off-balance sheet items								
Financial guarantees and unutilised committed loan offers	439 667							

Derivatives 2019 SEKm	Up to 30 days	31 days–6 mths	6–12 mths	1–2 yrs	2–5 yrs	Over 5 yrs	Total
Total derivatives inflow	210 350	458 282	124 620	131 515	205 915	70 538	1 201 220
Total derivatives outflow	212 716	459 576	117 496	121 935	196 116	69 638	1 177 477
Net	**-2 366**	**-1 294**	**7 124**	**9 580**	**9 799**	**900**	**23 743**

Maturity analysis for financial assets and liabilities 2018 SEKm	Up to 30 days	31 days–6 mths	6–12 mths	1–2 yrs	2–5 yrs	Over 5 yrs	Unspecified maturity	Total
Cash and balances with central banks	350 692	-	-	-	-	-	-	350 692
Interest-bearing securities eligible as collateral with central banks[1]	122 260	-	-	-	-	-	-	122 260
Bonds and other interest-bearing securities[2]	50 728	-	-	-	-	-	-	50 728
Loans to credit institutions	14 067	3 103	1 102	624	2 767	2 852	-	24 515
of which reverse repos	*2 758*	-	-	-	-	-	-	*2 758*
Loans to the public	51 079	260 480	182 526	234 189	441 981	1 099 482	-	2 269 737
of which reverse repos	*9 050*	-	-	-	-	-	-	*9 050*
Other	24 320	-	-	-	-	-	222 533	246 853
of which shares and participating interests	*13 821*	-	-	-	-	-	-	*13 821*
of which claims on investment banking settlements	*10 499*	-	-	-	-	-	-	*10 499*
Total assets	**613 146**	**263 583**	**183 628**	**234 813**	**444 748**	**1 102 334**	**222 533**	**3 064 785**
Due to credit institutions	104 079	38 652	12 742	4 150	1 056	5 944	30 477	197 100
of which repos	-	-	-	-	-	-	-	*0*
of which deposits from central banks	*42 398*	*24 092*	*17*	-	-	-	*2 316*	*68 823*
Deposits and borrowing from the public	7 508	24 574	4 670	667	609	7 109	962 707	1 007 844
of which repos	-	-	-	-	-	-	-	*0*
Issued securities[3]	98 564	351 948	225 311	193 104	498 156	79 751	-	1 446 834
of which covered bonds	*74*	*37 007*	*87 074*	*111 155*	*342 814*	*70 948*	-	*649 072*
of which certificates and other securities with original maturity of less than one year	*65 559*	*254 094*	*63 516*	-	-	-	-	*383 169*
of which senior bonds and other securities with original maturity of more than one year	*32 931*	*60 847*	*74 721*	*81 949*	*155 342*	*8 803*	-	*414 593*
Subordinated liabilities	15 655	6 495	27	824	22 839	7 748	-	53 588
Other	9 166	-	-	-	-	-	329 197	338 363
of which short positions	*6 195*	-	-	-	-	-	-	*6 195*
of which liabilities on investment banking settlements	*2 971*	-	-	-	-	-	-	*2 971*
Total liabilities	**234 972**	**421 669**	**242 750**	**198 745**	**522 660**	**100 552**	**1 322 381**	**3 043 729**
Off-balance sheet items								
Financial guarantees and unutilised committed loan offers	458 772							

Derivatives 2018 SEKm	Up to 30 days	31 days–6 mths	6–12 mths	1–2 yrs	2–5 yrs	Over 5 yrs	Total
Total derivatives inflow	262 475	411 486	102 761	123 746	257 026	68 164	1 225 658
Total derivatives outflow	256 616	402 697	98 108	113 529	241 314	67 657	1 179 921
Net	**5 859**	**8 789**	**4 653**	**10 217**	**15 712**	**507**	**45 737**

[1] SEK 83,175m (72,611) of the amount (excl. interest) has a residual maturity of less than one year.
[2] SEK 16,653m (7,047) of the amount (excl. interest) has a residual maturity of less than one year.
[3] SEK 644,231m (653,553) of the amount (excl. interest) has a residual maturity of less than one year.

LIQUIDITY RESERVE

To ensure sufficient liquidity to support its core operations in stressed financial conditions, the Bank holds large liquidity reserves in all currencies of relevance to the Bank, which are accessible by Group Treasury. The liquidity reserve is independent of funding and foreign exchange markets and can provide liquidity to the Bank at any time – some parts immediately and other parts gradually over a period of time.

The liquidity reserve comprises several different parts. Cash, balances and other lending to central banks are components which can provide the Bank with immediate liquidity. The reserve also comprises liquid securities such as government bonds, covered bonds and other high-quality securities which are liquid and eligible as collateral with central banks. These can also provide the Bank with immediate liquidity. The remainder of the liquidity reserve comprises an unutilised issue amount for covered bonds and other liquidity-creating measures.

Table AR:41 Holdings with central banks and securities holdings in the liquidity reserve, market value

Holdings with central banks, and securities holdings in the liquidity reserve, market value 2019 SEKm	SEK	EUR	USD	Other	Total
Level 1 assets	**167 449**	**121 485**	**59 355**	**131 947**	**480 236**
Cash and balances with central banks	46 552	114 519	57 959	127 176	346 206
Securities issued or guaranteed by sovereigns, central banks, MDBs and international organisations	90 042	6 338	1 396	2	97 778
Securities issued by municipalites and PSEs	1 012	-	-	-	1 012
Extremely high quality covered bonds	29 843	628	-	4 769	35 240
Level 2 assets	**1 190**	**1 150**	**3 801**	**1 775**	**7 916**
Level 2A assets	*1 190*	*1 125*	*3 801*	*1 775*	*7 891*
Securities issued or guaranteed by sovereigns, central banks, municipalities and PSEs	-	-	-	1 739	1 739
High quality covered bonds	1 190	1 125	3 801	36	6 152
Corporate debt securities (lowest rating AA-)	-	-	-	-	-
Level 2B assets	-	*25*	-	-	*25*
Asset-backed securities	-	-	-	-	-
High quality covered bonds	-	-	-	-	-
Corporate debt securities (rated A+ to BBB-)	-	25	-	-	25
Shares (major stock index)	-	-	-	-	-
Total liquid assets	**168 639**	**122 635**	**63 156**	**133 722**	**488 152**

Holdings with central banks, and securities holdings in the liquidity reserve, market value 2018 SEKm	SEK	EUR	USD	Other	Total
Level 1 assets	**127 390**	**139 690**	**133 045**	**104 355**	**504 480**
Cash and balances with central banks	10 192	133 072	105 665	101 750	350 679
Securities issued or guaranteed by sovereigns, central banks, MDBs and international organisations	83 744	5 947	27 380	49	117 120
Securities issued by municipalites and PSEs	481	-	-	1	482
Extremely high quality covered bonds	32 973	671	-	2 555	36 199
Level 2 assets	**1 216**	**1 247**	**4 097**	**607**	**7 167**
Level 2A assets	*1 216*	*1 164*	*4 097*	*607*	*7 084*
Securities issued or guaranteed by sovereigns, central banks, municipalities and PSEs	-	-	-	4	4
High quality covered bonds	1 216	1 164	4 097	603	7 080
Corporate debt securities (lowest rating AA-)	-	-	-	-	-
Level 2B assets	-	*83*	-	-	*83*
Asset-backed securities	-	-	-	-	-
High quality covered bonds	-	-	-	-	-
Corporate debt securities (rated A+ to BBB-)	-	83	-	-	83
Shares (major stock index)	-	-	-	-	-
Total liquid assets	**128 606**	**140 937**	**137 142**	**104 962**	**511 647**

OPERATIONAL RISK

Operational risk refers to the risk of loss due to inadequate or failed internal processes, human error, erroneous systems or external events. The definition includes legal risk.

The Board has determined the Handelsbanken Group's tolerance of operational risk. Handelsbanken has a low tolerance for operational risk, although operational risk is an inevitable component of all operations at the Bank. Significant operational risks that could cause major operational losses must be reduced through risk-mitigation measures to a lower risk level so that the risks lie within the Bank's risk tolerance, that is, so that the consequences and/or probability of an incident become acceptable. Losses resulting from an operational risk event can be covered by insurance or other solutions.

Operational risk must be managed so that the Group's operational losses remain small. The CEO has established limits and threshold levels for operational risk. A plan for risk mitigation techniques must be in place for risks exceeding threshold levels. This plan must also be effective and must proceed according to a predetermined time schedule.

Handelsbanken's operational losses, which comprise expected and recognised operational losses and any recoveries, totalled SEK 53 million (58) in 2019. It is not unusual that the amount referring to operational losses is adjusted over time due to recoveries, or that additional losses are added which are related to a previously reported incident. This may affect the comparative figures for previously reported losses.

ORGANISATIONAL STRUCTURE

The responsibility for identifying, assessing and managing operational risk is an integral part of managerial responsibility at all levels in the Handelsbanken Group. The Bank's decentralised way of working and cost-consciousness promote good management of operational risk, which leads to vigilance against potential loss risks in daily procedures and events.

Operational risk is managed in the business operations, and this management is checked by Risk Control. Specially appointed local co-ordinators (local OpRisk co-ordinators) for operational risk are in place at regional banks, main departments, subsidiaries and units outside the Bank's home markets to assist managers in their management of operational risk. They are responsible for ensuring that existing methods and procedures for managing operational risk are used in the business operations, managing follow-up on reported incidents, supporting the business operations, and following up any actions decided regarding operational risk.

Group Risk Control has the overall responsibility for the methods and procedures used to manage operational risk and for periodically assessing methods and procedures as well as their use in the operations. Group Risk Control ensures that regional banks, main departments, subsidiaries and units outside the Bank's home markets identify, assess, report and manage operational risk, and perform follow-up to ensure that the action decided upon is being taken. Group Risk Control is also responsible for ensuring that risks are evaluated before decisions are made concerning new or materially changed products, services, markets, processes or IT systems or in the case of major changes in the Group's operations or organisational structure. In addition, Group Risk Control is responsible for identifying, measuring, analysing, and reporting at the Group level all material operational risk and its development to management and the Board. The risk reports presented to management and the Board also contain information about material incidents and risk mitigation measures.

METHODS FOR IDENTIFYING, ASSESSING AND MANAGING OPERATIONAL RISK

To support the continuous identification, assessment and management of operational risk, the Bank has a reporting and case management system for incidents, a method and procedure for self-assessment of operational risk and risk indicators.

Incident reporting

The regular collection of risk facts in the form of incident reporting takes place at branches and departments throughout the Group in accordance with the CEO's guidelines and supplementary instructions. All employees throughout the Group must collect facts about incidents which have affected their unit and which result in a loss in excess of SEK 25,000. In addition, risk facts must be collected and reported concerning incidents where the losses are zero or are less than SEK 25,000 but demonstrate material operational risk that could have a material negative impact on a unit's profit. To further promote the unit's proactive work with risk, all employees are encouraged to also collect facts about incidents which give rise to minor losses, or no loss at all.

Incidents reported are reviewed and categorised on a regular basis by the local OpRisk co-ordinator. The Bank categorises operational risk according to seven types of events:

- execution, delivery and process management
- business disruptions and system failures
- clients, products and business practices
- external crime
- damage to physical assets
- employment practices and workplace safety
- internal fraud.

Self-assessment OPRA Risk analysis

OPRA Risk Analysis is a method and self-assessment procedure to document and assess operational risk which may have an impact on the Bank. These are carried out at least once a year at all units. The respective head of the unit is responsible for this being performed. The local OpRisk Co-ordinator provides support for the planning and implementation. The participants must be people with broad experience of the unit's operations. Their combined competency should cover all the areas of responsibility that have been identified for the analysis. The aim is to assess the consequence and probability of an event. The assessment of the impact includes both financial losses and reputation risk. Information that is important as the basis of OPRA Risk Analysis includes facts and statistics from previously reported incidents, audit reports, compliance reports, external public events in the business environment, and OPRA Risk Analyses from other units and essential processes of relevance. The self-assessment procedure results in an action plan stating the risks to be reduced, how this will be done, who is responsible and time limits for when measures are to be taken. The action plan is a working document that is regularly followed up during the year by the business operations with the support of the local OpRisk co-ordinator. Risk Control is informed about the completed OPRA Risk Analysis, including the action plan, and it evaluates the procedure. Risk Control provides regular support to the local OpRisk co-ordinator's planning, implementation and follow-up of the OPRA Risk Analysis.

Key risk indicators

Risk indicators are applied in order to warn of heightened operational risk. If a threshold for a risk indicator is exceeded, a limited OPRA Risk Analysis must be carried out within a short time frame and documented to serve as a basis for assessing any risk management measures to be taken.

ORX

The Bank is a member of Operational Riskdata eXchange Association (ORX). The main purpose of ORX is for participating banks to exchange anonymised data concerning incidents leading to operational losses. ORX also has an important function in standardising and ensuring the quality of data on operational risk. Extensive research is being done on methods regarding operational risk, and ORX is an important forum for the exchange of experiences.

IT OPERATIONS IN THE HANDELSBANKEN GROUP

The Bank's operations are dependent on the availability and security of its IT services. The technological development and digitalisation of banking services mean that this area is increasing in significance. The CEO establishes guidelines relating to the overall goal and strategy of IT operations in the Handelsbanken Group. Operational risk in this area is managed according to the same procedures as in other parts of the Bank, with the addition of special procedures for managing specific types of risk within the area, such as:

- monitoring IT production
- management of IT incidents
- management of new or changed IT systems
- management of cyber risk
- implementation of security tests
- implementation of risk analyses of IT systems
- review of external service providers with respect to information and IT security
- continuity management of IT systems.

INFORMATION SECURITY AND IT SECURITY

In its operations, a bank continuously processes sensitive information about customers and cus-

Figure AR:42 Three lines of defence

tomer relationships. Handelsbanken's work with information and IT security focuses on availability, accuracy, confidentiality and traceability. Information and business systems must be available based on the business requirements of the operations. All information must also be reliable, correct and complete. It should never be disclosed to unauthorised persons and may only be used to the extent required by the assignment. In addition, it must be possible to determine afterwards who has read or changed the information, when it was changed and which changes were made.

Structured development is under way in the Bank to increase the level of awareness among employees and customers concerning the threats and risks in information security, through presentations, training programmes and information initiatives.

INTEGRITY AND CONFIDENTIALITY – INFORMATION SECURITY AND IT SECURITY

Work with the Bank's information security and IT security involves protecting customers' information and transactions and also the Bank's IT environment. Information security covers administrative systems, such as rules and instructions, as well as technical security solutions.

It is important that the Bank actively works with IT security to meet possible threats, and that there are procedures for managing changes in the IT environment so that no breaches occur. If processing were to prove faulty, or if information were to be released by mistake, the consequences could be serious, including weakened confidence in the Bank or financial losses.

The Group Chief Executive establishes guidelines for information security at Handelsbanken. All employees in the Bank are responsible for compliance with the rules for protection of information, and all managers are responsible for compliance with the rules in their own area of responsibility.

Information security work is pursued in accordance with the ISO 27001 international standard. In June 2019, Handelsbanken's organisation for information security, as well as four essential processes within IT production, were certified according to ISO 27001. The Bank's information security and IT security work, as well as its management of sensitive information, is also governed by international and national regulatory frameworks.

The Bank's information security regulations are based on the Standard of Good Practice developed by Information Security Forum (ISF), an organisation where most of the largest companies in the world are members. The work with information and IT security is pursued systematically and the Bank applies a process where risk analysis plays a central role. The risk analyses employ ISF's Information Risk Analysis Methodology (the IRAM method).

The conditions for IT security are constantly changing. Thus Handelsbanken needs to continuously evaluate and take a stand on new potential threats in this area. By continuously following up events which occur both within and outside our operations, it is easier to take the right action at the right time. To this end, the Bank participates and collaborates in international forums. For several years, Handelsbanken has been a 'listed team' in the Trusted Introducer community (a European network for IT security) and a full member of the Forum of Incident Response and Security Teams (FIRST). Handelsbanken also participates in FIDI Finans, a forum for sharing information between the government, the business community and other relevant organisations in Sweden regarding information security in the financial sector. The forum is led by the Swedish Civil Contingencies Agency (MSB).

FINANCIAL CRIME

The Bank's aim is to constantly work, in an effective, fit-for-purpose manner, to minimise the risk of the Bank, or the Bank's products or services, being exploited in some kind of financial crime. Financial crime includes money laundering, terrorist financing, tax evasion, corruption, fraud and other breaches of international sanctions. Handelsbanken has a Group-wide department dedicated to preventing financial crime. The department is headed up by the Bank's specially designated officer. Essential starting points for the Bank's efforts to combat financial crime are the Bank's low tolerance of risk and the body of external regulations on money laundering and terrorist financing.

CHANGE MANAGEMENT

The management of changes covers new or materially changed products, services, markets, processes or IT systems, or when there are major changes in the Group's operations or organisational structure, and is described in the Bank's processes, guidelines and instructions for change management.

The Bank's approval processes for changes include descriptions of activities and agents included in the respective process, as well as how and when the control functions are to be involved. The processes also include requirements that risk analyses be carried out and that these consider, for example, areas such as financial crime, sustainability , information security and data quality. Decisions related to changes must also be documented.

ESSENTIAL PROCESSES

The Bank has identified and documented the processes which are of material importance to the Bank's business operations. The Bank's list of essential processes is reviewed and revised on an ongoing basis. Risk analyses are carried out every year and in conjunction with any material change to an essential process.

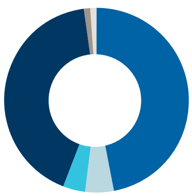
CRISIS MANAGEMENT AND CONTINUITY PLANNING

There are crisis management handbooks and continuity plans in place in all parts of the Group for dealing with serious disruptions. Continuity plans are made for organisational units, IT systems and essential processes. Continuity plans are tested on a regular basis. Crisis management helps the crisis team to quickly and systematically start to deal with a crisis situation and its effects. There is a central crisis team for the whole Group and local crisis teams in the Bank's home markets, subsidiaries, international units outside the Bank's home markets, and in several operating areas.

The Group Crisis Team has permanent staff consisting of key members of management or those close to them. The Group Crisis Team functions as a liaison crisis team in the event of a major crisis in the Group, supports the local crisis teams (or teams) working with an acute crisis and functions as a crisis team for the main central departments. Continuity planning focuses on taking preventive measures to minimise the consequences of a serious disruption of business operations. Group Risk Control performs an annual evaluation of the procedure at Group level.

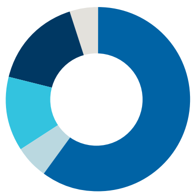
Handelsbanken participated in the sector exercise organised by FSPOS (Finansiella Sektorns Privat-Offentliga Samverkan, the Swedish financial sector's private-public partnership organisation) for 2019, the overall aim of which was to strengthen the sector's capacity to manage disruptions and stoppages in the financial sector. The focus for the year was to improve the level of knowledge regarding total defence and the capacity of the sector to operate under a heightened state of preparedness.

Figur AR:43 Breakdown of losses over SEK 25k by number, 2015–2019



Execution, delivery and process mgmt	47%
Business disruption and system failure	5%
Clients, products and business practices	4%
External crime	42%
Damage to physical assets	1%
Employment practices and workplace safety	0%
Internal fraud	1%

Figure AR:44 Breakdown of loss amounts over SEK 25k, 2015–2019



Execution, delivery and process mgmt	60%
Business disruption and system failure	6%
Clients, products and business practices	13%
External crime	16%
Damage to physical assets	0%
Employment practices and workplace safety	0%
Internal fraud	5%

OUTSOURCING

The CEO has issued guidelines that set out the conditions and requirements for outsourcing work and functions of critical/material significance to the operations, as well as describing how risk assessments of supplier agreements are to be undertaken. The guidelines apply throughout the Handelsbanken Group and also cover the subsidiaries in the Group.

REPUTATION RISK, CONDUCT RISK AND TRAINING

Reputation risk is the risk of losses due to a deterioration of confidence in the Bank. This may occur for reasons such as deficiencies in ethical standards, inappropriate actions, poor information or badly planned development of new or changed products. Handelsbanken manages and minimises reputation risk in its operations through pro-active business intelligence and accompanying, relevant corrective action when needed, and by conducting operations to a high ethical standard. In 2019, two training programmes were mandatory for all employees in the Group: Financial crime and the General Data Protection Regulation (GDPR).

Handelsbanken's low risk tolerance is also reflected in its approach to employee benefits. The Bank regards fixed remuneration as contributing to sound operations, so this is applied as a fundamental rule.

SUSTAINABILITY RISK

Sustainability risk can arise in any of the Bank's different roles – as a lender, asset manager, service provider, purchaser or employer. Sustainability risks span over many areas, such as human rights, working conditions, the environment, climate, financial crime, and information and IT security.

The identification, management and prevention of sustainability risk is important from both a financial and legal perspective, but also for the Bank's reputation.

Handelsbanken's activities for managing sustainability risk follow our decentralised model and are aligned with the Bank's generally low risk tolerance. The Bank's business operations bear the responsibility for identifying sustainability risks and managing these. This is done within a framework of established processes for risk management.

The international working group, the Task Force on Climate-related Financial Disclosure (TCFD), has formulated recommendations for reporting climate-related information, which were presented in June 2017. Handelsbanken supports these recommendations. A central component covering the financial sector consists of expanded reporting of exposures to assets associated with climate risks.

In 2017, Handelsbanken began to work on implementing the TCFD's recommendations and in 2018, for the first time, published climate reports in accordance with these recommendations for Handelsbanken Liv and Handelsbanken Asset Management. Reports covering the 2019 year of operations will also be published for both of these entities.

The work to review the Bank's various risk management processes, in order to identify work outstanding to fully align with TCFD's recommendations, has continued over the past year. The work ahead will mainly entail adding to policy documents and instructions, enhancing the level of awareness surrounding climate-related risks – both physical risks and conversion risks – and how they affect different sectors, as well as calculating the climate impact of the Bank's credit portfolio.

COMPLIANCE RISK

Compliance risk refers to risks associated with inadequate regulatory compliance.

The Handelsbanken Group has high ambitions regarding good administrative order, ethical standards and compliance with laws and regulations. In its Policy for Compliance, Handelsbanken's Board has established that "the Bank has a low tolerance of compliance risks and, as far as possible, it must endeavour to prevent these risks."

Compliance refers to the observance of regulations, laws, directives and recommendations from public authorities, internal rules, as well as generally accepted business practices or standards relating to all operations subject to a licence. Inadequate compliance may lead to increased operational risk, the risk of sanctions or other interventions, financial losses or reduced confidence in the Group's operations. The work of compliance aims to protect the Bank from compliance risks through advice and support, to identify compliance risks and to recommend actions to mitigate them.

The main aspects of how supervisory authorities consider the compliance function should be set up and how a institution should work with compliance matters are established in the Swedish Financial Supervisory Authority's Regulations and General Guidelines regarding governance, risk management and control at credit institutions (FFFS 2014:1), the European Banking Authority's Guidelines on internal governance, and the European Securities and Markets Authority's Guidelines on certain aspects of the MiFID compliance function requirements. The Basel Committee's 'Compliance and the compliance function in banks' framework also provides guidelines for how a bank's compliance function should be structured. Handelsbanken has implemented this work method through its policies, guidelines and instructions.

ORGANISATIONAL STRUCTURE

The Compliance function is organised into both Group Compliance and local compliance units in subsidiaries and other legal entities. All compliance units must be independent of the business operations and organisationally separate from the functions and areas which are subject to control. Employees in compliance units must not perform any operational tasks which are part of the business operation they are responsible for monitoring.

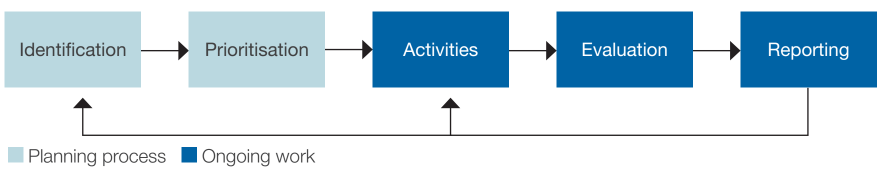
RESPONSIBILITY

Compliance is the responsibility of all managers and employees in the Group, with measures to underpin compliance being integrated in internal control activities. The responsibilities of the Compliance function are to work actively to ensure a high level of compliance and to ensure that Handelsbanken's low tolerance of compliance risks is adhered to. The Compliance function is tasked with the identification, monitoring and scrutiny of risks and deficiencies related to regulatory compliance, and also the provision of recommendations, advice and support to the Bank's staff, management and units in matters concerning compliance, as well as reporting to the management and Board on compliance issues. The Chief Compliance Officer has the ultimate responsibility for the Compliance function and reporting of compliance in the Group.

RISK-BASED COMPLIANCE WORK

The foundation for the compliance work is a risk-based prioritisation of the Group's most significant risk areas. These risk areas constitute the starting point for all compliance activities such as support and advice, training and controls. If risks or deficiencies are identified, they are evaluated and reported using a four-level assessment scale: 'minor', 'moderate', 'major' and 'critical'. The assessments are made based on the nature of the regulations, the frequency of deficiencies and the measures taken by the operations to correct deficiencies and other findings. The Chief Compliance Officer reports on significant risk areas judged to have a 'major' or 'critical' risk at least every quarter to the CEO, every six months to the Board's risk committee,

Figure AR:45 The compliance process



and every year to the Board. The reports also contain an assessment of the actions that the operations have taken to manage the risks and deficiencies identified.

COMPLIANCE RISKS

In 2019, a few compliance risks were reported as significant at Group level – that is, major or critical risks – and were all subject to action to reduce them to an acceptable level. In 2019 the significant compliance risks at Group level was mainly associated with the rules concerning measures against money laundering and terrorist financing. Positive strides have been made in this area during the year. However, continued work is still needed to ensure good management of the risks and compliance in this area. When necessary, interim solutions have been implemented to ensure compliance, parallel to the continuation of work to secure an effective, long-term solution. One other focus area during the year has been the further strengthening of compliance related to the General Data Protection Regulation.

At the start of the year, the previously reported high risk at Group level as regards credit risk rating was reduced, due among other things to the measures implemented to mitigate this risk.

RISK IN THE REMUNERATION SYSTEM

Remuneration risk is the risk of loss or other damage arising due to the remuneration system.

THE REMUNERATION SYSTEM

At Handelsbanken, remuneration is established individually when an employee takes up a new position and in local salary reviews. Taking into account the collective agreements that are binding upon Handelsbanken or corresponding local standardised contracts or agreements, remuneration is to be based on the Bank's model for setting salaries and the salary-setting factors it specifies: the nature and level of difficulty of the work, competency and skills, work performance and results achieved, leadership, the market, and being a cultural ambassador for the Bank. These principles have been applied for many years. They mean that managers at all levels participate regularly in salary processes, and take responsibility for the Bank's salary policy and the growth in their own unit's staff costs.

To ensure that Handelsbanken has a well-designed remuneration system, risks in the remuneration system are managed as a separate risk class, with the risk management following the same allocation of responsibilities as other types of risk. Handelsbanken has low tolerance of remuneration risks and actively strives to keep them at a low level. Variable remuneration must be applied with great caution and is not offered to employees who, in their professional roles, can have a material impact on the Bank's risk profile.

In 2019, SEK 48 million (46) was earned as variable remuneration.

ORGANISATIONAL STRUCTURE AND RESPONSIBILITY

The principles for the Bank's remuneration system are stipulated in the remuneration policy decided on by the Board. More detailed guidelines and implementation directives are decided by the CEO. Group Compliance reviews these policy documents to ensure observance of the regulations applying in this area. The responsibility for identifying and managing remuneration risks rests with every responsible manager in the operations. Group Risk Control ensures that the remuneration system and its application are evaluated every year from a risk perspective. This evaluation must also include an analysis of the impact of the remuneration system on the Bank's risk, capital and liquidity situation.

RISKS IN THE REMUNERATION SYSTEM

Handelsbanken's remuneration policy and remuneration system are deemed to generate low risks, align with the Bank's low tolerance of risks and support the Bank's long-term interests. The remuneration system has a low impact on the Bank's financial risk, capital and liquidity situation. The total amount reserved for variable remuneration to employees in the Handelsbanken Group must not exceed 0.4 per cent of the Handelsbanken Group's common equity tier 1 capital during any given year. The data for the calculation of variable remuneration is risk-adjusted based on an assessment of present and future risks. There are rules about deferring the disbursement of variable remuneration and for completely or partly reducing the allocated deferred variable remuneration.

For more detailed information and statistics about the Bank's remuneration system, see the Corporate Governance Report and note G8 in the Annual Report.

RISK IN THE INSURANCE OPERATIONS

The risks in the insurance business mainly comprise market risks and insurance risks.

BUSINESS OPERATIONS AND RISKS IN THE INSURANCE OPERATIONS

Handelsbanken Liv conducts life insurance operations with traditional management, unit-linked insurance, portfolio bond insurance and risk insurance operations. Traditionally managed insurance is closed for new sales. The risk profile is measured using the standard formula prescribed by Solvency 2. Market risks and insurance risks dominate the risk profile.

MARKET RISK

Market risk refers to the combined risk that changes in risk factors in financial markets – such as changes in interest rates, property prices, equity prices, or exchange rates – will result in changes in the value of the company's investment assets and/or its commitments. Market risk arises in traditional management related to guarantee products and indirectly from savings products, unit-linked insurance and portfolio bond insurance, where the policy holders themselves bear the risk but the company's earnings depend on the assets under management in the products.

Interest rate risk also arises in the insurance liabilities, in that the technical insurance provisions are discounted using a risk-free interest rate.

Handelsbanken Liv has a low risk tolerance. Through the company's investment guidelines and risk policy, the Board of Handelsbanken Liv gives overall instructions on how the assets are to be managed, given the undertakings to the policy holders and the statutory requirements, how governance and control of the investments will be implemented, and how the total risk level in the company's combined assets and undertakings will be managed. Assets are only invested in a prudent manner in assets and instruments whose risks can be identified, measured, analysed, and reported.

Table AR:46 Variable remuneration

Variable remuneration	2019	2018
Earned variable remuneration[1], SEK m	48	46
Salaries and fees, SEK m	9 291	8 726
No. of persons able to earn variable remuneration[2]	164	187
Average number of employees	12 548	12 307
Earned variable remuneration, as a proportion of salaries and fees, %	0.5	0.5
Provision for variable remuneration as a percentage of common equity tier 1 capital	0.04	0.04
No. of persons able to earn variable remuneration as a proportion of average number of employees, %	1.3	1.5

[1] The amounts are excluding social security costs. The amounts are determined after the Annual Report is published.
[2] The number of persons who are allocated variable remuneration is determined after the Annual Report is published. Of the 187 persons who were able to earn variable remuneration in 2018, 125 received an allocation.

LIQUIDITY RISK

Liquidity risk is the risk that a company will not be able to meet its payment obligations when they fall due without being affected by unacceptable costs or losses. Liquidity risks are managed by daily monitoring of future disbursements and by investing a significant portion of the company's investment assets in listed securities with very good liquidity.

INSURANCE RISK

Insurance risk consists primarily of life and disability insurance risks and can be divided into the following categories:

Risk category

Mortality risk

The risk of loss, or of an adverse change in the value of insurance commitments, resulting from changes in the levels of and trends in, or changes in the volatility of, mortality. Increased mortality leads to an increase in the value of the insurance commitments.

Longevity risk

The risk of loss, or of an adverse change in the value of insurance commitments, resulting from changes in the levels of and trends in, or changes in the volatility of, mortality. Decreased mortality leads to an increase in the value of the insurance commitments.

Disability and morbidity risk

The risk of loss, or of an adverse change in the value of insurance commitments, resulting from changes in the levels of and trends in, or changes in the volatility of, illness and recovery.

Lapse risk

The risk of loss, or of an adverse change in the value of insurance commitments, resulting from changes in the levels of, or in the volatility of, lapses, terminations, renewals and surrender.

Operating expense risk

The risk of loss, or of an adverse change in the value of insurance commitments, resulting from changes in the levels of and trends in, or changes in the volatility of, operating expenses for insurance contracts.

Revision risk

The risk of loss, or of an adverse change in the value of insurance commitments, resulting from changes in the levels of and trends in the revision rates for periodic disbursements, due to changes in regulatory requirements, the legal environment or the health status of the contracts' beneficiaries.

Catastrophe risk

The risk of loss, or of adverse change in the value of insurance commitments, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events.

The Handelsbanken Liv Group is also exposed to risks connected with accident insurance. However, these are not judged to be material compared to other risks. Most of Handelsbanken Liv's policies are taken out by small companies and private individuals. There is no risk concentration, other than that most of the policies are taken out in Sweden.

The insurance operations report their market and insurance risks as well as operational risk to the insurance company's Board and Chief Executive, to the Bank's Group Risk Control and to the Bank's risk committee, which acts in an advisory capacity to the Bank's CEO and CFO.

More information about Handelsbanken Liv's corporate governance system and risk management is included in Handelsbanken Liv's publication, Gemensam rapport om solvens och finansiell ställning (in Swedish only), available at handelsbanken.com.

ECONOMIC CAPITAL

Handelsbanken's model for calculating economic capital identifies in one measurement the Group's overall risks and indicates the capital which, with very high probability, will cover unexpected losses or decreases in value.

Group Risk Control is responsible for comprehensive monitoring of the Group's various risks. The Bank's model for economic capital (EC) is an instrument in this monitoring. It is also part of the Bank's assessment of the internal capital requirement which is reported quarterly to the Board. This assessment is intended to ensure that the Group has sufficient capital at all times in relation to all risks in the Group. The Group perspective means that economic capital also includes risks in the insurance operations and risks in the Bank's pension obligations.

Economic capital is calculated with a time horizon of one year and a confidence level that reflects an acceptable level of risk and desired rating. The Board has determined that the calculation of economic capital must be made with a 99.97 per cent confidence level, which captures an event which is extremely unfavourable for the Bank. EC is the difference between the outcome in an average year – with positive results and good growth in the value of the Bank's assets – and the outcome at a 99.97 per cent confidence level.

Diversification effects between the different risk classes are taken into account when calculating EC. Since the risks are partly independent of each other, the capital requirement for all risks is lower than the sum of the economic capital for each individual risk.

The capital and other financial resources which form a buffer that can absorb negative outcomes are called available financial resources (AFR). AFR is Handelsbanken's equity with the addition of other financial values on and off the balance sheet, available to cover losses with a one-year time horizon.

In risk and capital management, the Group applies a shareholder perspective. The economic capital model provides an overall view of the Group which makes it possible to optimise the risk and capital situation from the shareholder's perspective. The outcome of the calculations plays an important role when new transactions or structural changes are considered.

Credit risk is calculated using simulated outcomes of default for all the Group's counterparties and exposures.

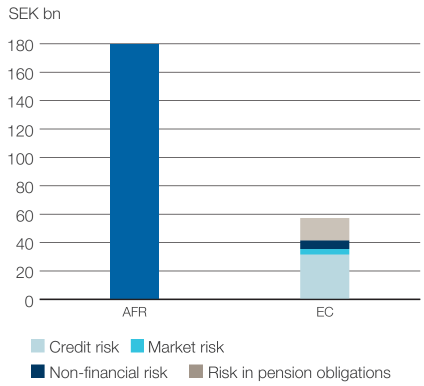
Market risks comprise the risk in the assets classified as the trading book, the interest rate risk in the non-trading book, market risks in the insurance operations, and the risk in shareholdings in the non-trading book.

The risk in the pension obligations mainly consists of the risk of a decrease in the values that exist for securing the Bank's pension obligations. Most of the pension obligations are in Sweden and are secured there in a pension foundation and an occupational pension fund.

The non-financial risks are operational risk, business risk, property risk and insurance risk. Business risk is related to unexpected changes in financial performance in each business area. For example, these may arise due to demand or competition changing unexpectedly, thus resulting in lower volumes and squeezed margins. Property risk captures the risk of a fall in the value of the properties which the Bank owns.

At year-end, EC was SEK 57.2 billion (60.2), of which credit risks accounted for the main part of the total risk. The Board stipulates that the AFR/EC ratio should be at least 120 per cent. The ratio was 314 per cent (271) at year-end, which illustrates that the Bank is well-capitalised in relation to its overall risks. The Swedish Financial Supervisory Authority has come to the same conclusion in its overall capital assessment of the Bank.

Figure AR:47 Total of AFR and EC including diversification 2019



The risk and capital situation reported is a snapshot picture, even though the risk calculations include margins of conservatism for business cycle fluctuations. To perform a final assessment of the Group's capital adequacy requirements, consideration must also be given to the stress and scenario analysis carried out as part of the Bank's capital planning.

CAPITAL PLANNING

Handelsbanken's capital planning aims to ensure that the Group has the right amount of financial resources available at all times and that the capital is of optimal composition.

The capital requirement is a function of the Group's risks, expected development, the regulations and target ratios, Handelsbanken's model for economic capital (EC) and stress tests. The Bank's capital requirement is reported weekly to the CFO and the CEO and at least quarterly to the Board.

As part of proactive capital planning, there is a contingency and action plan with specific measures that can be taken if the Bank needs to improve its capital position. The purpose of the contingency and action planning is to ensure that there is a warning system that identifies potential threats at an early stage and that the Group is prepared to take rapid action, if necessary.

At least annually, a long-term capital plan is drawn up, which is designed to give a comprehensive overview of the Group's current capital situation, a forecast of expected capital performance, and the outcome in various scenarios. These scenarios are designed to substantially differ from expected events and thus harmonise with the Group's low risk tolerance. The capital plan also contains proposals for how to maintain the capital situation at a satisfactory level in a strongly negative business environment, from both a regulatory and shareholder perspective.

The capital planning is divided into short-term and mid- to long-term forecasting. The part of capital planning that comprises short-term forecasts up to two years ahead principally focuses on assessing existing performance and the development of the capital requirement. This forecasting is necessary to enable continual adaptation of the size and composition of own funds.

Capital planning is performed through ongoing analysis of changes in volume, risk and performance, and by monitoring events that may affect the capital requirements and capital level. Short-term forecasting includes all sub-components that make up the Group's own funds and, in addition to the regulatory minimum requirements and buffers, the capital requirement includes Pillar 2 of the regulations and the minimum requirement for own funds and eligible liabilities (MREL). The forecasting work also includes conducting various sensitivity analyses, with a short-term perspective, of the expected change in the capital adequacy requirement and own funds. The Bank can thus be prepared to alter the size and composition of its own funds if required – for example, through market operations.

The result of the short-term analysis forms the basis of any capital operations performed and is reported weekly to the CFO and the CEO and, if necessary, to the Board. The analysis is based on a cautious basic scenario, with decision points in the near future for how existing earnings capacity can cope with various changes in volume, as well as the effects which arise from potential capital operations.

The part of capital planning that comprises mid- to long-term forecasts aims to ensure compliance with statutory capital adequacy requirements and that the Group's available financial resources (AFR) at all times cover by a good margin all risks calculated according to the EC model.

The long-term forecast also includes an assessment of the trend for the Bank's overall capital over the period: the minimum requirements, the combined buffer requirements, the Pillar 2 requirement and the MREL requirement. The objective is to forecast the expected performance and judge whether the Bank's resistance is satisfactory in various scenarios. The planning horizon is at least five years and takes account of the Group's overall business performance trend.

A basic scenario forms the foundation of the long-term capital forecast. This scenario is obtained from expected performance in the next five years regarding profit, volume growth, financial assumptions such as credit losses, and performance of the equity, property and fixed income markets. The basic scenario is then compared to the outcomes in a number of business cycle and crisis scenarios. The stress scenarios have been established following analysis of the historical links between the impacts of different macroeconomic variables on the financial markets and have been selected by using the scenarios expected to have the most severe impact on Handelsbanken.

At the end of 2019, the common equity tier 1 ratio was 18.5 per cent (16.8). The ratio between AFR and EC was 314 per cent (271) at the same date. Thus, AFR exceeds the assessed internal capital requirement (EC) by a very good margin.

The Bank's strong position is further emphasised by the result of the various forward-looking stress scenarios which are carried out, showing that Handelsbanken's long-term capital situation is very stable from both a financial and regulatory perspective.

Capital planning also monitors regulatory developments and assesses the impact and needs arising due to additional new requirements.

THE GROUP'S REGULATORY CAPITAL TARGETS

The Board continuously sets the targets for the Bank's capitalisation. A cornerstone of the internal capital requirement assessment of the regulatory capital situation is stress and scenario analysis of the Bank's situation, both long-term and short-term. The scenarios used are principally based on the Bank's internal risk tolerance and the direct requirements resulting from the regulations and other requirements from public authorities. In addition to the internal assessment of the capital requirement, the Swedish Financial Supervisory Authority has communicated that the target figures of Swedish banks must not be lower than the total assessed capital requirement calculated by the Supervisory Authority, regardless of the banks' internal calculations. The Bank has taken this into account when setting the target figures for the regulatory capitalisation.

The Board has decided that the common equity tier 1 ratio, which is the most relevant measure for the governance of the Bank under the current regulatory framework, under normal circumstances must be between 1 and 3 percentage points above the total common equity tier 1 capital assessment communicated to the Bank by the Swedish Financial Supervisory Authority. The other capital tiers (the tier 1 ratio and the total capital ratio) must be at least 1 percentage point above the total capital assessment communicated to the Bank by the Supervisory Authority for the respective capital tiers. In addition, the Bank must fulfil all other capital requirements imposed by public authorities. Moreover, the Board has decided that "the dividend level must not lead to the capital ratios falling below a level of one percentage point above the requirements communicated by the Swedish Financial Supervisory Authority".

In the Bank's assessment, the Supervisory Authority's common equity tier 1 capital requirement at the end of the fourth quarter was 15.8 per cent.

G3 Net interest income

SEK m	2019	2018
Interest income		
Loans to credit institutions and central banks	3 160	3 160
Loans to the public	44 445	41 469
Interest-bearing securities eligible as collateral with central banks	333	387
Bonds and other interest-bearing securities	520	811
Derivative instruments	4 084	1 817
Other interest income	1 341	1 334
Total	**53 883**	**48 978**
Interest income reported in net gains/losses on financial transactions	-512	-193
Total interest income	**54 395**	**49 171**
of which interest income according to effective interest method and interest on derivatives for hedging	*53 798*	*48 341*
Interest expenses		
Due to credit institutions and central banks	-871	-1 362
Deposits and borrowing from the public	-2 157	-1 814
Issued securities	-20 022	-18 458
Derivative instruments	4 440	8 070
Subordinated liabilities	-1 282	-1 543
Other interest expenses	-2 366	-3 080
Total	**-22 258**	**-18 187**
Interest expenses reported in net gains/losses on financial transactions	2	-302
Total interest expenses	**-22 260**	**-17 885**
of which interest expenses according to effective interest method and interest on derivatives for hedging	*-20 095*	*-15 114*
Net interest income	**32 135**	**31 286**

The derivative instrument rows include net interest income related to hedged assets and liabilities. These may have both a positive and a negative impact on interest income and interest expenses.

G4 Net fee and commission income

SEK m	2019	2018
Brokerage and other securities commissions	625	690
Mutual funds	3 885	3 692
Custody and other asset management fees	1 151	1 043
Advisory services	255	214
Insurance	757	714
Payments	3 757	3 605
Loans and deposits	1 401	1 340
Guarantees	399	390
Other	532	495
Total fee and commission income	**12 762**	**12 183**
Securities	-240	-222
Payments	-1 733	-1 630
Other	-92	-84
Total fee and commission expenses	**-2 065**	**-1 936**
Net fee and commission income	**10 697**	**10 247**

Segment reporting 2019	Home markets									
SEK m	Sweden	UK	Norway	Danmark	Finland	The Netherlands	Capital Markets	Other	Adjustments and eliminations	Total
Brokerage and other securities commissions	197	4	13	37	32	25	309	20	-12	625
Mutual funds	915	-	35	25	29	58	2 913	24	-114	3 885
Custody and other asset management fees	418	305	67	143	28	63	128	1	-2	1 151
Advisory services	0	40	1	12	-	-	207	-5	-	255
Insurance	363	-	18	24	5	-	370	1	-24	757
Payments	2 555	299	282	213	357	3	60	-12	0	3 757
Loans and deposits	700	166	88	65	296	19	56	13	-2	1 401
Guarantees	126	24	52	63	28	1	104	0	1	399
Other	421	5	2	71	16	0	257	1	-241	532
Total fee and commission income	**5 695**	**843**	**558**	**653**	**791**	**169**	**4 404**	**43**	**-394**	**12 762**

G4 Cont.

Segment reporting 2018	Home markets									
SEK m	Sweden	UK	Norway	Danmark	Finland	The Netherlands	Capital Markets	Other	Adjustments and eliminations	Total
Brokerage and other securities commissions	200	5	14	36	7	36	372	39	-19	690
Mutual funds	840	-	65	25	36	61	2 783	0	-118	3 692
Custody and other asset management fees	393	283	26	133	27	59	123	0	-1	1 043
Advisory services	0	36	-	11	0	-	167	-	0	214
Insurance	360	-	17	22	4	-	333	1	-23	714
Payments	2 512	269	257	205	314	2	70	-12	-12	3 605
Loans and deposits	696	150	96	51	265	19	59	5	-1	1 340
Guarantees	102	24	58	56	26	2	122	-	0	390
Other	397	4	2	62	16	1	250	0	-237	495
Total fee and commission income	**5 500**	**771**	**535**	**601**	**695**	**180**	**4 279**	**33**	**-411**	**12 183**

Fee and commission income refers to income from contracts with customers. Income from Brokerage and other securities commissions, Advisory services, Payments and Loans and deposits is generally recognised in conjunction with the rendering of the service, i.e. at a specific point in time. Payments also includes the issuing and acquisition of cards. Income from Mutual funds, Custody and other asset management fees, Insurance and Guarantees is generally recognised as the services are rendered, i.e. on a straight-line basis over time.

G5 Net gains/losses on financial transactions

SEK m	2019	2018
Amortised cost	209	180
of which loans	*323*	*357*
of which interest-bearing securities	*0*	*0*
of which issued securities	*-114*	*-177*
Fair value through other comprehensive income	-1	0
of which expected credit losses	*-1*	*-1*
Fair value through profit or loss, fair value option	646	-129
of which interest-bearing securities	*646*	*-129*
Fair value through profit or loss, mandatory, including foreign exchange effects	553	1 107
Hedge accounting	-58	-44
of which net gains/losses on fair value hedges	*-49*	*-4*
of which cash flow hedge ineffectiveness	*-9*	*-40*
Result from financial components in insurance contract	-50	-206
Total	**1 299**	**908**

The accumulated value change due to changes in credit risk from initial recognition from financial assets which are classified at fair value through profit or loss, fair value option, amounted to SEK 23m (-47).

G6 Risk result - insurance

SEK m	2019	2018
Premiums written	506	459
Insurance claims paid	-351	-382
Change in provisions for unsettled claims	-7	33
Other	-3	-4
Total	**145**	**106**

G7 Other income

SEK m	2019	2018
Rental income	39	38
Other operating income[1]	104	967
Total	**143**	**1 005**

[1] Handelsbanken AB sold its shares in UC AB during 2018, which had an impact of SEK 837m on other operating income.

G8 Staff costs

SEK m	2019	2018
Salaries and fees	-9 291	-8 726
Social security costs	-2 178	-2 069
Pension costs[1]	-1 939	-1 397
Provision for the profit-sharing scheme	829	-859
Other staff costs	-970	-414
Total	**-13 549**	**-13 465**

[1] The components in the reported pension costs are shown in the Pension costs table.

Salaries and fees SEK m	2019	2018
Executive officers[2]	-144	-146
Others	-9 147	-8 580
Total	**-9 291**	**-8 726**

[2] Executive officers and Board members in the parent company and CEOs, Deputy CEOs and Board members in subsidiaries (on average 53 people).

Gender distribution	2019		2018	
%	Men	Women	Men	Women
Executive officers excluding Boards	70	30	62	38
Of which in parent company	*67*	*33*	*62*	*38*
Of which in subsidiaries	*71*	*29*	*62*	*38*
Boards	68	32	64	36
Of which in parent company	*55*	*45*	*64*	*36*
Of which in subsidiaries	*70*	*30*	*65*	*35*

Average number of employees	2019	Men	Women	2018	Men	Women
Sweden	7 394	3 532	3 862	7 262	3 483	3 779
UK	2 442	1 371	1 071	2 319	1 339	980
Norway	777	412	365	771	411	360
Denmark	651	334	317	659	329	330
Finland	617	273	344	635	273	362
The Netherlands	336	225	111	313	215	98
USA	62	41	21	66	44	22
China	80	30	50	75	28	47
Luxembourg	46	26	20	52	30	22
Singapore	30	11	19	33	11	22
Germany	38	19	19	42	21	21
Poland	33	11	22	36	14	22
Other countries	42	14	28	44	18	26
Total	**12 548**	**6 299**	**6 249**	**12 307**	**6 216**	**6 091**

Remuneration[3] exceeding EUR 1 million No. of persons	2019	2018
Range EUR 1.0 – 1.5m	5	2
Range EUR 1.5 – 2.0m	-	-
Range EUR 2.0 – 2.5m	2	2
Range EUR exceeding 2.5m	-	-
Total	**7**	**4**

[3] Including earned pension and other salary benefits.

EMPLOYEE BENEFITS

Information about remuneration principles to all employees in the Handelsbanken Group is provided in more detail in the Corporate Governance Report on page 72.

Pursuant to the Swedish Financial Supervisory Authority's directive FFFS 2011:1 and the European Commission Delegated Regulations (EU) 575/2013 and (EU) 604/2014, banks must identify employees whose professional activities have a material impact on the bank's risk profile. Handelsbanken has identified 1,163 (1,172) employees who engage in such activities and has designated them as 'risk-takers'. The tables below present the Handelsbanken Group's remuneration to these risk-takers pursuant to the disclosure requirements in the aforementioned regulations. In 2019, the Handelsbanken Group had no risk-takers who earned variable remuneration.

In 2018, a provision of SEK 859 million was made for the Oktogonen profit-sharing scheme, which was reversed by the Board in March 2019 on the basis of an overall assessment of the Bank's performance. The reversed provision was first reported in Q1 2019.

REMUNERATION TO EXECUTIVE OFFICERS

Executive officers in Handelsbanken are Board members, members of executive management, Deputy CEOs and the Heads of Group Risk Control and Group Compliance. Refer also to pages 74-76 of the Corporate Governance Report. The remuneration to executive officers of the parent company is in accordance with the guidelines for remuneration established by the 2019 annual general meeting (AGM). See also page 72.

Information regarding remuneration to, pension obligations for, credits to and deposits from executive officers of Handelsbanken is provided on these pages. This also applies to the subsidiaries' CEOs, Deputy CEOs and Board members.

Remuneration to executive officers of the Handelsbanken Group is paid only in the form of fixed salary and pension provisions, as well as customary benefits such as a company car. Following a special Board decision, the Bank can provide housing as part of the remuneration. No variable remuneration is paid. Executive officers who are employees of the Bank are included in Handelsbanken's profit-sharing scheme Oktogonen and are entitled to convert salary to pension on the same conditions as all employees.

Board members who are not employees of the Bank or any of the Bank's subsidiaries have only received a fee according to the decision of the AGM.

Board members who are employees of the Bank or the Bank's subsidiaries receive remuneration and pension benefits by virtue of their employment. No further remuneration or pension benefits are paid for serving on the Board. Information regarding fees to board members in the parent company are shown on pages 74-75 of the Corporate Governance Report.

The pension cost stated by the Bank in the remuneration information for executive officers below consists of the service cost relating to defined benefit pensions according to IAS 19, the agreed premiums for defined contribution pensions, and any pension premiums that have been sacrificed from salary.

The CEO's remuneration and pension terms

The Chief Executive, Carina Åkerström, who took on the role in conjunction with the 2019 AGM, earned a fixed salary of SEK 9.1 million during the period 27 March to 31 December. Other salary benefits are SEK 0.2 million and the pension cost was SEK 3.2 million. The Chief Executive is a member of the defined contribution pension scheme, with the contribution amounting to 35 per cent of her fixed salary.

The former CEO of the parent company, Anders Bouvin, earned a fixed salary of SEK 3.4 million (13.2) during the period until 27 March. His other salary benefits were SEK 0.2 million (0.5) and the pension cost, in the form of defined contribution pension, was SEK 1.2 million (8.0). For the period from 27 March until his retirement date of 31 August, Anders Bouvin received a fixed salary of SEK 5.6 million and other salary benefits of SEK 0.3 million. The defined contribution pension cost was SEK 2.0 million.

Remuneration and pension terms for other executive officers in the parent company

Pension terms

Three (3) of the Bank's other executive officers, employed in the parent company, receive a defined benefit retirement pension of a maximum of 65 per cent of their salary at the time of retirement, and also a pension premium of

G8 Cont.

Remuneration[1] to risk-takers[2], business segments	2019		2018	
SEK m	Remuneration	No. of persons	Remuneration	No. of persons
Handelsbanken Sweden	510	437	509	456
Handelsbanken UK	459	290	455	296
Handelsbanken Norway	131	62	121	68
Handelsbanken Denmark	114	73	109	72
Handelsbanken Finland	74	50	84	65
Handelsbanken the Netherlands	78	49	67	48
Handelsbanken Capital Markets	153	36	180	44
Other	400	166	296	123
Total	**1 919**	**1 163**	**1 821**	**1 172**

Remuneration[1] to risk-takers[2]	2019		2018	
	Executive management[3]	Other risk-takers	Executive management[3]	Other risk-takers
Earned fixed remuneration, SEK m	74	1 845	111	1 710
Earned variable remuneration, SEK m	-	-	-	-
Total	**74**	**1 845**	**111**	**1 710**
No. of persons with fixed remuneration only	12	1 151	14	1 158
No. of persons who may receive both fixed and variable remuneration	-	-	0	0
Total number of persons	**12**	**1 151**	**14**	**1 158**
Guaranteed variable remuneration recognised as an expense in connection with new employment, SEK m	-	-	-	-
Contracted guaranteed variable remuneration recognised as an expense in connection with new employment, SEK m	-	-	-	-

[1] Earned remuneration, including pensions and other salary benefits, has been recognised as an expense in its entirety. No risk-takers earned variable remuneration in either 2019 or 2018. Variable remuneration is allocated at an individual level during the financial year after it is earned and is disbursed or deferred in accordance with the Bank's policy for variable remuneration. In 2018, SEK 6m (5) in variable remuneration earned before 2017 was disbursed to risk-takers. The closing balance of deferred remuneration was SEK 2m (8). The right of disposal of the deferred remuneration transfers to the employees at the time of disbursement. All variable remuneration is paid in cash. The amounts are excluding social security costs. During the year, SEK 40m (16) in termination benefits was paid to 15 (7) risk-takers. Total contracted termination benefits during the year amount to SEK 47m (17), with the highest individual amount being SEK 9.5m (8). No guaranteed variable remuneration is paid.

[2] Employees whose duties can have a material impact on the Bank's risk profile pursuant to the Commission Delegated Regulation (EU) 604/2014). There may be risk-takers or other specially regulated employees with variable remuneration in subsidiaries whose remuneration policy is subject to other EU regulations or other regulations published by the Swedish Financial Supervisory Authority.

[3] The Swedish Financial Supervisory Authority uses the term 'Senior Management' in its regulations FFFS 2011:1. At Handelsbanken, this corresponds to the Bank's executive officers.

a maximum of two per cent of their salary. Their minimum retirement age is 60* and the defined benefit retirement pension is earned successively during the period of employment; it is fully earned for these persons by the time they reach the age of retirement.

Eight (9) executive officers receive a defined contribution pension, with 65 as the age of retirement. The premium is individual and is a maximum of 35 per cent of the salary. In addition to this contribution, six (6) of these individuals are members of a collectively agreed occupational BTP and BTPK pension scheme.

An accrued defined benefit pension is vested and secured in the Bank's pension foundation or assured in the Bank's pension fund. If service ceases before retirement age, the person receives a paid-up policy for the defined benefit and/or defined contribution pension earned.

Remuneration

Deputy CEO Per Beckman earned a fixed salary of SEK 5.9 million (5.8) during the year. Other salary benefits are SEK 0.3 million (0.3) and the pension cost was SEK 3.8 million (3.6), corresponding to 64.5 per cent (62.5) of the salary.

During the year, other executive officers, an average of 10 individuals (13), received fixed salary, after conversion to pension, amounting to SEK 46.7 million (61.1). Other salary benefits were SEK 3.0 million (6.6) and the Bank's pension cost was SEK 17.7 million (23.0). Before conversion to pension, the pension cost was SEK 16.8 million (23.0), corresponding to 35.3 per cent of the salary (37.6).

Fees for serving on the boards of other companies on behalf of the Bank have been paid to the Bank.

Remuneration in subsidiaries

Fees paid to the 17 (18) board members of subsidiaries who are not employees of the Bank or its subsidiaries are SEK 5.4 million (4.2).

In 2019, the CEOs and Deputy CEOs in the subsidiaries, 16 (17) individuals, received fixed salaries after conversion to pension amounting to SEK 57.9 million (47.6). Other salary benefits were SEK 4.5 million (2.2) and the Bank's pension cost was SEK 10.9 million (9.8). Before conversion to pension, the pension cost was SEK 10.6 million (9.5), corresponding to 18.2 per cent of the salary (19.8).

Remuneration is not paid to CEOs and Deputy CEOs in subsidiaries who have other main work tasks at Handelsbanken.

PENSION OBLIGATIONS TO EXECUTIVE OFFICERS

As at 31 December 2019, the pension obligation** for the CEO Carina Åkerström, earned before she took up the position of CEO and now placed in a paid-up policy, was SEK 94.2 million (92.7). As at 31 December 2019, the pension obligation for the Deputy CEO Per Beckman was SEK 113.9 million (102.3), and for the other executive officers in the parent company – 10 individuals (11) – pension obligations were SEK 181.5 million (260.4).

* In new pension terms entered into after 1 January 2012, the age of retirement is 65.

** Pension obligations are amounts which, in accordance with IAS 19, the Bank reserves for payment of future defined benefit pensions. The size of the amounts depends on financial and demographic assumptions which may change from year to year

G8 Cont.

Pension obligations in the Handelsbanken Group for all current and former executive officers were SEK 3,129 million (3,022) as at 31 December 2019, of which pension obligations for all current and former executive officers in the parent company were SEK 2,936 million (2,847) as of the same date. The number of people covered by these obligations in the Group is 84 (82), of whom 63 (60) are pensioners. The corresponding number for the parent company is 69 (67), of whom 57 (54) are pensioners.

CREDITS TO AND DEPOSITS FROM EXECUTIVE OFFICERS

As at 31 December 2019, credits to executive officers were SEK 9.3 million (64.3) in the parent company and SEK 95.3 million (93.9) in the subsidiaries. Deposits in the parent company from these persons totalled SEK 702.3 million (458.0). In 2019, the Bank's interest income from these persons for credits totalled SEK 0.3 million (0.2) in the parent company and SEK 1.2 million (1.2) in the subsidiaries. Interest paid to these persons for deposits in the parent company was SEK 2.1 million (1.5).

As at 31 December 2019, credits to executive officers in the subsidiaries in the Handelsbanken Group were SEK 100.1 million (123.5).

Credit and deposit terms for executive officers employed in the Handelsbanken Group are in line with the principles applicable for all other employees of the Handelsbanken Group. All credits are subject to a credit assessment.

PENSIONS

Net pension obligations SEK m	**2019**	**2018**
Pension obligations	35 724	31 969
Fair value of plan assets	36 378	28 743
Net pensions	**654**	**-3 226**

In addition to the defined benefit obligation and plan assets in the above table, provisions have been made in the years 1989-2004 to Svenska Handelsbankens Pensionsstiftelse (pension foundation) to a special supplementary pension (SKP). This includes plan assets whose market value amounts to SEK 10,072m (10,458). SKP entails a commitment by the Bank amounting to the same amount as the plan assets.

Part of the commitment, SEK 7,631m (7,919), is conditional.

As of 1 March 2018, all new pension earnings in the UK are placed in a defined contribution plan. Staff in the UK employed before 1 January 2006 were part of a defined benefit pension scheme, which closed for the accrual of further benefits from 28 February 2018, with the defined benefit pension accrued until that date remaining a part of the Bank's pension obligations. The result of the transition from a defined benefit plan to new earnings in a defined contribution plan was that pension obligations in the UK decreased by SEK 144m as at 31 December 2018.

As of 1 April 2017, all new pension earnings in Norway are placed in a defined contribution plan. The defined benefit pension plan in Norway was closed on this date. As a result of this closure, pension obligations in Norway decreased by SEK 52m as at 31 December 2018.

Pension costs SEK m	**2019**	**2018**
Service cost	-885	-842
Past service cost[1]	-	166
Interest on pension obligations	-664	-681
Interest on plan assets	596	703
Gains and losses from settlements and curtailments	-	58
Social security costs, defined benefit plans	0	4
Pension costs, defined benefit plans	**-954**	**-592**
Pension costs, defined contribution plans	-831	-767
Social security costs, defined contribution plans	-154	-38
Total pension costs	**-1 939**	**-1 397**

[1] The final termination of the Norwegian defined benefit scheme during 2018 had a positive effect on pension costs of SEK 26m as at 31 December 2018.

The transition to a defined contribution scheme in the UK during 2018 had a positive effect on pension costs of SEK 144m as at 31 December 2018.

Pension obligations SEK m	**2019**	**2018**
Opening balance	31 969	30 455
Service cost	885	838
Past service cost[1]	-	-196
Interest on pension obligations	664	681
Paid benefits	-965	-947
Gains and losses from settlements and curtailments	-	-58
Actuarial gains (-)/losses (+)	2 980	1 107
Foreign exchange effect	191	89
Closing balance	**35 724**	**31 969**

Plan assets SEK m	**2019**	**2018**
Opening balance	28 743	31 694
Past service cost	-	-30
Interest on plan assets	596	703
Funds contributed by the employer	535	542
Compensation to employer	-498	-480
Gains and losses from settlements and curtailments	-	-
Funds paid directly to employees	-424	-420
Actuarial gains (+)/losses (-)	7 248	-3 309
Foreign exchange effect	178	43
Closing balance	**36 378**	**28 743**

Return on plan assets SEK m	**2019**	**2018**
Interest on plan assets	596	703
Actuarial gains (+)/losses (-)	7 248	-3 309
Actual return	**7 844**	**-2 606**

Allocation of plan assets SEK m	**2019**	**2018**
Shares and fund shares on an active market[2]	32 968	25 908
Shares not listed on an active market	513	348
Interest-bearing securities listed on an active market	2 049	2 185
Interest-bearing securities not listed on an active market	-	-
Other plan assets	848	302
Total	**36 378**	**28 743**

[2] The fund shares are entirely invested in fixed income funds and amount to SEK 8,798m (3,145).

The plan assets include shares in Svenska Handelsbanken AB (publ) with a market value of SEK 118m (115) on the balance sheet date 31 December 2019. Bonds issued by Svenska Handelsbanken AB (publ) are included with a market value of SEK -m (439). Other plan assets include a liability for compensation that has not yet been paid out from the pension foundation.

G8 Cont.

Actuarial gains (-)/losses (+), pension obligations SEK m	2019	2018
Changes in demographic assumptions	312	-41
Changes in financial assumptions	2 256	843
Experience-based adjustments	412	305
Total	**2 980**	**1 107**

Future cash flows SEK m	Outcome 2019	Forecast 2020
Paid benefits	-965	-894
Funds contributed by the employer	535	570

Defined benefit pensions are mainly paid to employees in Sweden. Of the total net obligation, the Swedish plan accounts for SEK 32,208m (29,579) and the closed UK plan for SEK 3,113m (2,275). In addition, there is a small defined benefit plan in Germany which, given its size, is not considered material and is therefore not presented in more detail.

Of the total plan assets, the Swedish plan assets are SEK 33,505m (26,497), while an amount of SEK 2,642m (2,238) is attributable to the closed plan in the UK. In addition, there is a small amount of plan assets in Germany which, given their size, are not considered material and are therefore not presented in more detail.

In Sweden, a retirement pension is paid from the age of 65 in accordance with the pension agreement between the Employers' Association of the Swedish Banking Institutions (BAO) and the Swedish Financial Sector Union/Swedish Confederation of Professional Associations. The amount is 10% of the annual salary up to 7.5 income base amounts. On the part of the salary between 7.5 and 20 income base amounts, the retirement pension is 65% and in the interval between 20 and 30 income base amounts, it is 32.5% of the annual salary. No retirement pension is paid on the portion of the salary in excess of 30 income base amounts. As of 1 March 2020, all new employees and emloyees younger than 25 years will accrue pension in a new defined contribution plan. Employees already members in the defined benifit plan will not be affected.

In the UK, the defined benefit plan was closed on 28 February 2018, with all new pension accruals from 1 March 2018 being made in a defined contribution plan.

The pension plans are funded externally, meaning plan assets are held by pensions funds, trusts or similar legal entities. The trusts' (or equivalent) activities are regulated by national laws and practices, as is the relationship between the Group and the trust (or equivalent) managing the plan assets and the framework for how the plan assets may be invested. In Sweden, the Act on the Safeguarding of Pension Commitments and Mutual Benefit Societies Act are mainly applied. In the UK, the standard UK pensions and tax law is applied.

Significant assumptions	Sweden		UK	
	2019	2018	2019	2018
Discount rate, %	1.70	2.00	2.00	2.90
Expected salary increase, %	3.5	3.5	N/A	N/A
Pension indexing, %	2.0	2.0	3.0	3.2
Income base amount, %	3.0	3.0	N/A	N/A
Inflation, %	2.0	2.0	3.2	3.4
Staff turnover, %	3.5	3.0	N/A	N/A
Remaining life expectancy at retirement age, years	23.1	23.1	24.1	23.6
Average duration (Macaulay), years	18.8	18.9	20.0	20.0

Sensitivity analysis		Effects on the defined benefit obligation			
		Increased defined benefit obligation, SEK m		Decreased defined benefit obligation, SEK m	
	Changes in assumptions	2019	2018[3]	2019	2018[3]
Discount rate, %	0,5	3 823	3 308	-3 317	-2 904
Expected salary increase, %	1,0	1 613	1 512	-2 441	-2 275
Pension indexing, %	0,5	2 158	1 843	-1 993	-1 707
Remaining life expectancy at retirement age, years	1,0	1 432	1 191	-1 303	-1 178

[3] Comparative figures have been adjusted.

The above sensitivity analysis is based on a change in assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension liability recognised within the statement of financial position. The method is described in the accounting policies (see note G1, section 19). Compared with the 2018 Annual Report there have been no changes in the methods used when preparing the sensitivity analyses.

Through its defined benefit pension plans, the Bank is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility: The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets underperform this yield, this will create a deficit. The pension plans hold a significant proportion of equities which are expected to outperform corporate bonds in the long term while providing volatility and risk in the short term. The Bank believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the Bank's long-term strategy to manage the plans efficiently.

Changes in bond yields: A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk: The plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. The plans' assets are not directly affected by inflation in a material way, meaning that an increase in inflation will probably increase the deficit.

Life expectancy: The pension schemes are to provide benefits during the life of the members, so increases in life expectancy will result in an increase in the benefit obligation.

Asset-Liability matching (ALM): The composition of the plan assets is matched to the pension liabilities composition and expected development. The overall goal is to generate a return over the medium and long term, that at least corresponds to the development of the pension liability. The majority of the plan assets are invested in equities, but investments are also made in fixed income instruments and cash. A high proportion of shares is deemed appropriate in order to manage the plans effectively.

Funding arrangements: Minimum funding requirements differ between plans but where such requirements are based on collective agreements or internal policies, the funding requirement is generally that the pension obligations measured according to local requirements shall be covered in full. Funding levels are monitored regularly. The Bank considers that the current contribution rate is appropriate.

G9 Other expenses

SEK m	2019	2018
Property and premises	-656	-1 310
External IT costs	-2 288	-2 191
Communication	-334	-344
Travel and marketing	-299	-305
Purchased services	-2 001	-1 760
Supplies	-186	-178
Other administrative expenses	-760	-624
Total	**-6 524**	**-6 712**

SEK m	2018
of which expenses for operating leases	
Lease fee	*-752*
Variable fee	*-80*
Total	**-832**

Operating leases are mainly related to agreements that are normal for the operations regarding office premises and office equipment. Rental costs for premises normally have a variable fee related to the inflation rate and to property taxes.

Contracted irrevocable future operating lease charges broken down by maturity

SEK m	2018
Within 1 year	-788
Between 1 and 5 years	-2 250
Over 5 years	-1 411
Total	**-4 449**

Information about the Bank as lessee in 2019 can be found in note G43 Leasing.

Remuneration to auditors and audit companies	Ernst & Young AB		PricewaterhouseCoopers AB	
SEK m	2019	2018	2019	2018
Audit assignment	-28	-19	-4	-4
Audit operations outside the audit assignment	-2	-3	-	-
Tax advice	-	-	-	-
Other services	-	-	-	-

Internal audit costs were SEK 186m (169) during the year.

G10 Credit losses

SEK m	2019	2018
Expected credit losses on balance sheet items		
The year's provision Stage 3	-1 585	-1 155
Reversal of Stage 3 provisions to Stage 1 or Stage 2	386	265
Total expected credit losses in Stage 3	**-1 199**	**-890**
The year's net provision Stage 2	129	33
The year's net provision Stage 1	-48	93
Total expected credit losses in Stage 1 and Stage 2	**81**	**126**
Total expected credit losses on balance sheet items	**-1 118**	**-764**
Expected credit losses on off-balance sheet items		
The year's net provision Stage 3	-107	0
The year's net provision Stage 2	-1	23
The year's net provision Stage 1	9	33
Total expected credit losses on off-balance sheet items	**-99**	**56**
Write-offs		
Actual credit losses for the year[1]	-501	-3 060
Utilised share of previous provisions in Stage 3	421	2 711
Total write-offs	**-80**	**-349**
Recoveries	252	176
Net credit losses	**-1 045**	**-881**
of which loans to the public	*-950*	*-929*

[1] Of the year's actual credit losses, SEK 159m (413) is subject to enforcement activities.

G10 Cont.

Balance sheet and off-balance sheet items that are subject to impairment testing 2019

	Gross			Provisions		
SEK m	Stage 1	Stage 2	Stage 3[1]	Stage 1	Stage 2	Stage 3
Balance sheet items						
Cash and balances with central banks	327 958	-	-	0	-	-
Other loans to central banks	19 547	-	-	0	-	-
Interest-bearing securities eligible as collateral with central banks	1 427	-	-	0	-	-
Loans to other credit institutions	17 750	193	-	-1	-3	-
Loans to the public	2 236 671	51 669	8 831	-360	-441	-3 767
Bonds and other interest-bearing securities	4 953	-	-	-2	-	-
Total	**2 608 306**	**51 862**	**8 831**	**-363**	**-444**	**-3 767**
Off-balance sheet items						
Contingent liabilities	400 479	7 985	712	-69	-66	-106
of which contingent liabilities	*92 097*	*2 593*	*496*	*-7*	*-13*	*-71*
of which commitments	*308 382*	*5 392*	*216*	*-62*	*-53*	*-35*
Total	**400 479**	**7 985**	**712**	**-69**	**-66**	**-106**

Balance sheet and off-balance sheet items that are subject to impairment testing 2018

	Gross			Provisions		
SEK m	Stage 1	Stage 2	Stage 3[1]	Stage 1	Stage 2	Stage 3
Balance sheet items						
Cash and balances with central banks	317 217	-	-	0	-	-
Other loans to central banks	33 557	-	-	-	-	-
Interest-bearing securities eligible as collateral with central banks	1 236	-	-	0	-	-
Loans to other credit institutions	21 751	397	-	-3	-8	-
Loans to the public	2 126 983	58 179	7 731	-312	-552	-2 937
Bonds and other interest-bearing securities	5 373	-	-	-1	-	-
Total	**2 506 117**	**58 576**	**7 731**	**-316**	**-560**	**-2 937**
Off-balance sheet items						
Contingent liabilities	420 024	7 619	411	-78	-64	-
of which contingent liabilities	*89 801*	*2 755*	*383*	*-5*	*-9*	*-*
of which commitments	*330 223*	*4 864*	*28*	*-73*	*-55*	*-*
Total	**420 024**	**7 619**	**411**	**-78**	**-64**	**-**

[1] Gross volume in Stage 3 for which no provision has been made, due to collateral received, amounts to SEK 2,125m (1,335).

Key figures, credit losses **Loans to the public**	**2019**	**2018**
Credit loss ratio, acc., %	0.04	0.04
Total reserve ratio, %	0.20	0.17
Reserve ratio Stage 1, %	0.02	0.01
Reserve ratio Stage 2, %	0.85	0.95
Reserve ratio Stage 3, %	42.65	38.00
Proportion of loans in Stage 3, %	0.22	0.22

G10 Cont.

CHANGE ANALYSIS

Change in provision for expected credit losses, balance sheet items that are subject to impairment testing

	2019				2018			
SEK m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	-316	-560	-2 937	-3 813	-401	-576	-4 696	-5 673
Derecognised assets	35	107	81	223	51	109	145	305
Write-offs	1	1	419	421	0	26	2 685	2 711
Remeasurements due to changes in credit risk	-197	-134	63	-268	-126	-619	-175	-920
Changes due to update in the methodology for estimation	-4	-5	-	-9	29	154	-	183
Foreign exchange effect, etc.	-11	-9	-47	-67	-7	-23	-40	-70
Purchased or originated assets	-46	-17	-16	-79	-59	-82	-16	-157
Transfer to Stage 1	-26	52	1	27	-13	44	0	31
Transfer to Stage 2	93	-225	20	-112	94	-245	2	-149
Transfer to Stage 3	108	346	-1 351	-897	116	652	-842	-74
Provision at end of year	**-363**	**-444**	**-3 767**	**-4 574**	**-316**	**-560**	**-2 937**	**-3 813**

Change in provision for expected credit losses, loans to the public

	2019				2018			
SEK m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	-312	-552	-2 937	-3 801	-400	-573	-4 696	-5 669
Derecognised assets	33	101	81	215	50	109	145	304
Write-offs	1	1	419	421	0	26	2 685	2 711
Remeasurements due to changes in credit risk	-196	-134	63	-267	-118	-619	-175	-912
Changes due to update in the methodology for estimation	-4	-5	-	-9	28	153	-	181
Foreign exchange effect, etc.	-11	-9	-47	-67	-7	-23	-40	-70
Purchased or originated assets	-46	-16	-16	-78	-58	-81	-16	-155
Transfer to Stage 1	-26	52	1	27	-13	44	0	31
Transfer to Stage 2	93	-225	20	-112	90	-240	2	-148
Transfer to Stage 3	108	346	-1 351	-897	116	652	-842	-74
Provision at end of year	**-360**	**-441**	**-3 767**	**-4 568**	**-312**	**-552**	**-2 937**	**-3 801**

Change in provision for expected credit losses, off-balance sheet items that are subject to impairment testing

	2019				2018			
SEK m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	-78	-64	-	-142	-110	-86	0	-196
Derecognised assets	19	13	-	32	16	13	0	29
Write-offs	0	0	-	0	-	-	-	-
Remeasurements due to changes in credit risk	-10	1	-106	-115	9	-23	-	-14
Changes due to update in the methodology for estimation	2	2	-	4	24	25	-	49
Foreign exchange effect, etc.	-1	-1	-	-2	-1	-2	-	-3
Purchased or originated assets	-13	-9	-	-22	-28	-4	-	-32
Transfer to Stage 1	-4	11	-	7	-4	18	-	14
Transfer to Stage 2	11	-31	-	-20	11	-33	-	-22
Transfer to Stage 3[1]	5	12	-	17	5	28	-	33
Provision at end of year	**-69**	**-66**	**-106**	**-241**	**-78**	**-64**	**-**	**-142**

[1] Contingent liabilities and commitments classified in Stage 1 or 2 at the beginning of the year but which have been utilised at the end of the period are recorded as an asset on the balance sheet on the reporting date. When such agreements are transferred to Stage 3, the reserved amount is recognised in the corresponding table for balance sheet items.

The change analysis shows the net effect on the provision for the Stage in question for each explanatory item during the period. The effect of derecognitions and write-offs is calculated on the opening balance. The effect of revaluations due to changes in the methodology for estimation and foreign exchange effects, etc., is calculated before any transfer of the net amount between Stages. Purchased or originated assets and amounts transferred between Stages are recognised after the effects of other explanatory items are taken into account. The transfer rows present the effect on the provision for the stated Stage.

G10 Cont.

Change in gross volume, balance sheet items that are subject to impairment testing

	2019				2018			
SEK m	Steg 1	Steg 2	Steg 3	Summa	Steg 1	Steg 2	Steg 3	Summa
Volume at beginning of year	2 506 117	58 576	7 731	2 572 424	2 339 400	30 876	10 186	2 380 462
Derecognised assets	-191 016	-9 667	-585	-201 268	-186 770	-7 462	-827	-195 059
Write-offs	-11	-8	-482	-501	-12	-38	-3 010	-3 060
Remeasurements due to changes in credit risk	18 585	-1 486	-952	16 147	36 142	12 891	-1 116	47 917
Changes due to update in the methodology for estimation	-	-	-	-	-	-	-	-
Foreign exchange effect, etc.	44 575	1 454	144	46 173	40 078	863	114	41 055
Purchased or originated assets	232 296	3 641	87	236 024	293 919	7 066	124	301 109
Transfer to Stage 1	44 887	-44 847	-40	-	34 136	-33 768	-368	-
Transfer to Stage 2	-46 439	46 646	-207	-	-49 980	50 447	-467	-
Transfer to Stage 3	-688	-2 447	3 135	-	-796	-2 299	3 095	-
Volume at end of year	**2 608 306**	**51 862**	**8 831**	**2 668 999**	**2 506 117**	**58 576**	**7 731**	**2 572 424**

Change in gross volume, loans to the public

	2019				2018			
SEK m	Steg 1	Steg 2	Steg 3	Summa	Steg 1	Steg 2	Steg 3	Summa
Volume at beginning of year	2 126 983	58 179	7 731	2 192 893	2 030 102	30 749	10 045	2 070 896
Derecognised assets	-168 657	-9 427	-585	-178 669	-167 919	-7 418	-827	-176 164
Write-offs	-11	-8	-482	-501	-12	-38	-3 010	-3 060
Remeasurements due to changes in credit risk	36 579	-1 422	-944	34 213	-6 897	12 596	-971	4 728
Changes due to update in the methodology for estimation	-	-	-	-	-	-	-	-
Foreign exchange effect, etc.	28 652	1 454	144	30 250	20 812	851	114	21 777
Purchased or originated assets	215 317	3 581	87	218 985	267 593	7 003	120	274 716
Transfer to Stage 1	44 885	-44 845	-40	-	33 822	-33 454	-368	-
Transfer to Stage 2	-46 389	46 596	-207	-	-49 722	50 189	-467	-
Transfer to Stage 3	-688	-2 439	3 127	-	-796	-2 299	3 095	-
Volume at end of year	**2 236 671**	**51 669**	**8 831**	**2 297 171**	**2 126 983**	**58 179**	**7 731**	**2 192 893**

Change in gross volume, off-balance sheet items that are subject to impairment testing

	2019				2018			
SEK m	Steg 1	Steg 2	Steg 3	Summa	Steg 1	Steg 2	Steg 3	Summa
Volume at beginning of year	420 024	7 619	411	428 054	415 943	7 309	681	423 933
Derecognised assets	-37 132	-1 513	-15	-38 660	-40 196	-1 109	-21	-41 326
Write-offs	-	-	0	0	-	0	0	0
Remeasurements due to changes in credit risk	-23 720	1 516	146	-22 058	-17 348	5 015	-410	-12 743
Changes due to update in the methodology for estimation	-	-	-	-	-	-	-	-
Foreign exchange effect, etc.	5 405	210	14	5 629	5 801	442	13	6 256
Purchased or originated assets	35 114	1 094	3	36 211	51 342	589	3	51 934
Transfer to Stage 1	6 528	-6 523	-5	-	14 780	-14 761	-19	-
Transfer to Stage 2	-5 690	5 705	-15	-	-10 222	10 246	-24	-
Transfer to Stage 3	-50	-123	173	-	-76	-112	188	-
Volume at end of year	**400 479**	**7 985**	**712**	**409 176**	**420 024**	**7 619**	**411**	**428 054**

Like the analysis for provisions, the change analysis for gross volumes shows the effect of selected explanatory items on the volumes for a stated Stage. The items showing transfers between Stages, and 'Purchased or originated assets', present the amounts in the stated Stage at the end of the period. Other items present the effect in the Stage applying at the start of the period.

G10 Cont.

SENSITIVITY ANALYSIS

Sensitivity analys, macroscenarios

The calculation of expected credit losses pursuant to IFRS 9 applies forward-looking information in the form of macroscenarios. The expected credit loss is a probability-weighted average of the estimated forecasts over three scenarios. The forecast in the normal scenario (Base case) is assigned a weighting of 60% (70), while an upturn in the economy is assigned a weighting of 15% (15) and a downturn in the economy is assigned a weighting of 25% (15). The following table presents the minimum, maximum and average annual forecasts for some of the central risk factors by home market and scenario for the next five years. These have formed the basis for the calculation of expected credit losses in Stage 1 and Stage 2 as at 31 December 2019 and 31 December 2018, respectively

	Minimum						Average						Maximum					
	Downturn		Base case		Upturn		Downturn		Base case		Upturn		Downturn		Base case		Upturn	
Macro factors	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
GDP growth																		
Sweden	-1.49	-0.40	0.81	1.60	1.70	1.70	1.84	1.89	1.96	2.00	2.08	2.11	2.70	2.50	2.20	2.20	2.84	3.20
UK	-0.90	0.10	1.00	1.30	1.20	1.20	1.50	1.53	1.61	1.62	1.71	1.71	1.90	1.90	1.77	1.77	2.60	2.70
Norway	-0.04	0.10	1.24	1.50	1.20	1.20	1.57	1.60	1.67	1.69	1.78	1.81	1.85	2.21	1.84	2.40	3.64	3.30
Denmark	-0.66	-0.90	1.09	0.70	1.10	1.10	1.39	1.39	1.49	1.48	1.59	1.59	1.81	1.81	1.81	1.81	3.04	2.50
Finland	-1.67	-0.70	0.73	1.20	1.10	1.10	1.50	1.56	1.62	1.66	1.73	1.77	1.95	1.95	1.88	1.95	2.63	3.10
The Netherlands and the rest of Europe	-1.17	-0.40	0.93	1.30	1.00	1.00	1.16	1.20	1.28	1.32	1.39	1.42	1.70	1.70	1.40	1.63	2.63	2.80
USA	0.54	0.80	1.25	1.30	1.94	1.80	1.95	1.95	1.98	1.98	2.02	2.02	2.50	2.50	2.30	2.35	2.30	2.44
Other countries	2.40	2.90	2.90	3.00	3.00	3.00	3.07	3.10	3.10	3.13	3.12	3.15	3.50	3.50	3.50	3.52	3.50	3.61
Unemployment rate																		
Sweden	6.60	6.30	6.60	6.30	6.30	5.90	6.90	6.80	6.75	6.66	6.65	6.58	8.35	7.70	7.24	6.70	6.70	6.70
UK	4.80	4.19	4.10	4.19	3.50	3.70	5.18	5.18	5.04	5.05	4.90	4.94	5.80	6.10	5.20	5.20	5.20	5.20
Norway	3.50	3.50	3.40	3.40	2.80	2.80	3.61	3.61	3.50	3.50	3.39	3.39	4.40	4.30	3.60	3.53	3.50	3.53
Denmark	5.50	4.50	5.18	4.50	4.68	4.30	5.67	5.60	5.50	5.44	5.40	5.31	7.00	6.70	5.60	5.50	5.50	5.50
Finland	6.90	6.90	6.48	6.90	5.80	6.20	7.05	7.09	6.88	6.93	6.74	6.82	8.20	8.35	6.90	7.23	6.90	7.23
The Netherlands and the rest of Europe	7.80	7.80	7.80	7.80	6.90	7.10	8.05	8.02	7.83	7.85	7.70	7.72	9.50	9.50	8.10	8.20	7.80	7.93
USA	4.24	3.70	4.04	3.70	3.74	3.70	4.53	4.65	4.48	4.61	4.42	4.57	4.90	5.60	4.50	5.30	4.50	5.00
Other countries	6.00	5.59	6.00	5.59	5.85	5.59	6.03	6.01	6.01	5.99	5.99	5.97	6.40	6.35	6.10	6.10	6.00	6.00
Policy interest rate																		
Sweden	-0.50	0.00	0.00	0.21	0.50	0.21	2.14	2.55	2.34	2.72	2.45	2.82	3.30	3.30	3.30	3.30	3.30	3.30
UK	0.25	0.25	0.75	0.75	1.35	0.75	2.40	2.53	2.59	2.68	2.71	2.80	3.30	3.30	3.30	3.30	3.30	3.30
Norway	0.25	0.50	1.50	1.21	2.00	1.21	2.08	2.48	2.29	2.67	2.38	2.78	3.10	3.10	3.10	3.10	3.10	3.10
Denmark	-0.05	0.00	0.05	0.14	0.25	0.14	1.70	2.38	1.91	2.53	1.99	2.61	3.12	3.20	3.12	3.20	3.12	3.20
Finland	-0.10	0.00	0.00	0.00	0.25	0.00	1.69	2.38	1.91	2.53	1.99	2.61	3.12	3.20	3.12	3.20	3.12	3.20
The Netherlands and the rest of Europe	-0.10	0.00	0.00	0.00	0.25	0.00	1.69	2.38	1.91	2.53	1.99	2.61	3.12	3.20	3.12	3.20	3.12	3.20
USA	0.88	2.08	1.38	2.38	1.63	2.58	2.64	2.89	2.70	2.92	2.73	2.94	3.30	3.10	3.30	3.10	3.30	3.10
Other countries	2.60	3.00	2.80	3.09	2.95	3.09	3.54	3.74	3.57	3.75	3.60	3.76	4.10	4.10	4.10	4.10	4.10	4.10
Commercial property price growth																		
Sweden	-7.65	-8.72	-7.77	-6.13	-11.16	-9.55	-1.53	-1.47	-1.42	-1.43	-1.17	-1.33	6.92	7.71	11.48	9.52	22.99	12.34
UK	-4.93	-7.09	-3.83	-3.90	-4.09	-2.33	-0.09	0.10	0.03	0.11	0.19	0.17	5.48	8.02	7.42	4.46	17.04	1.71
Norway	-5.77	-9.49	-5.03	-8.21	-7.44	-9.28	-1.54	-1.82	-1.45	-1.70	-1.31	-1.51	3.06	4.19	5.20	6.29	9.47	8.67
Denmark	-8.94	-9.21	-8.49	-7.55	-10.81	-6.79	-2.11	-2.24	-1.97	-2.05	-1.81	-1.84	3.42	3.13	7.07	4.22	12.50	5.33
Finland	-8.25	-7.89	-7.24	-6.27	-9.98	-5.73	-1.08	-1.06	-0.92	-0.98	-0.72	-0.86	7.07	7.99	8.74	5.14	17.77	6.23
The Netherlands and the rest of Europe	-6.29	-5.95	-5.72	-3.61	-5.46	-6.51	0.03	0.64	0.27	0.48	0.75	0.49	2.02	2.73	4.70	4.07	12.48	5.85
USA	1.25	1.30	-4.97	-3.98	1.25	1.30	1.98	1.98	0.75	0.60	1.98	1.98	2.30	2.35	2.58	2.00	2.30	2.35
Other countries	-1.17	-0.40	0.93	1.30	1.00	1.00	1.16	1.20	1.28	1.32	1.39	1.42	1.70	1.70	1.40	1.63	2.63	2.80
Residential property price growth																		
Sweden	-0.74	-2.63	0.03	-0.72	-0.37	-0.14	1.79	2.00	1.96	2.10	2.14	2.18	6.55	4.64	5.28	2.99	7.76	3.55
UK	-4.30	-1.13	1.41	1.90	1.55	1.63	1.98	2.36	2.34	2.66	2.79	2.88	4.94	5.31	3.95	3.76	8.40	6.75
Norway	-0.40	-1.70	1.86	1.00	0.43	1.73	2.85	2.60	2.96	2.68	3.09	2.76	4.80	3.80	5.62	3.00	9.31	3.00
Denmark	-2.77	-1.90	1.75	1.50	1.45	1.00	2.88	2.28	3.02	2.37	3.17	2.47	4.72	2.70	3.90	2.60	6.23	4.20
Finland	0.92	-1.50	1.51	0.75	1.57	0.80	1.59	2.10	1.71	2.18	1.81	2.25	1.77	2.70	1.89	2.50	2.46	2.80
The Netherlands and the rest of Europe	-1.70	0.20	1.80	1.50	1.70	1.60	2.14	2.28	2.36	2.37	2.43	2.45	2.50	2.50	2.50	3.10	3.20	4.00
USA	-1.70	0.20	1.80	1.50	1.70	1.60	2.14	2.28	2.36	2.37	2.43	2.45	2.50	2.50	2.50	3.10	3.20	4.00
Other countries	-1.70	0.20	1.80	1.50	1.70	1.60	2.14	2.28	2.36	2.37	2.43	2.45	2.50	2.50	2.50	3.10	3.20	4.00

The table below shows the percentage increase/decrease in the provision for expected credit losses in Stage 1 and Stage 2, as at the balance sheet date, which arises when a probability of 100% is assigned to the negative and positive scenarios, respectively.

	2019		2018	
%	Increase in the provision in a negative scenario, %	Decrease in the provision in a positive scenario, %	Increase in the provision in a negative scenario, %	Decrease in the provision in a positive scenario, %
Sweden	6.37	-6.20	2.68	-2.24
UK	5.32	-6.05	1.65	-1.54
Norway	4.05	-4.14	1.70	-1.85
Denmark	5.07	-5.10	1.25	-1.30
Finland	1.40	-1.19	1.57	-1.45
The Netherlands	1.28	-1.27	0.14	-0.13
USA	6.60	-7.54	0.52	-0.51
Other	7.11	-6.94	1.45	-1.37

G10 Cont.

Sensitivity analysis, significant increase in credit risk

The table below shows how the provision in Stage 1 and Stage 2 as at 31 December is affected if the threshold value applied for the ratio between residual credit risk calculated on the reporting date and on initial recognition were to be set 0.5 units lower and higher, respectively, than the applied threshold value of 2.5. A reduction of 0.5 to the threshold value would increase the number of loans transferred from Stage 1 to Stage 2 and would also entail an increase in the provision for expected credit losses. An increase of 0.5 to the threshold value would have the opposite effect. The Bank uses both quantitative and qualitative indicators to assess significant increases in credit risk. Further information is provided in note G2 under the heading "Credit risk".

Change in the total provision in Stage 1 and Stage 2, % **Threshold value**	**2019**	**2018**
2	2.97	3.42
2.5	0.00	0.00
3	-1.96	-2.09

CREDIT EXPOSURE THAT IS SUBJECT TO IMPAIRMENT TESTING, BY PD RANGE

Balance sheet items by PD range	**2019**			**2018**		
	Gross volume, SEK m			**Gross volume**, SEK m		
PD value[1]	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
0.00 to <0.15	2 220 408	11 885	-	2 115 004	11 404	-
0.15 to <0.25	256 109	4 862	-	255 600	6 220	-
0.25 to <0.50	60 292	3 241	-	65 057	4 406	-
0.50 to <0.75	24 544	2 701	-	23 657	1 296	-
0.75 to <2.50	33 614	8 103	-	34 971	11 145	-
2.50 to <10.00	12 539	18 099	-	11 057	19 958	-
10.00 to <100	800	2 971	-	771	4 147	-
100 (default)	-	-	8 831	-	-	7 731
Total	**2 608 306**	**51 862**	**8 831**	**2 506 117**	**58 576**	**7 731**

Loans to the public by PD range	**2019**			**2018**		
	Gross volume, SEK m			**Gross volume**, SEK m		
PD value[1]	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
0.00 to <0.15	1 904 041	11 841	-	1 795 038	11 328	-
0.15 to <0.25	219 618	4 844	-	216 932	6 178	-
0.25 to <0.50	51 702	3 229	-	55 215	4 376	-
0.50 to <0.75	21 047	2 691	-	20 078	1 287	-
0.75 to <2.50	28 825	8 073	-	29 681	11 069	-
2.50 to <10.00	10 752	18 031	-	9 384	19 822	-
10.00 to <100	686	2 960	-	655	4 119	-
100 (default)	-	-	8 831	-	-	7 731
Total	**2 236 671**	**51 669**	**8 831**	**2 126 983**	**58 179**	**7 731**

Off-balance sheet items by PD range	**2019**			**2018**		
	Gross volume, SEK m			**Gross volume**, SEK m		
PD value[1]	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
0.00 to <0.15	335 516	2 705	-	358 587	3 204	-
0.15 to <0.25	24 068	1 336	-	23 438	523	-
0.25 to <0.50	20 448	587	-	15 898	458	-
0.50 to <0.75	6 788	554	-	7 453	131	-
0.75 to <2.50	11 643	880	-	12 063	1 079	-
2.50 to <10.00	1 810	1 532	-	2 456	1 668	-
10.00 to <100	206	391	-	129	556	-
100 (default)	-	-	712	-	-	411
Total	**400 479**	**7 985**	**712**	**420 024**	**7 619**	**411**

[1] Refers to 12-month PD value as at the reporting date.

Assets repossessed for protection of claims SEK m	**2019**	**2018**
Property	11	73
Movable property	1	0
Shares	0	0
Carrying amount	**12**	**73**

Movable property mainly consists of repossessed leased assets. The valuation principles for assets and liabilities repossessed for protection of claims are described in note G1.

G11 Gains/losses on disposal of property, equipment and intangible assets

SEK m	2019	2018
Equipment	8	9
Property	12	5
Total	**20**	**14**

G12 Earnings per share

	2019	2018
Profit for the year, SEK m	16 925	17 357
of which interest expenses on convertible subordinated loan after tax	*-41*	*-104*
Average number of shares converted during the year, millions	12.6	0.0
Average holdings of own shares in trading book, millions	-	-
Average number of outstanding shares, millions	1 956.8	1 944.2
Average dilution effect, number of shares, millions	20.1	30.3
Average number of outstanding shares after dilution, millions	1 976.9	1 974.5
Earnings per share, SEK	**8.65**	**8.93**
after dilution	8.58	8.84

Earnings per share after dilution is measured by taking the effects of conversion of outstanding convertible shares into account. The implication of this is that the number of potential converted shares is added to the average number of outstanding shares and that profit for the year is adjusted for the year's interest expense on outstanding convertible subordinated loans after tax.

G13 Other loans to central banks

SEK m	2019	2018
Other loans to central banks in Swedish kronor	13	10 128
Other loans to central banks in foreign currency	19 534	23 429
Total	**19 547**	**33 557**
Provision for expected credit losses	-	-
Total other loans to central banks	**19 547**	**33 557**
of which accrued interest income	*-5*	*-6*

Average volumes SEK m	2019	2018
Other loans to central banks in Swedish kronor	36 071	35 391
Other loans to central banks in foreign currency	12 006	25 125
Total	**48 077**	**60 516**
of which reverse repos	-	-

G14 Loans to other credit institutions

SEK m	2019	2018
Loans in Swedish kronor		
Banks	2 245	1 918
Other credit institutions	18	161
Total	**2 263**	**2 079**
Loans in foreign currency		
Banks	11 279	12 956
Other credit institutions	4 401	7 113
Total	**15 680**	**20 069**
Provision for expected credit losses	-4	-11
Total loans to other credit institutions	**17 939**	**22 137**
of which accrued interest income	*47*	*63*
of which reverse repos	*-*	*2 756*

Average volumes SEK m	2019	2018
Loans to other credit institutions in Swedish kronor	4 753	3 419
Loans to other credit institutions in foreign currency	40 016	41 094
Total	**44 769**	**44 513**
of which reverse repos	*6 892*	*7 356*

G15 Loans to the public

SEK m	2019	2018
Loans in Swedish kronor		
Households	873 595	845 880
Companies	500 877	494 228
National Debt Office	-	120
Total	**1 374 472**	**1 340 228**
Loans in foreign currency		
Households	344 861	315 625
Companies	577 838	537 040
National Debt Office	-	-
Total	**922 699**	**852 665**
Provision for expected credit losses	-4 568	-3 801
Total loans to the public	**2 292 603**	**2 189 092**
of which accrued interest income	*3 302*	*3 119*
of which reverse repos	*10 441*	*9 050*
of which subordinated	*-*	*90*

Average volumes, excl. National Debt Office SEK m	2019	2018
Loans to the public in Swedish kronor	1 376 234	1 326 137
Loans to the public in foreign currency	907 845	848 198
Total	**2 284 079**	**2 174 335**
of which reverse repos	*16 205*	*13 648*

G16 Interest-bearing securities

SEK m	2019 Carrying amount	2019 Fair value	2019 Nominal amount	2018 Carrying amount	2018 Fair value	2018 Nominal amount
Interest-bearing securities eligible as collateral with central banks	103 387	103 387	101 154	122 260	122 260	120 924
of which accrued interest income	*217*			*322*		
Bonds and other interest-bearing securities	42 640	42 640	39 818	50 729	50 729	44 279
of which accrued interest income	*212*			*216*		
Total	**146 027**	**146 027**	**140 972**	**172 989**	**172 989**	**165 203**
of which subordinated	*15*	*15*		*20*	*20*	

Interest-bearing securities broken down by issuer

SEK m	2019 Carrying amount	2019 Fair value	2019 Nominal amount	2018 Carrying amount	2018 Fair value	2018 Nominal amount
Government	103 387	103 387	101 154	122 260	122 260	120 924
Credit institutions	10 529	10 529	9 911	14 872	14 872	14 139
Mortgage institutions	25 814	25 814	23 714	30 787	30 787	26 032
Other	6 297	6 297	6 193	5 070	5 070	4 108
Total	**146 027**	**146 027**	**140 972**	**172 989**	**172 989**	**165 203**

Interest-bearing securities that are subject to impairment testing SEK m	**2019**	**2018**
Interest-bearing securities eligible as collateral with central banks		
Fair value through other comprehensive income	403	405
Amortised cost	1 024	831
Total gross volumes	**1 427**	**1 236**
Provision for expected credit losses on instruments measured at amortised cost	0	0
Total carrying amount	**1 427**	**1 236**
Provision for expected credit losses recognised in the fair value reserve in equity	0	0
Bonds and other interest-bearing securities		
Fair value through other comprehensive income	4 953	5 373
Total carrying amount	**4 953**	**5 373**
Provision for expected credit losses recognised in the fair value reserve in equity	-2	-1

Average volumes SEK m	**2019**	**2018**
Interest-bearing securities	222 609	206 215
Interest-bearing securities, insurance operations	4 924	6 434
Total	**227 533**	**212 649**

G17 Shares

SEK m	**2019**	**2018**
Fair value through profit or loss, mandatory	19 087	11 981
Fair value through other comprehensive income	2 303	1 840
Total shares	**21 390**	**13 821**

Holdings at fair value through other comprehensive income SEK m	**2019**	**2018**
Asiakastieto Group Oyj	712	545
BEC	489	432
Euroclear plc	431	381
Visa Inc	308	207
Other holdings	363	275
Total	**2 303**	**1 840**

Handelsbanken classifies the shareholdings above as measured at fair value through other comprehensive income, as these holdings are not held for trading. During the year Handelsbanken received dividends only on shares still held at the end of the reporting period. These dividends total SEK 110m (218) and are recognised in the income statement under Other dividend income. During the year, the Bank has divested its holdings in DLR Kredit, Let-P Holdings AS, Samlink Oy and two tenant-owners associations, amounting to SEK 39m (5). The primary reason for the divestments was reallocations, together with adjustments to the shares in relation to the participating interests.
For information about realised and unrealised gains/losses on equity instruments measured at fair value through other comprehensive income, refer to the Statement of changes in equity for the Group.

G18 Investments in associates

There are no individually significant investments in associates held by Handelsbanken. There are certain entities that are considered strategic to the banking operations of the Group through their provision of, for example, payment services. All investments are unlisted.

Investments in associates SEK m	2019	2018
Carrying amount at beginning of year	259	297
Share of profit for the year	32	0
Tax	-6	0
Dividend	0	-2
Divestments	-	-36
Translation difference	0	0
Carrying amount at end of year	**285**	**259**

Income from associates SEK m	2019	2018
Profit for the year	32	0
Other comprehensive income	0	0
Total comprehensive income for the year	**32**	**0**

Associates	Corporate identity number	Domicile	Number of shares	Voting power, %	Carrying amount, SEK m 2019	Carrying amount, SEK m 2018
Bankomat AB	556817-9716	Stockholm	150	20.00	81	76
BGC Holding AB	556607-0933	Stockholm	25 382	25.38	173	153
Dyson Group plc	00163096	Sheffield	74 333 672	24.01	0	0
Finansiell ID-teknik BID AB	556630-4928	Stockholm	12 735	28.30	12	18
Getswish AB	556913-7382	Stockholm	10 000	20.00	19	12
USE Intressenter AB	559161-9464	Stockholm	2 448	24.48	0	0
Total					**285**	**259**

G19 Assets where the customer bears the value change risk

SEK m	2019	2018
Unit-linked and portfolio bond insurance assets	169 601	132 077
Other fund assets	5 387	4 225
Share of consolidated funds not owned	-	44
Total	**174 988**	**136 346**

G20 Interests in unconsolidated structured entities

	Fund holdings	
SEK m	2019	2018
Assets		
Shares	6 825	585
Assets where the customer bears the value change risk	155 912	118 610
Total interests in structured unconsolidated entities	**162 737**	**119 195**

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are regulated by means of contractual arrangements. Handelsbanken's interests in unconsolidated structured entities are limited and consist of fund holdings. Funds are owned primarily through unit-linked contracts at Handelsbanken Liv and similar contracts in other countries. Investments in funds through unit-linked contracts are never consolidated, see note G1, so these are unconsolidated structured entities. Handelsbanken also owns some fund holdings in its role as market maker. Where these holdings are not consolidated, they are interests in unconsolidated entities. The maximum exposure to loss on all interests in unconsolidated structured entities is the current carrying amount of the interest. The total assets for these entities are not considered meaningful for the purpose of understanding the related risks and so have not been presented.

G21 Derivative instruments

	Nominal amount/maturity			Nominal amount		Positive market values		Negative market values	
SEK m	Up to 1 yr	Over 1 yr up to 5 yrs	Over 5 yrs	2019	2018	2019	2018	2019	2018
Derivatives held for trading									
Interest rate-related contracts									
Options	9 524	16 661	2 442	28 627	35 842	16	148	68	211
FRA/futures	735 640	157 955	0	893 595	1 464 132	211	85	172	462
Swaps	447 025	1 018 910	320 437	1 786 372	1 971 004	19 366	18 937	20 869	19 945
Currency-related contracts									
Options	25 101	540	44	25 685	42 936	136	238	212	344
Futures	56 339	7 007	517	63 863	108 706	863	1 188	480	792
Swaps	626 457	59 791	17 710	703 958	557 798	4 529	5 875	11 869	4 398
Equity-related contracts									
Options	6 973	2 506	106	9 585	13 138	545	534	425	779
Futures	1 814	0	0	1 814	1 217	0	5	13	0
Swaps	10 373	4 345	37	14 755	15 386	138	742	1 157	587
Commodity-related contracts									
Options	241	738	43	1 022	2 377	35	178	103	324
Futures	9 840	3 111	0	12 951	17 119	430	672	494	1 016
Credit-related contracts									
Swaps	1 127	6 740	168	8 035	6 098	465	252	289	246
Total	**1 930 454**	**1 278 304**	**341 504**	**3 550 262**	**4 235 753**	**26 734**	**28 854**	**36 151**	**29 104**
Derivatives for fair value hedges									
Interest rate-related contracts									
Options	1 835	2 806	0	4 641	5 385	3	12	0	0
Swaps	26 321	95 988	27 333	149 642	74 410	1 958	25	587	241
Currency-related contracts									
Swaps	0	580	919	1 499	0	166	0	0	
Total	**28 156**	**99 374**	**28 252**	**155 782**	**79 795**	**2 127**	**37**	**587**	**241**
Derivatives for cash flow hedges									
Interest rate-related contracts									
Swaps	92 386	382 585	57 482	532 453	614 098	13 104	12 592	1 974	3 381
Currency-related contracts									
Swaps	71 877	211 313	27 986	311 176	382 808	24 912	37 608	1 163	2 454
Total	**164 263**	**593 898**	**85 468**	**843 629**	**996 906**	**38 016**	**50 200**	**3 137**	**5 835**
Total derivative instruments	**2 122 873**	**1 971 576**	**455 224**	**4 549 673**	**5 312 454**	**66 877**	**79 091**	**39 875**	**35 180**
Of which exchange-traded derivatives				*440 829*	*1 060 603*	*347*	*745*	*1 223*	*1 127*
Of which OTC derivatives settled by CCP				*2 472 024*	*2 335 104*	*22 588*	*17 488*	*16 293*	*14 121*
Of which OTC derivatives not settled by CCP				*1 636 819*	*1 916 747*	*43 942*	*60 858*	*22 359*	*19 932*
Amounts offset				-2 147 269	-2 241 073	-25 332	-21 050	-19 233	-17 820
Net amount				**2 402 403**	**3 071 381**	**41 545**	**58 041**	**20 642**	**17 360**
Currency breakdown of market values									
SEK						-31 749	-123 391	257 947	147 160
USD						39 098	296 057	-348 281	-83 058
EUR						204 475	167 851	-14 922	-20 447
Other						-144 947	-261 426	145 131	-8 475
Total						**66 877**	**79 091**	**39 875**	**35 180**

Derivative contracts are presented gross in the note. Amounts offset consist of the offset market value and the associated nominal amounts of contracts for which the Bank has the legal right and intention to settle contractual cash flows net (including cleared contracts). These contracts are presented on a net basis on the balance sheet per counterparty and currency.

The Bank amortises positive differences between the value measured by a valuation model upon initial recognition and the transaction price (day 1 profit) over the life of the derivative. Such as-yet-unrecognised day 1 profit amounted to SEK 630m (602) at year-end.

G22 Hedge accounting

The Group's overall objective for its risk management and hedge accounting is to protect itself against the risk of variations in future cash flows and fair values attributable to lending and borrowing arising from changes in interest rates and exchange rates. In order to achieve this objective, the Group makes use of derivatives. Hedge accounting is applied to ensure that the Group's risk management strategy is reflected in the financial reports. For information about the Group's management of market risk, refer to note G2. The hedging strategies and various types of hedge accounting applied by the Group are described below, divided into risk categories. For a description of the accounting policies for hedge accounting, see note G1.

CASH FLOW HEDGES

Interest rate risk in variable-rate lending and borrowing

The purpose of this hedging strategy is to minimise the uncertainty associated with future incoming and outgoing payments of interest arising due to changes in variable interest rates, and instead to receive and pay amounts according to fixed interest rates which are known when entering into the hedge. The hedged item consists of highly probable future incoming and outgoing payments relating to variable-rate lending to the public and to issued floating-rate securities. The hedged risk is defined as a floating reference rate in the respective currency, which comprises an observable component of the interest. The hedging instruments consist of interest rate swaps, in which a fixed interest rate is received and a variable interest rate is paid, or a fixed interest rate is paid and a variable interest rate is received.

Foreign exchange risk in funding

The hedging strategy aims to minimise the uncertainty associated with future payments of interest arising due to changes in exchange rates, and instead to pay interest in the functional currency, at a rate which is known when entering into the hedge. The hedged item consists of highly probable future interest payment and repayments of nominal amounts attributable to issued securities in a currency other than the functional currency. The hedged risk is comprised of the risk of changes in these future payments arising due to fluctuations in the exchange rate between the funding currency and the functional currency. The hedging instruments consist of currency-related derivatives.

Foreign exchange risk in internal loans to or from foreign operations

The intention of this hedging strategy is to minimise the risk of volatility linked to fluctuations in exchange rates on internal loans to or from foreign operations. The hedged item consists of the nominal amount of an internal loan between the Group's treasury department and a foreign operation, issued in the functional currency of the foreign operation. The hedged risk consists of the value change risk in an internal loan, to or from a foreign operation, due to differences in the exchange rate between the currency of the internal loan and the parent company's functional currency, the Swedish krona. The hedging instruments consist of currency-related derivatives.

Measuring effectiveness

The effectiveness of a hedge relationship is tested at the initiation of the relationship and thereafter on a quarterly basis. The effectiveness of hedges is tested from both a prospective and retrospective standpoint. In the event that the conditions for the hedged risk and the hedging instrument are not fully consistent, regression analysis is performed. 'Fully consistent' in this context implies that the cash flows and discounting factors are identical at all times. When effectiveness is measured, the hedged risk is represented by a perfectly effective hypothetical derivative (PEH), which matches the critical conditions of the hedged item. The fair value of the hypothetical derivative (PEH) is zero at the start date of the hedge relationship. Measuring effectiveness entails a comparison of the change in fair value of the hypothetical derivative (PEH) with the change in fair value of the actual derivative.

Criteria applied in measuring effectiveness

In order to qualify for hedge accounting, the ratio between the change in fair value of the hedged risk in the hedged item, represented by the hypothetical derivative (PEH), and the actual derivative must be within the 80-125 per cent interval. In the cases where this is checked through regression analysis, the following criteria must be fulfilled in order to establish an effective hedge relationship:

- The gradient of the curve must be within the interval $0.8 < b < 1.25$.
- R^2 must be >0.96.

Ineffectiveness

Ineffectiveness is measured through a comparison of the change in the fair value of the hedged risk in the hedged item, represented by the hypothetical derivative (PEH), with the change in fair value of the actual derivative. The hedge is deemed

Hedging instruments in cash flow hedges	2019			2018		
SEK m	Up to 1 year	1-5 years	Over 5 years	Up to 1 year	1-5 years	Over 5 years
Interest rate risk						
Interest rate swaps, fixed interest paid and variable interest received						
Nominal amount	13 649	73 337	17 886	22 474	68 483	14 910
Average fixed interest %	0.91	0.56	0.90	0.56	0.88	1.02
Interest rate swaps, variable interest paid and fixed interest received						
Nominal amount	78 737	309 248	39 596	100 413	350 629	57 189
Average fixed interest %	2.50	1.94	1.15	2.36	2.11	1.07
Foreign exchange risk						
Foreign exchange derivatives, EUR/SEK						
Nominal amount	9 620	67 575	24 513	14 844	56 060	18 838
Average exchange rate EUR/SEK	0.1130	0.1040	0.0960	0.1118	0.1079	0.0972
Foreign exchange derivatives, EUR/NOK						
Nominal amount	4 741	36 400	-	-	40 184	-
Average exchange rate EUR/NOK	0.1200	0.1200	-	-	0.1172	-
Foreign exchange derivatives, GBP/SEK						
Nominal amount	-	7 562	-	-	7 274	-
Average exchange rate GBP/SEK	-	0.0900	-	-	0.0907	-
Foreign exchange derivatives, USD/GBP						
Nominal amount	11 599	19 410	932	6 012	29 252	879
Average exchange rate USD/GBP	1.4300	1.3600	1.3200	1.6033	1.3913	1.3157
Foreign exchange derivatives, USD/NOK						
Nominal amount	19 402	25 572	337	16 220	43 356	368
Average exchange rate USD/NOK	0.1300	0.1300	0.1300	0.1561	0.1289	0.1326
Foreign exchange derivatives, USD/SEK						
Nominal amount	13 164	23 524	-	32 527	35 891	-
Average exchange rate USD/SEK	0.1300	0.1100	-	0.1278	0.1169	-
Foreign exchange derivatives, AUD/USD						
Nominal amount	-	9 301	-	4 740	8 949	796
Average exchange rate AUD/USD	-	1.3800	-	1.0819	1.3823	1.3928
Foreign exchange derivatives, other currency pairs						
Nominal amount	13 351	21 969	2 204	15 338	39 155	12 125
Total	**164 263**	**593 898**	**85 468**	**212 568**	**679 233**	**105 105**

G22 Cont.

Hedging instruments and ineffectiveness in cash flow hedges 2019 SEK m	Nominal amount hedging instrument	Carrying amount hedging instrument Assets	 Liabilities	Change in fair value used to calculate ineffectiveness	Change in the value of the hedging instrument recognised in other comprehensive income	Ineffectiveness recognised in the income statement	Reclassified from the hedge reserve to the income statement
Interest rate risk							
Interest rate swaps, fixed interest paid and variable interest received	104 872	131	1 813	-861	-864	3	-
Interest rate swaps, variable interest paid and fixed interest received	427 581	12 973	161	4 006	4 010	-4	17
Foreign exchange risk[1]							
Foreign exchange derivatives, EUR/SEK	101 708	7 556	424	-42	-42	-	-
Foreign exchange derivatives, EUR/DKK	3 653	4	-	16	16	-	-
Foreign exchange derivatives, EUR/GBP	12 915	735	122	147	147	-	-
Foreign exchange derivatives, EUR/NOK	41 141	4 309	-	60	57	3	-
Foreign exchange derivatives, GBP/SEK	7 562	782	-	17	17	-	-
Foreign exchange derivatives, USD/GBP	31 941	1 715	169	-79	-74	-5	-
Foreign exchange derivatives, USD/NOK	45 311	4 682	-	0	0	-	-
Foreign exchange derivatives, USD/SEK	36 688	3 383	-	-39	-39	-	-
Foreign exchange derivatives, AUD/USD	9 301	22	265	77	77	-	-2
Foreign exchange derivatives, other currency pairs	20 956	1 724	183	452	458	-6	7
Total	**843 629**	**38 016**	**3 137**	**3 754**	**3 763**	**-9**	**22**

Hedging instruments and ineffectiveness in cash flow hedges 2018 SEK m	Nominal amount hedging instrument	Carrying amount hedging instrument Assets	 Liabilities	Change in fair value used to calculate ineffectiveness	Change in the value of the hedging instrument recognised in other comprehensive income	Ineffectiveness recognised in the income statement	Reclassified from the hedge reserve to the income statement
Interest rate risk							
Interest rate swaps, fixed interest paid and variable interest received	105 867	586	930	125	123	2	-
Interest rate swaps, variable interest paid and fixed interest received	508 231	12 006	2 451	-662	-659	-3	-
Foreign exchange risk[1]							
Foreign exchange derivatives, EUR/SEK	89 742	7 742	48	-74	-74	-	-
Foreign exchange derivatives, EUR/DKK	3 796	4	12	46	46	-	-
Foreign exchange derivatives, EUR/GBP	12 331	1 333	-	75	75	-	-
Foreign exchange derivatives, EUR/NOK	40 184	4 625	-	-53	-44	-9	-
Foreign exchange derivatives, GBP/SEK	7 274	188	-	-36	-36	-	-
Foreign exchange derivatives, USD/GBP	36 143	4 007	-	240	246	-6	-
Foreign exchange derivatives, USD/NOK	59 944	8 922	-	320	320	-	-
Foreign exchange derivatives, USD/SEK	68 418	6 296	14	257	257	-	-
Foreign exchange derivatives, AUD/USD	14 485	-	1 549	-22	-22	-	-
Foreign exchange derivatives, other currency pairs	50 491	4 491	831	512	536	-24	-
Total	**996 906**	**50 200**	**5 835**	**728**	**768**	**-40**	**-**

[1] When analysing for the purposes of hedge accounting, the conversion to the parent company's functional currency, SEK, is taken into account by imputing nominal derivative legs in the hedging relationships. The imputed derivative legs are not included in the nominal volumes presented in the table above.
The carrying amount of hedging instruments is included in the item Derivative instruments in the balance sheet.
Ineffectiveness recognised in the income statement is included in the item Net gains/losses on financial transactions.
Reclassified to the income statement is included under Net gains/losses on financial transactions and refers to cash flow hedges terminated before their maturity date.

Hedged items in cash flow hedges SEK m	2019 Change in fair value used to calculate ineffectiveness	 Hedge reserve	 Amounts remaining in the hedge reserve from hedging relationships for which hedge accounting is no longer applied	2018 Change in fair value used to calculate ineffectiveness	 Hedge reserve	 Amounts remaining in the hedge reserve from hedging relationships for which hedge accounting is no longer applied
Interest rate risk						
Issued variable-interest securities	864	-1 544	-	-123	-477	-
Variable-interest loans to the public	-4 010	7 769	1 492	659	3 601	-
Foreign exchange risk						
Securities issued in EUR and internal loans in DKK, GBP and NOK	-294	-867	-	-202	-1 080	-
Securities issued in USD and internal loans in DKK, EUR, GBP and NOK	62	82	121	-842	207	-
Issued securities and internal loans in other currencies	-385	-93	19	-260	-645	-
Total	**-3 763**	**5 347**	**1 632**	**-768**	**1 606**	**-**

ineffective if the change in fair value of the derivative exceeds the change in value of the hypothetical derivative (PEH) in absolute terms.

The main explanations for ineffectiveness in these hedge relationships are differences in market interest rates and exchange rates between the start date of the hedge relationship and the transaction date for the derivative. Ineffectiveness is also explained by changes in fair value attributable to certain interest components in the derivative which are not included in the hedged risk.

FAIR VALUE HEDGES

Interest rate risk in fixed-rate lending and borrowing

The purpose of this hedging strategy is to minimise the risk of changes in the fair values of fixed-interest lending and borrowing arising from changes in market interest rates. The hedged risk is defined as the reference rate in the respective currency, which comprises an observable component of the interest. The hedged items are comprised of fixed-interest loans to the public and issued fixed-interest securities. Hedging instruments consist of interest rate swaps, in which a fixed interest rate is paid and a variable interest rate is received, or a fixed interest rate is received and a variable interest rate is paid.

G22 Cont.

Hedging instruments in fair value hedges	2019			2018		
SEK m	Up to 1 year	1-5 years	Over 5 years	Up to 1 year	1-5 years	Over 5 years
Interest rate risk						
Interest rate swaps, fixed interest paid and variable interest received						
Nominal amount	26 321	71 963	2 412	15 141	56 946	2 323
Average fixed interest %	0.00	0.07	0.53	-0.22	0.12	0.62
Interest rate swaps, variable interest paid and fixed interest received						
Nominal amount	-	24 025	24 921	-	-	-
Average fixed interest %	-	1.60	0.79	-	-	-
Cross-currency interest rate swaps, variable interest paid and fixed interest received						
Nominal amount	-	580	919	-	-	-
Average fixed interest %	-	3.26	3.69	-	-	-

Hedging instruments and ineffectiveness in fair value hedges 2019		Carrying amount hedging instrument			
SEK m	Nominal amount hedging instrument	Assets	Liabilities	Change in fair value used to calculate ineffectiveness	Ineffectiveness recognised in the income statement
Interest rate risk					
Interest rate swaps, fixed interest paid and variable interest received	100 696	219	355	82	5
Interest rate swaps, variable interest paid and fixed interest received	48 946	1 739	232	-227	-51
Cross-currency interest rate swaps, variable interest paid and fixed interest received	1 499	166	-	-16	-3
Total	**151 141**	**2 124**	**587**	**-161**	**-49**
Portfolio fair value hedges					
Interest rate risk					
Interest rate options (cap)	4 641	3	-	8	0

Hedging instruments and ineffectiveness in fair value hedges 2018		Carrying amount hedging instrument			
SEK m	Nominal amount hedging instrument	Assets	Liabilities	Change in fair value used to calculate ineffectiveness	Ineffectiveness recognised in the income statement
Interest rate risk					
Interest rate swaps, fixed interest paid and variable interest received	74 410	25	241	-131	-4
Portfolio fair value hedges					
Interest rate risk					
Interest rate options (cap)	5 385	12	-	2	-1

The carrying amount of hedging instruments is included in the item Derivative instruments in the balance sheet.
Ineffectiveness recognised in the income statement is included in the item Net gains/losses on financial transactions.

Hedged items in fair value hedges 2019	Carrying amount hedged item		Accumulated fair value adjustment included in the carrying amount of the hedged item			
SEK m	Assets	Liabilities	Assets	Liabilities	Change in value used to calculate ineffectiveness	Accumulated amount of adjustments to fair value hedges remaining on the balance sheet for hedged items which are no longer adjusted for changes in fair value
Interest rate risk						
Fixed-interest loans to the public	101 432		114		-77	-
Issued fixed-interest securities and subordinated liabilities		50 545		-189	189	-
Total	**101 432**	**50 545**	**114**	**-189**	**112**	
Portfolio fair value hedges						
Interest rate risk						
Interest rate cap on variable rate lending	25				-8	

Hedged items in fair value hedges 2018	Carrying amount hedged item		Accumulated fair value adjustment included in the carrying amount of the hedged item			
SEK m	Assets	Liabilities	Assets	Liabilities	Change in value used to calculate ineffectiveness	Accumulated amount of adjustments to fair value hedges remaining on the balance sheet for hedged items which are no longer adjusted for changes in fair value
Interest rate risk						
Fixed-interest loans to the public	74 652		191		127	-
Portfolio fair value hedges						
Interest rate risk						
Interest rate cap on variable rate lending	33				-3	-

Measuring effectiveness

The effectiveness of the hedges is measured through a comparison of the change in the fair value of the hedged risk in lending and borrowing with the change in fair value of the interest rate swaps. The effectiveness of hedges is measured through regression analysis, both prospectively and retrospectively. The effectiveness of a hedge relationship is tested at the initiation of the relationship and thereafter on a quarterly basis. The criteria which must be fulfilled to qualify for hedge accounting are consistent with those described above in the section about cash flow hedges.

Ineffectiveness

Ineffectiveness is measured through a comparison of the change in the fair value of the interest rate swap with the change in fair value of the hedged risk in lending and borrowing from the hedge relationship's start date to the end of the period.

The main explanation for ineffectiveness in these hedge relationships is changes in the fair value of the variable interest in the interest rate swap, which is not matched by a change in value in the hedged risk in lending and borrowing.

PORTFOLIO HEDGING OF FAIR VALUE, WITH REGARD TO THE INTEREST RATE RISK IN A VARIABLE-INTEREST LENDING PORTFOLIO WITH A RATE CAP

The purpose of this hedging strategy is to minimise the risk of changes in the fair value of lending portfolios with a three-month interest-fixing period, where the borrower has a rate cap. The hedged risk is defined as the reference rate in the agreed rate cap. The hedging instruments consist of interest rate options (caps).

G22 Cont.

The nominal lending volume hedged for a certain period is determined on a quarterly basis. Effectiveness is calculated by comparing the change in the fair value of the rate cap during the period with the change in fair value of the interest rate options (caps). The ratio must be within the 80-125 per cent interval for the hedge to qualify for hedge accounting.

The main explanations for ineffectiveness in these hedge relationships are deviations in the maturity and interest rate between interest rate caps in lending and interest rate options (caps), because the volume for each cap is determined for a portfolio of loans with interest rate caps and not for each individual loan.

For a specification of changes in the hedge reserve and the translation reserve, refer to the statement of changes in equity for the Group.

HEDGING OF FOREIGN EXCHANGE RISK IN NET INVESTMENTS IN FOREIGN OPERATIONS

The purpose of the hedging strategy is to reduce foreign exchange exposure in a net investment in a foreign operation. The hedged item constitutes the nominal amount of a long-term, internal loan between the Group's treasury department and a foreign operation, issued in the functional currency of the foreign operation. Qualification as a part of an investment in a foreign operation requires that a repayment of the internal loan is neither planned nor probable in the foreseeable future. The hedged risk is comprised of the value change risk on a net investment in a foreign operation, arising due to changes in the exchange rate between the foreign operation's functional currency and the parent company's functional currency, the Swedish krona. The hedging instruments consist of currency-related derivatives. All hedge relationships in this category are older in nature, and the Bank enters into no new hedging relationships in this hedging strategy.

Measuring effectiveness

When the effectiveness of the hedging of a net investment in a foreign operation is measured, the equivalent procedures are applied as for measuring the efficiency of cash flow hedges, which are described above in the section about cash flow hedges.

Ineffectiveness

Ineffectiveness is calculated in the same manner as for cash flow hedges, which is described above in the section about cash flow hedges.

The main explanation for ineffectiveness in these hedge relationships are differences in exchange rates between the start date of the hedge relationship and the transaction date for the derivative.

INTEREST RATE BENCHMARK REFORM

Amendments to IAS 39 Financial Instruments: Recognition and Measurement

Amendments have been made which introduce temporary exemptions from applying certain specific hedge accounting requirements for hedging relationships directly affected by the Interest Rate Benchmark Reform. The purpose of the temporary exemptions is to prevent the break-up of hedging relationships solely due to the uncertainty brought about by the Interest Rate Benchmark Reform. See note G1, point 2.

Adaptations to the Interest Rate Benchmark Reform

A large amount of work is being carried out internationally to develop alternative reference interest rates, consisting of "Nearly Risk-free Rates" (RFRs). Within the EU, interbank interest rates are in the process of being adapted to fulfil the requirements of the Benchmark Regulation ((EU) 2016/1011), concurrently with the work to develop alternative RFRs.

The Bank is currently carrying out a co-ordinated, Group-wide initiative to ensure that all units in the Group are sufficiently prepared for a potential shift to RFRs. This work includes the identification of the products, customer agreements and IT systems affected by the implementation of RFRs, as well as the necessary actions to be taken. In addition, the work also involves assessing the impact on accounting, the measurement of financial instruments and risk measurements which would be caused by a transition to RFRs.

Assessment of hedging relationships affected by the Interest Rate Benchmark Reform

The interbank interest rates deemed to be of significance to the Bank are those in the home markets and USD, comprising Stibor, Euribor, GBP Libor, Nibor, Cibor and USD Libor.

The Prudential Regulation Authority (PRA) in the UK has announced that it will not compel any bank to contribute to the establishment of GBP Libor after 2021. GBP Libor will most likely be replaced with SONIA (Reformed Sterling Overnight Index Average). The transitional period for the implementation ends on 31 December 2021. The same applies to USD Libor, which will probably be replaced with SOFR (Secured Overnight Financing Rate). The Bank's assessment is thus that GBP Libor and USD Libor are not expected to remain in place as reference rates after 31 December 2021, and that there is therefore a certain degree of uncertainty brought about by the Benchmark Reform regarding hedging relationships maturing after 31 December 2021, in which GBP Libor or USD Libor has a direct impact on the hedged item or hedging instrument.

A reformed Euribor has been developed and approved as a reference rate in accordance with the Benchmark Regulation. The ESTER (Euro Short Term Rate) has been confirmed as RFR in euro, and is published from 2 October 2019. Up until 2021, ESTER will be published parallel to the current 1-day interbank interest rate, EONIA. From the perspective that a reformed Euribor has been approved, and will continue to be published going forward, the Bank's assessment is that there is no uncertainty caused by the Benchmark reform in terms of its effects on existing hedging relationships in which Euribor has a direct impact on the hedged item or hedging instrument.

There has been no announcement that Stibor will cease as a reference rate. A project is under way within the Swedish Bankers' Association to develop an RFR. The aim is to start publishing the new reference rate in 2020. No public authority has expressly stated a requirement, or even a desire, that Stibor should cease as a reference rate. Consequently, there is currently no plan to discontinue with Stibor, nor has any demand been tabled that this should be the case. However, Stibor must fulfil the requirements imposed by the Benchmark Regulation, and must be approved by the Swedish Financial Supervisory Authority. The application for approval must be submitted before the end of 2021, as Stibor is classified as a critical reference rate under the Benchmark Regulation. The Bank's assessment, at present, is that Stibor will be approved according to the Benchmark Regulation and will remain as a reference rate. On this basis, the Bank's assessment is that there is no uncertainty caused by the Benchmark reform in terms of its effects on existing hedging relationships in which Stibor has a direct impact on the hedged item or hedging instrument.

The other Nordic interbank rates, Nibor in Norway and Cibor in Denmark, have not been classified as critical reference rates and must therefore meet the requirements of the Benchmark Regulation from 1 January 2020. The Danish supervisory authority has approved Cibor in accordance with the Benchmark Regulation. In Norway, legislation is needed to implement the Benchmark Regulation, because Norway is not an EU member state. An application for the approval of Nibor in accordance with the Benchmark Regulation has been submitted to the supervisory authority in Norway. Projects are under way in both Norway and Denmark to develop RFRs in the respective countries. The Bank's assessment, at present, is that Nibor will be approved according to the Benchmark Regulation and will remain as a reference rate. On this basis, the Bank's assessment is that there is no uncertainty caused by the Benchmark reform in terms of its effects on existing hedging relationships in which Nibor and Cibor, respectively, have a direct impact on the hedged item or hedging instrument.

In line with the assessment above, the hedged risk, which is directly affected by the uncertainty caused by the Benchmark Reform, consists of the variable reference rate in lending and funding in GBP and USD, respectively. Moreover, the cash flows attributable to lending and funding, as well as derivative instruments, based on GBP Libor and USD Libor, respectively, are also affected. The uncertainty caused by the Benchmark Reform will no longer be a factor for the hedged items and hedging instruments when the new rate has been established and stipulated in the individual contracts.

Hedging instruments included in hedging relationships affected by uncertainty brought about by the Interest Rate Benchmark Reform 2019

SEK m	Nominal amount
Interest rate swaps GBP	38 355
Interest rate swaps USD	30 352
Cross-currency interest rate swaps AUD/USD	5 991
Cross-currency interest rate swaps EUR/GBP	6 588
Cross-currency interest rate swaps GBP/SEK	7 562
Cross-currency interest rate swaps JPY/GBP	348
Cross-currency interest rate swaps USD/DKK	2 602
Cross-currency interest rate swaps USD/EUR	919
Cross-currency interest rate swaps USD/GBP	7 985
Cross-currency interest rate swaps USD/NOK	4 805
Cross-currency interest rate swaps USD/SEK	13 678
Total	**119 185**

G23 Offsetting of financial instruments

2019 SEK m	Derivatives	Repurchase agreements, securities lending	Total
Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements			
Gross amount	66 877	18 436	85 313
Amounts offset	-25 332	-5 816	-31 148
Carrying amount on the balance sheet	**41 545**	**12 620**	**54 165**
Related amounts not offset on the balance sheet			
Financial instruments, netting arrangements	-12 023	-	-12 023
Financial assets received as collateral	-22 340	-12 620	-34 960
Total amounts not offset on the balance sheet	**-34 363**	**-12 620**	**-46 983**
Net amount	**7 182**	**-**	**7 182**
Financial liabilities subject to offsetting, enforceable master netting arrangements and similiar agreements			
Gross amount	39 875	5 816	45 691
Amounts offset	-19 233	-5 816	-25 049
Carrying amount on the balance sheet	**20 642**	**-**	**20 642**
Related amounts not offset on the balance sheet			
Financial instruments, netting arrangements	-12 023	-	-12 023
Financial assets pledged as collateral	-5 179	-	-5 179
Total amounts not offset on the balance sheet	**-17 202**	**-**	**-17 202**
Net amount	**3 440**	**-**	**3 440**

2018 SEK m	Derivatives	Repurchase agreements, securities lending	Total
Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements			
Gross amount	79 091	20 041	99 132
Amounts offset	-21 050	-7 155	-28 205
Carrying amount on the balance sheet	**58 041**	**12 886**	**70 927**
Related amounts not offset on the balance sheet			
Financial instruments, netting arrangements	-12 604	-	-12 604
Financial assets received as collateral	-38 698	-12 886	-51 584
Total amounts not offset on the balance sheet	**-51 302**	**-12 886**	**-64 188**
Net amount	**6 739**	**-**	**6 739**
Financial liabilities subject to offsetting, enforceable master netting arrangements and similiar agreements			
Gross amount	35 180	7 155	42 335
Amounts offset	-17 820	-7 155	-24 975
Carrying amount on the balance sheet	**17 360**	**-**	**17 360**
Related amounts not offset on the balance sheet			
Financial instruments, netting arrangements	-12 604	-	-12 604
Financial assets pledged as collateral	-1 766	-	-1 766
Total amounts not offset on the balance sheet	**-14 370**	**-**	**-14 370**
Net amount	**2 990**	**-**	**2 990**

Derivative instruments are offset on the balance sheet when this reflects the Bank's anticipated cash flows in the settlement of two or more agreements. Repurchase agreements and reverse repurchase agreements with central counterparty clearing houses are offset on the balance sheet when this reflects the Bank's anticipated cash flows in the settlement of two or more agreements. This occurs when the Bank has both a contractual right and an intention to settle the agreed cash flows with a net amount. The amount set off for derivative assets includes offset cash collateral of SEK 7,682 million (5,106) derived from the balance sheet item Deposits and borrowing from the public. The amount set off for derivative liabilities includes offset cash collateral of SEK 1,583 million (1,877) derived from the balance sheet item Loans to the public.

The remaining counterparty risk in derivatives is reduced through netting agreements, i.e. netting positive values against negative values in all derivative transactions with the same counterparty in a bankruptcy situation. Handelsbanken's policy is to sign netting agreements with all bank counterparties. Netting agreements are supplemented with agreements for issuing collateral for the net exposure. The collateral used is mainly cash, but government securities are also used. Collateral for repurchase agreements and borrowing and lending of securities is normally in the form of cash or other securities.

G24 Intangible assets

2019 SEK m	Goodwill	Trademarks and other rights	Customer contracts	Internally developed software	Total 2019
Cost of acquisition at beginning of year	6 922	192	818	3 765	11 697
Cost of acquisition of additional intangible assets				1120	1 120
Disposals and retirements				-55	-55
Foreign exchange effect	85	7	29	24	145
Cost of acquisition at end of year	**7 007**	**199**	**847**	**4 854**	**12 907**
Accumulated amortisation and impairment at beginning of year	-	-119	-201	-922	-1 242
Disposals and retirements	-			55	55
Amortisation for the year	-	-27	-42	-380	-449
Impairment for the year	-			-69	-69
Foreign exchange effect	-	-5	-8	-4	-17
Accumulated amortisation and impairment at end of year	**-**	**-151**	**-251**	**-1320**	**-1 722**
Carrying amount	**7 007**	**48**	**596**	**3 534**	**11 185**

In 2019, development costs amounting to SEK 1,610m (1,740) have been recognised as expenses.

2018 SEK m	Goodwill	Trademarks and other rights	Customer contracts	Internally developed software	Total 2019
Cost of acquisition at beginning of year	6 798	185	790	3 040	10 813
Cost of acquisition of additional intangible assets	-	-	-	786	786
Disposals and retirements	-	-	-	-67	-67
Foreign exchange effect	124	7	28	6	165
Cost of acquisition at end of year	**6 922**	**192**	**818**	**3 765**	**11 697**
Accumulated amortisation and impairment at beginning of year	-	-85	-155	-712	-952
Disposals and retirements	-	-	-	67	67
Amortisation for the year	-	-31	-41	-272	-344
Impairment for the year	-	-	-	-4	-4
Foreign exchange effect	-	-3	-5	-1	-9
Accumulated amortisation and impairment at end of year	**-**	**-119**	**-201**	**-922**	**-1 242**
Carrying amount	**6 922**	**73**	**617**	**2 843**	**10 455**

	Goodwill		Intangible assets with an indefinite useful life	
SEK m	2019	2018	2019	2018
Handelsbanken Sweden	3 331	3 331	-	-
Handelsbanken UK	175	162	-	-
Handelsbanken Finland	18	18	-	-
Handelsbanken Denmark	2 608	2 558	-	-
Handelsbanken Norway	699	680	-	-
Handelsbanken the Netherlands	166	163	-	-
Handelsbanken Capital Markets	10	10	3	3
Total	7 007	6 922	3	3

Impairment testing of goodwill and intangible assets with an indefinite useful life

Recognised goodwill mainly derives from traditional banking operations in Handelsbanken's home markets. Goodwill and intangible assets with an indefinite useful life are tested for impairment annually in connection with the closing of the annual accounts. When performing impairment testing, the value in use of the units to which goodwill has been allocated is calculated by discounting estimated future cash flows and the terminal value. In the table, goodwill has been allocated among the business segments.

For the first five years, estimated future cash flows are based on forecasts of risk-weighted volumes, income, expenses and credit losses. The forecasts are mainly based on an internal assessment of the future income and cost development, economic climate, expected interest rates and the expected impact of future regulations. After the first five-year period, a forecast is made based on the assumption of a long-term growth rate. The estimated cash flows are based on historical real GDP growth as well as the Riksbank's long-term inflation target. The year's impairment test is based on an assumption of a long-term growth rate of 2 per cent (2). The total forecast period is 20 years. The terminal value used is the forecast value of the net assets of the tested unit. Estimated cash flows have been discounted at a rate based on a risk-free interest rate and a risk adjustment corresponding to the market's average return requirement. In the annual impairment test, the discount rate was 5.2 per cent (5.8) after tax. The corresponding rate before tax was 7.7 per cent (8.4).

The difference between the recoverable amounts and the carrying amounts in the annual impairment test of goodwill was deemed to be satisfactory. The calculated value in use of goodwill is sensitive to a number of different variables, which are significant for expected cash flows and the discount rate. The variables that are of greatest significance to the calculation are the assumptions for interest rates, the business cycle, future margins and cost-effectiveness. No reasonably possible change in important assumptions would affect the reported value of goodwill.

G25 Property and equipment

Property and equipment SEK m	2019	2018
Equipment	1 015	823
Property	5 619	1 353
Property repossessed for protection of claims	11	53
Total	6 645	2 229

Property repossessed for protection of claims contains properties which are regularly measured at fair value in accordance with the Group's accounting policies for assets repossessed to protect claims. See note G1. The fair value of properties which are regularly measured at fair value is SEK 11m (53). Unrealised value changes on these properties had an impact of SEK 0m (0) on the year's profit. The valuation of private housing is essentially based on market observations of comparable property purchases in the location in question. The valuation of commercial properties is based on discounting future cash flows using assumptions such as rents, vacancy levels, operating and maintenance costs, yield requirement and calculation interest rates. The valuation is also based on the condition of the property, its location and alternative areas of use. The Bank's principle is always to use an independent, authorised valuer for valuing commercial and office buildings and industrial properties. Valuations which are only based on market observations SEK 8m (43) are classified as level 2 in the valuation hierarchy described in note G1. Valuations where own assumptions are used to a material extent, SEK 2m (10), are classified as level 3 in the valuation hierarchy. Unrealised value changes in level 3 relating to properties which are regularly measured at fair value have affected the year's profit by SEK 0m (0). The year's sale of properties which are regularly measured at fair value amounts to SEK 47m (49) of which SEK 2m (1) was classified as level 3 before the sale. The value of new properties added during the year is SEK 2m (2), with SEK 2m (0) of this classified as level 3.

Equipment SEK m	2019	2018
Cost of acquisition at beginning of year	2 242	2 135
Cost of additional acquisition for the year	495	351
Disposals and retirements	-548	-287
Foreign exchange effect	45	43
Cost of acquisition at end of year	**2 234**	**2 242**
Accumulated depreciation and impairment at beginning of year	-1 419	-1 344
Depreciation for the year according to plan	-385	-329
Disposals and retirements	536	281
Foreign exchange effect	-17	-27
Accumulated depreciation and impairment at end of year	**-1 285**	**-1 419**
Carrying amount	**949**	**823**
Carrying amount, right of use assets	**66**	
Total carrying amount	**1 015**	**823**

Property SEK m	2019	2018
Cost of acquisition at beginning of year	2 360	2 313
New construction and conversion	63	63
Disposals and retirements	-12	-25
Foreign exchange effect	4	9
Cost of acquisition at end of year	**2 415**	**2 360**
Accumulated depreciation and impairment at beginning of year	-1 007	-971
Depreciation for the year according to plan	-40	-37
Disposals and retirements	2	4
Foreign exchange effect	-1	-3
Accumulated depreciation and impairment at end of year	**-1 046**	**-1 007**
Carrying amount	**1 369**	**1 353**
Carrying amount, right of use assets	**4 250**	
Total carrying amount	**5 619**	**1 353**

G26 Other assets

SEK m	2019	2018
Claims on investment banking settlements	3 050	10 500
Other	3 117	6 380
Total	**6 167**	**16 880**

G27 Prepaid expenses and accrued income

SEK m	2019	2018
Accrued income	1 333	2 646
Prepaid expenses	618	780
Total	**1 951**	**3 426**

G28 Due to credit institutions

SEK m	2019	2018
Due in Swedish kronor		
Banks	28 251	43 174
Other credit institutions	9 759	10 169
Total	**38 010**	**53 343**
Due in foreign currency		
Banks	109 827	140 680
Other credit institutions	152	59
Total	**109 979**	**140 739**
Total due to credit institutions	**147 989**	**194 082**
of which accrued interest expenses	*-73*	*204*

Average volumes SEK m	2019	2018
Due to credit institutions in Swedish kronor	52 775	69 225
Due to credit institutions in foreign currency	152 056	166 290
Total	**204 831**	**235 515**
of which repos	*369*	*237*

G29 Deposits and borrowing from the public

Deposits from the public SEK m	2019	2018
Deposits in Swedish kronor		
Households	376 314	351 519
Companies	250 866	221 077
National Debt Office	-	-
Total	**627 180**	**572 596**
Deposits in foreign currency		
Households	142 227	120 959
Companies	306 425	269 152
National Debt Office	-	-
Total	**448 652**	**390 111**
Total deposits from the public	**1 075 832**	**962 707**

Borrowing from the public SEK m	2019	2018
Borrowing in Swedish kronor	22 290	30 507
Borrowing in foreign currency	19 703	15 273
Total borrowing from the public	**41 993**	**45 780**
Total deposits and borrowing from the public	**1 117 825**	**1 008 487**
of which accrued interest expenses	*521*	*780*
of which within insurance operations	*7 224*	*7 501*

Average volumes SEK m	2019	2018
Deposits from the public		
Deposits from the public in Swedish kronor	612 267	561 093
Deposits from the public in foreign currency	439 816	398 432
Total	**1 052 083**	**959 525**
Borrowing from the public		
Borrowing in Swedish kronor	33 212	32 090
Borrowing in Swedish kronor, insurance operations	7 389	7 720
Borrowing in foreign currency	50 117	83 396
Total	**90 718**	**123 206**
of which repos	*10 976*	*12 239*

G30 Liabilities where the customer bears the value change risk

SEK m	2019	2018
Unit-linked and portfolio bond insurance liabilities	169 601	132 077
Other fund liabilities	5 387	4 225
Share of consolidated funds not owned	-	44
Total	**174 988**	**136 346**

G31 Issued securities

SEK m	2019 Carrying amount	2019 Nominal amount	2018 Carrying amount	2018 Nominal amount
Commercial paper				
Commercial paper in Swedish kronor	2 286	2 254	11 049	11 556
of which amortised cost	*1 480*	*1 480*	*10 009*	*10 000*
of which fair value through profit or loss	*806*	*774*	*1 040*	*1 556*
Commercial paper in foreign currency	499 192	499 283	480 099	480 068
of which amortised cost	*496 745*	*496 889*	*478 889*	*478 871*
of which fair value through profit or loss	*2 447*	*2 394*	*1 210*	*1 197*
Total	**501 478**	**501 537**	**491 148**	**491 624**
Bonds				
Bonds in Swedish kronor	467 527	445 862	449 966	432 338
of which amortised cost	*467 527*	*445 862*	*449 966*	*432 338*
of which included in fair value hedges	*1 099*	*1 000*		
Bonds in foreign currency	415 956	415 336	453 533	452 605
of which amortised cost	*415 956*	*415 336*	*453 533*	*452 605*
of which included in fair value hedges	*42 824*	*43 276*		
Total	**883 483**	**861 198**	**903 499**	**884 943**
Total issued securities	**1 384 961**	**1 362 735**	**1 394 647**	**1 376 567**
of which accrued interest expenses	*6 268*		*7 070*	

SEK m	2019	2018
Issued securities at beginning of year	1 394 647	1 276 595
Issued	1 025 300	1 116 122
Repurchased	-35 146	-74 918
Matured	-1 014 860	-967 815
Foreign exchange effect, etc	15 020	44 663
Issued securities at end of year	**1 384 961**	**1 394 647**

Average volumes SEK m	2019	2018
Swedish kronor	481 504	472 182
Foreign currency	955 401	913 966
Total	**1 436 905**	**1 386 148**

G32 Short positions

SEK m	2019	2018
Short positions at fair value		
Equities	708	1 731
Interest-bearing securities	1 148	4 432
Total	**1 856**	**6 163**
of which accrued interest expenses	*9*	*32*

Average volumes SEK m	2019	2018
Swedish kronor	13 129	13 683
Foreign currency	520	530
Total	**13 649**	**14 213**

G33 Insurance liabilities

SEK m	2019	2018
Liability for sickness annuities	154	157
Liability for life annuities	231	222
Liability for other unsettled claims	140	128
Liability for prepaid premiums	53	35
Total	**578**	**542**

G34 Taxes

Deferred tax assets SEK m	2019	2018
Hedging instruments	327	90
Intangible assets	1	3
Property and equipment	19	13
Pensions	202	930
Other	144	8
Total	**693**	**1 044**

Deferred tax liabilities SEK m	2019	2018
Loans to the public[1]	3 745	4 792
Hedging instruments	1 386	671
Intangible assets	159	167
Property and equipment	115	112
Pensions	105	-
Other	124	44
Total	**5 634**	**5 786**
Net deferred tax liabilities	**4 941**	**4 742**

Change in deferred taxes 2019 SEK m	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Foreign exchange effect	Closing balance
Loans to the public[1]	4 792	-1 047	-	-	3 745
Hedging instruments	581	-	478	-	1 059
Intangible assets	164	-7	-	1	158
Property and equipment	99	-3	-	-	96
Pensions	-930	-78	910	1	-97
Other	36	-56	-	-	-20
Total	**4 742**	**-1 191**	**1 388**	**2**	**4 941**

Change in deferred taxes 2018 SEK m	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Foreign exchange effect	Closing balance
Loans to the public[1]	5 372	-717	-	137	4 792
Hedging instruments	626	-12	-33	-	581
Intangible assets	239	-59	1	-17	164
Property and equipment	100	5	-6	-	99
Pensions	39	17	-977	-9	-930
Other	78	-34	3	-11	36
Total	**6 454**	**-800**	**-1 012**	**100**	**4 742**

Tax expenses recognised in the income statement SEK m	2019	2018
Current tax		
Tax expense for the year	-6 074	-5 444
Adjustment of tax relating to prior years	12	-12
Deferred tax		
Changes in temporary differences	1 191	508
Changes due to change in tax rate	-	292
Total	**-4 871**	**-4 656**
Tax at 21.4% (22) of profits before tax	**-4 664**	**-4 843**
Difference	**-207**	**187**
The difference is explained by the following items		
Various non-deductible expenses	-34	-62
Non-deductible interest on subordinated loans	-263	-310
Different tax rate in insurance operations	173	144
Non-taxable capital gains and dividends	23	214
Deviating tax rates in other countries	-132	-92
Remeasurement of deferred taxes due to change in tax rate	-	292
Other	26	1
Total	**-207**	**187**

[1] Of which lease assets SEK 3,745m (4,792).

G35 Provisions

SEK m	Provision for expected credit losses off-balance sheet items[1]	Provision for restructuring[2]	Other provisions[3]	Total 2019	Total 2018
Provisions at beginning of year	**142**	**-**	**80**	**222**	**254**
Provisions during the year		930	15	945	55
Utilised		-66	-42	-108	-27
Reversed			-17	-17	-6
Change in expected credit losses, net	99			99	-54
Provisions at end of year	**241**	**864**	**36**	**1 141**	**222**

[1] For more information, refer to notes G10 and G42.
[2] The restructuring provision is primarily intended to cover the costs attributable to the winding up of branches outside the home markets, the discontinuation of certain product areas, and to dealing with surpluses of staff, primarily at central units. The majority of the reserved amount is expected to be settled by the end of 2021.
[3] The amounts allocated for future settlement of the claims on the Bank are presented under Other provisions.

G36 Other liabilities

SEK m	2019	2018
Liabilities on investment banking settlements	2 904	2 971
Lease liability	4 240	
Other	6 894	10 013
Total	**14 038**	**12 984**

G37 Accrued expenses and deferred income

SEK m	2019	2018
Accrued expenses	1 670	2 401
Deferred income	1 683	1 464
Total	**3 353**	**3 865**

G38 Subordinated liabilities

SEK m	2019	2018
Subordinated loans in Swedish kronor	3 003	8 691
Subordinated loans in foreign currency	32 543	42 394
Total	**35 546**	**51 085**
of which accrued interest expenses	*932*	*1 193*

Average volumes SEK m	2019	2018
Subordinated loans in Swedish kronor	5 625	8 758
Subordinated loans in foreign currency	32 400	35 428
Total	**38 025**	**44 186**

Specification, subordinated loans

Issuance/Maturity	Currency	Original nominal amount in each currency	Interest rate, %	Outstanding amount
In Swedish kronor				
Swedish subordinated loans[1]		6 179		3 003
Total				**3 003**
In foreign currency				
2015/perpetual[3]	USD	1 200	5.250	11 675
2018/fixed-term[2]	EUR	750	1.250	7 904
2018/fixed-term[2]	EUR	750	1.630	7 926
2019/perpetual[3]	USD	500	6.250	5 038
Total				**32 543**
Total subordinated liabilities				**35 546**

[1] For information regarding Swedish subordinated loans, see note G49.
[2] For further information about subordinated loans in EUR, see note G49.
[3] For further information about subordinated loans in USD, see note G49.

SEK m	2019	2018
Subordinated loans at beginning of year	51 085	32 896
Issued	4 654	15 498
Repurchased	-3 179	0
Matured	-17 674	-
Foreign exchange effect, etc.	660	2 691
Subordinated loans at end of year	**35 546**	**51 085**

G39 Classification of financial assets and liabilities

2019	Fair value through profit or loss						
SEK m	Mandatory	Fair value option	Derivatives identified as hedge instruments	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
Assets							
Cash and balances with central banks					327 958	327 958	327 958
Other loans to central banks					19 547	19 547	19 547
Interest-bearing securities eligible as collateral with central banks	3 001	98 959		403	1 024	103 387	103 387
Loans to other credit institutions					17 939	17 939	17 940
Loans to the public					2 292 603	2 292 603	2 301 479
Value change of interest-hedged item in portfolio hedge					25	25	
Bonds and other interest-bearing securities	8 642	29 045		4 953		42 640	42 640
Shares	19 087			2 303		21 390	21 390
Assets where the customer bears the value change risk	174 926				62	174 988	174 988
Derivative instruments	8 882		32 663			41 545	41 545
Other assets	10				6 157	6 167	6 167
Total	**214 548**	**128 004**	**32 663**	**7 659**	**2 665 315**	**3 048 189**	**3 057 041**
Investments in associates						285	
Non-financial assets						21 193	
Total assets						**3 069 667**	
Liabilities							
Due to credit institutions					147 989	147 989	148 322
Deposits and borrowing from the public					1 117 825	1 117 825	1 117 732
Liabilities where the customer bears the value change risk		174 926			62	174 988	174 988
Issued securities	3 253				1 381 708	1 384 961	1 395 070
Derivative instruments	18 985		1 657			20 642	20 642
Short positions	1 856					1 856	1 856
Other liabilities	11				14 027	14 038	14 038
Subordinated liabilities					35 546	35 546	35 825
Total	**24 105**	**174 926**	**1 657**		**2 697 157**	**2 897 845**	**2 908 473**
Non-financial liabilities						11 990	
Total liabilities						**2 909 835**	

2018	Fair value through profit or loss						
SEK m	Mandatory	Fair value option	Derivatives identified as hedge instruments	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
Assets							
Cash and balances with central banks					317 217	317 217	317 217
Other loans to central banks					33 557	33 557	33 557
Interest-bearing securities eligible as collateral with central banks	2 567	118 457		405	831	122 260	122 260
Loans to other credit institutions					22 137	22 137	22 072
Loans to the public					2 189 092	2 189 092	2 199 205
Value change of interest-hedged item in portfolio hedge					33	33	
Bonds and other interest-bearing securities	8 748	36 608		5 373		50 729	50 729
Shares	11 981			1 840		13 821	13 821
Assets where the customer bears the value change risk	136 287				59	136 346	136 346
Derivative instruments	12 547		45 494			58 041	58 041
Other assets	19				16 861	16 880	16 880
Total	**172 149**	**155 065**	**45 494**	**7 618**	**2 579 787**	**2 960 113**	**2 970 128**
Investments in associates						259	
Non-financial assets						17 802	
Total assets						**2 978 174**	
Liabilities							
Due to credit institutions					194 082	194 082	196 447
Deposits and borrowing from the public					1 008 487	1 008 487	1 008 562
Liabilities where the customer bears the value change risk		136 287			59	136 346	136 346
Issued securities	2 250				1 392 397	1 394 647	1 403 560
Derivative instruments	13 155		4 205			17 360	17 360
Short positions	6 163					6 163	6 163
Other liabilities	20				12 964	12 984	12 984
Subordinated liabilities					51 085	51 085	51 081
Total	**21 588**	**136 287**	**4 205**		**2 659 074**	**2 821 154**	**2 832 503**
Non-financial liabilities						14 759	
Total liabilities						**2 835 913**	

G40 Fair value measurement of financial instruments

Financial instruments at fair value 2019

SEK m	Level 1	Level 2	Level 3	Total
Assets				
Interest-bearing securities eligible as collateral with central banks				
Fair value through profit or loss, mandatory	1 452	1 549	-	3 001
Fair value through profit or loss, fair value option	98 959	-	-	98 959
Fair value through other comprehensive income	403	-	-	403
Bonds and other interest-bearing securities				
Fair value through profit or loss, mandatory	4 636	4 006	-	8 642
Fair value through profit or loss, fair value option	29 045	-	-	29 045
Fair value through other comprehensive income	4 740	213	-	4 953
Shares				
Fair value through profit or loss, mandatory	17 705	1 326	56	19 087
Fair value through other comprehensive income	711	340	1 252	2 303
Assets where the customer bears the value change risk	173 609	824	493	174 926
Derivative instruments	402	41 074	69	41 545
Total	**331 663**	**49 331**	**1 870**	**382 864**
Liabilities				
Liabilities where the customer bears the value change risk	173 609	824	493	174 926
Issued securities	-	3 253	-	3 253
Derivative instruments	489	20 083	70	20 642
Short positions	1 708	148	-	1 856
Total	**175 806**	**24 308**	**563**	**200 677**

Financial instruments at fair value 2018

SEK m	Level 1	Level 2	Level 3	Total
Assets				
Interest-bearing securities eligible as collateral with central banks				
Fair value through profit or loss, mandatory	2 507	60	-	2 567
Fair value through profit or loss, fair value option	116 426	2 031	-	118 457
Fair value through other comprehensive income	405	-	-	405
Bonds and other interest-bearing securities				
Fair value through profit or loss, mandatory	8 154	594	-	8 748
Fair value through profit or loss, fair value option	35 275	1 333	-	36 608
Fair value through other comprehensive income	5 373	-	-	5 373
Shares				
Fair value through profit or loss, mandatory	10 117	1 786	78	11 981
Fair value through other comprehensive income	545	238	1 057	1 840
Assets where the customer bears the value change risk	134 715	1 088	484	136 287
Derivative instruments	421	57 796	-176	58 041
Total	**313 938**	**64 926**	**1 443**	**380 307**
Liabilities				
Liabilities where the customer bears the value change risk	134 715	1 088	484	136 287
Issued securities	-	2 250	-	2 250
Derivative instruments	501	17 035	-176	17 360
Short positions	6 060	103	-	6 163
Total	**141 276**	**20 476**	**308**	**162 060**

G40 Cont.

Valuation hierarchy

In the tables, financial instruments at fair value have been categorised in terms of how the valuations have been carried out and the degree of transparency regarding market data used in the valuation. The categorisation is shown as levels 1–3 in the tables. Financial instruments which are valued at a direct and liquid market price are categorised as level 1. These financial instruments mainly comprise government instruments and other interest-bearing securities that are traded actively, listed shares and short-term positions in corresponding assets. Level 1 also includes the majority of shares in mutual funds and other assets which are related to unit-linked insurance contracts and similar agreements and the corresponding liabilities. Financial instruments which are valued using valuation models which substantially are based on market data are categorised as level 2. Level 2 mainly includes interest-bearing securities and interest- and currency-related derivatives. Financial instruments whose value to a material extent are affected by input data that cannot be verified using external market information are categorised as level 3. Level 3 includes unlisted shares, certain holdings of private equity funds and certain derivatives.

The categorisation is based on the valuation method used on the balance sheet date. If the category for a specific instrument has changed since the previous balance sheet date (31 December 2018), the instrument has been moved between the levels in the table. During the financial year, some of the volumes have been moved between level 1 and level 2, as a result of a new assessment of market activity. On the assets side, interest-bearing securities worth SEK 213 million, assets worth SEK 153 million for which the customer bears the value change risk and shares worth SEK 149 million were transferred from level 1 to level 2. Assets worth SEK 29 million for which the customer bears the value change risk and shares worth SEK 2 million were transferred from level 2 to level 1. On the liabilities side, derivatives to the value of SEK 55 million were transferred from level 1 to level 2. Changes in level 3 holdings during the year are shown in a separate table below.

The holdings in level 3 mainly comprise unlisted shares. The Group's holdings of unlisted shares are mainly comprised of participating interests in companies which provide supporting operations to the Bank. For example, these may be participating interests in clearing organisations and infrastructure collaboration on Handelsbanken's home markets. Such holdings are generally valued at the Bank's share of the company's net asset value, or alternatively at the price of the last completed transaction. In all material respects, unlisted shares are classified at fair value through other comprehensive income. Value changes for these holdings are thus reported in Other comprehensive income.

Certain holdings of private equity funds are categorised as belonging to level 3. These are valued using valuation models mainly based on a relative valuation of comparable listed companies in the same sector. The performance measurements used in the comparison are adjusted for factors which distort the comparison between the investment and the company used for comparison. Subsequently, the valuation is based on earnings multiples, such as P/E ratios. Most of these holdings represent investment assets in the Group's insurance operations. Value changes in the investment assets are included in the basis for calculating the yield split in the insurance operations and are therefore not reported directly in the income statement.

The derivatives component in some of the Bank's issued structured bonds and the related hedging derivatives were categorised as belonging to level 3. For these derivatives, internal assumptions have a material impact on calculation of the fair value. Hedging derivatives in level 3 are traded under CSA agreements where the market values are checked and verified with the Bank's counterparties on a daily basis.

The year's realised value changes on financial instruments in level 3 is SEK 30 million (27). This entire amount is included for calculation of the yield split in the insurance operations.

Change in holdings of financial instruments in level 3 2019

SEK m	Shares	Derivatives Assets	Derivatives Liabilities	Loans to the public	Assets where the customer bears the value change risk	Liabilities where the customer bears the value change risk
Carrying amount at beginning of year	**1 135**	**-176**	**176**	**-**	**484**	**-484**
Acquisitions	74	-	1	-	-	-
Repurchases/sales	-33	2	-	-	-	-
Matured	-	-	-	-	-	-
Unrealised value change in income statement	-17	-13	10	-	9	-9
Unrealised value change in other comprehensive income	149	-	-	-	-	-
Changes in the methodology	-	352	-352	-	-	-
Transfer from level 1 or 2	-	4	-4	-	-	-
Transfer to level 1 or 2	-	-100	99	-	-	-
Carrying amount at end of year	**1 308**	**69**	**-70**	**-**	**493**	**-493**

Change in holdings of financial instruments in level 3 2018

SEK m	Shares	Derivatives Assets	Derivatives Liabilities	Loans to the public	Assets where the customer bears the value change risk	Liabilities where the customer bears the value change risk
Carrying amount 31 December 2017	1 246	-87	88	13	464	-464
Effect of transition to IFRS 9	-	-	-	-13	-	-
Carrying amount at beginning of year	**1 246**	**-87**	**88**	**-**	**464**	**-464**
Acquisitions	24	-20	14	-	-	-
Repurchases/sales	-33	10	4	-	-	-
Matured	-	-	-	-	-	-
Unrealised value change in income statement	6	-107	100	-	20	-20
Unrealised value change in other comprehensive income	-108	-	-	-	-	-
Transfer from level 1 or 2	-	-3	3	-	-	-
Transfer to level 1 or 2	-	31	-33	-	-	-
Carrying amount at end of year	**1 135**	**-176**	**176**	**-**	**484**	**-484**

G40 Cont.

Differences between the transaction price and the value measured by a valuation model
As stated in the accounting policies in note G1, when applying a model to value derivatives, material positive differences between the valuation at initial recognition and the transaction price (so-called day 1 gains) are amortised over the life of the derivative. As a consequence of the application of this principle, SEK 154 million (158) has been recognised in Net gains/losses on financial transactions during the year. At the end of the year, non-recognised day 1 gains amounted to SEK 630 million (602).

Principles for information about the fair values of financial instruments which are measured at amortised cost
Information about the fair values of financial instruments which are measured at amortised cost is given in note G39 and in the table below. These instruments essentially comprise lending, deposits and borrowing. For means of payment and short-term receivables and liabilities, the carrying amount is considered to be an acceptable estimate of the fair value. Receivables and liabilities with the maturity date or the date for next interest rate fixing falling within 30 days are defined as short-term.

The valuation of fixed-rate lending is based on the current market rate with an adjustment for assumed credit and liquidity risk premiums on market terms. The premium is assumed to be the same as the average margin for new lending at the time of the measurement. Interest-bearing securities have been valued at the current market price where this has been available. Funding and interest-bearing securities for which market price information has not been available have been valued using a valuation model based on market data in the form of prices or interest for similar instruments.

In the table, the valuation used for the information about the fair value of financial instruments measured at amortised cost is categorised in the valuation hierarchy described above. Means of payment and deposits are considered to be equivalent to cash and have been categorised as level 1. Level 1 also contains interest-bearing securities (assets and liabilities) for which there is a current market price. Lending where the assumption about credit and liquidity premiums has materially affected the information about fair value has been categorised as level 3. Other instruments are categorised as level 2.

Fair value of financial instruments at amortised cost 2019

SEK m	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	327 958	-	-	327 958
Other loans to central banks	19 359	188	-	19 547
Interest-bearing securities eligible as collateral with central banks	549	475	-	1 024
Loans to other credit institutions	5 643	12 239	58	17 940
Loans to the public	4 871	121 759	2 174 849	2 301 479
Assets where the customer bears the value change risk	-	62	-	62
Total	**358 380**	**134 723**	**2 174 907**	**2 668 010**
Liabilities				
Due to credit institutions	47 519	100 803	-	148 322
Deposits and borrowing from the public	1 087 501	30 231	-	1 117 732
Liabilities where the customer bears the value change risk	-	62	-	62
Issued securities	840 701	551 116	-	1 391 817
Subordinated liabilities	-	35 825	-	35 825
Total	**1 975 721**	**718 037**	**-**	**2 693 758**

Fair value of financial instruments at amortised cost 2018

SEK m	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	317 217	-	-	317 217
Other loans to central banks	23 422	10 135	-	33 557
Interest-bearing securities eligible as collateral with central banks	557	274	-	831
Loans to other credit institutions	6 939	11 108	4 025	22 072
Loans to the public	300	16 159	2 182 746	2 199 205
Assets where the customer bears the value change risk	-	59	-	59
Total	**348 435**	**37 735**	**2 186 771**	**2 572 941**
Liabilities				
Due to credit institutions	67 750	128 697	-	196 447
Deposits and borrowing from the public	985 441	23 121	-	1 008 562
Liabilities where the customer bears the value change risk	-	59	-	59
Issued securities	903 353	497 957	-	1 401 310
Subordinated liabilities	-	51 081	-	51 081
Total	**1 956 544**	**700 915**	**-**	**2 657 459**

G41 Pledged assets, collateral received and transferred financial assets

Assets pledged for own debt SEK m	2019	2018
Cash	18 399	14 807
Government instruments and bonds	7 526	41 829
Loans to the public	670 012	651 155
Shares	7 006	947
Assets where the customer bears the value change risk	169 675	132 203
Other	5 839	9 427
Total	**878 457**	**850 368**
of which pledged assets that may be freely withdrawn by the Bank	*38*	*27 056*

Assets pledged for own debt SEK m	2019	2018
Cash	1 223	1 326
Government instruments and bonds	41 761	40 632
Loans to the public	-	-
Shares	6 760	6 664
Other	-	0
Total	**49 744**	**48 622**
of which pledged assets that may be freely withdrawn by the Bank	*39 110*	*38 919*

Other pledged assets refers to collateral pledged for obligations not reported on the balance sheet.

Pledged assets
Pledged assets are recognised as assets on the balance sheet. Assets pledged in the form of interest-bearing securities mainly comprise securities pledged as collateral to central banks and other credit institutions, for payment systems, securities trading and clearing and also securities sold under binding repurchase agreements (repos). Assets pledged in the form of equities mainly comprise lent equities and equities in the insurance operations.

Loans to the public pledged as security mainly comprise collateral registered for the benefit of holders of covered bonds issued by Stadshypotek. The collateral mainly comprises loans granted against mortgages in single-family homes, second homes, multi-family dwellings or housing co-operative apartments with a loan-to-value ratio within 75 per cent of the market value. In the event of the company's insolvency, pursuant to the Covered Bonds Act and the Right of Priority Act, the holders of the covered bonds have prior rights to the pledged assets. If, at the time of a bankruptcy decision, the assets in the total collateral fulfil the terms of the Act, these must be kept separate from the bankruptcy estate's other assets and liabilities. The holders of the bonds will then continue to receive contractual payments under the terms of the bond until maturity.

Assets where the customer bears the value change risk mainly comprise units in unit-linked insurance contracts in Handelsbanken Liv where the policyholders have priority rights.

Collateral received
Collateral received is not recognised on the balance sheet. For reverse repurchase agreements and equity loans, securities are received that can be sold or repledged to a third party. The fair value of received securities under reverse repurchase agreements and agreements on equity loans was SEK 28,530 million (28,592) at the end of the financial year, where collateral worth SEK 8,761 million (8,034) had been sold or repledged to a third party. Information about received pledges for lending and other received collateral is shown in note G2.

Transferred financial assets recognised on the balance sheet
Transferred financial assets are recognised as assets on the balance sheet but, for these, the rights to future cash flows are directly or indirectly transferred to an external counterparty. Most of the transferred financial assets recognised on the balance sheet comprise interest-bearing securities which have been sold under binding repurchase agreements and lent equities. Normally the terms for the binding repurchases and equity loans are stipulated in framework agreements between the Bank and the respective counterparty.

Binding repurchase agreements imply selling securities with an undertaking to repurchase them at a fixed price at a pre-determined time in the future. The seller of the securities thus continues to be exposed to the risk of value changes during the life of the agreement. Securities sold under repurchase agreements remain at market value in the balance sheet throughout the life of the agreement. The purchase price received is reported as a liability to the counterparty. According to the standard terms of a repurchase agreement, the right of ownership of the sold securities is transferred in its entirety from the seller to the buyer. This means that the buyer has the right to sell on, repledge or otherwise dispose of the purchased securities.

According to the standard agreements for equity loans, the exposure to the value change in the lent equity remains with the lender. Lent equities thus remain on the balance sheet throughout the life of the loan. Collateral for lent securities is normally in the form of cash or other securities. Cash collateral received is recognised as a liability on the balance sheet. In the same way as for repurchase agreements, the standard agreement used for equity loans means that during the life of the loan, the borrower has the right to sell on, repledge or otherwise dispose of the borrowed securities.

Government instruments, bonds and equities provided as collateral for securities trading, clearing, etc. where the title to the instrument has been transferred to the counterparty are reported as other transferred financial assets. Transferred financial assets also include certain assets where the customer bears the value change risk. These assets comprise portfolios of financial instruments where the Bank has the formal right of ownership but where the risks related to the assets and also the right to future cash flows have been transferred to a third party. The valuation of these assets reflects the valuation of the corresponding liability item.

G41 Cont.

Transferred financial assets reported on the balance sheet	2019		2018	
SEK m	Carrying amount	Carrying amount associated liability	Carrying amount	Carrying amount associated liability
Shares, securities lending	7 051	342[1]	7 115	486[1]
Shares, other	-	-	-	-
Government instruments and bonds, repurchase agreements	5 811	-	7 141	-
Government instruments and bonds, other	549	-	262	-
Assets where the customer bears the value change risk	561	561	547	547
Total	**13 972**	**903**	**15 065**	**1 033**

[1] Received cash collateral.

G42 Contingent liabilities

SEK m	2019	2018
Contingent liabilities		
Guarantees, credits	11 936	10 319
Guarantees, other	77 089	75 290
Irrevocable letters of credit	4 301	4 680
Other	1 860	2 650
Total	**95 186**	**92 939**
of which subject to impairment testing	*95 186*	*92 939*
Commitments		
Loan commitments	303 491	314 437
Unutilised part of granted overdraft facilities	120 947	123 744
Other	15 229	20 591
Total	**439 667**	**458 772**
of which subject to impairment testing	*313 990*	*335 115*
Total contingent liabilities	**534 853**	**551 711**
Provision for expected credit losses reported as provisions, see note G35	241	142

Contingent liabilities
Contingent liabilities mainly consist of various types of guarantees. Credit guarantees are provided to customers in order to guarantee commitments in other credit and pension institutions. Other guarantees are mainly commercial guarantees such as bid bonds, guarantees relating to advance payments, guarantees during a warrranty period and export-related guarantees. Contingent liabilities also comprise unutilised irrevocable import letters of credit and confirmed export letters of credit. These transactions are included in the Bank's services and are provided to support the Bank's customers. The nominal amounts of the guarantees are shown in the table.

Claims
Companies within the Group are subjects of claims in a number of civil actions which are being pursued in general courts of law. The assessment is that the actions will essentially be settled in our favour. The assessment is that the amounts in dispute would not have a material effect on the Group's financial position or profit/loss.

The Bank's Polish operation has a portfolio of mortgages, with a book value of just under SEK 400 million, which are issued in the Swiss franc and euro, respectively. It has become apparent that there exists general uncertainty in Polish law as regards the application of various credit terms involving foreign currencies. A binding legal precedent is expected in the near future from the Supreme Court of Poland. This legislative development may also prove to be relevant to the Bank, and could entail that certain contractual terms and conditions in its Polish operations cannot be applied as intended, and that certain customers will have to be replaced. At present, it is not practically possible to estimate any future financial impact on the Bank, nor the respective probabilities of the potential outcomes.

G43 Leasing

HANDELSBANKEN AS LESSOR

Finance lease SEK m	2019
Gains and losses on sales	0
Finance income from net investments	468
Variable lease fees	124
Total	**592**

Distribution of undiscounted lease receivables by maturity and net investment SEK m	2019
Up to 1 yr	3 889
1 yr to 2 yrs	5 107
2 yrs to 3 yrs	6 119
3 yrs to 4 yrs	3 874
4 yrs to 5 yrs	4 074
Over 5 yrs	5 018
Total undiscounted lease receivables	**28 081**
Unearned finance income	-466
Net investment	**27 615**

Disclosures regarding gross investment and net investment SEK m	2018
Gross investment	32 486
Unearned finance income	-384
Net investment	32 102

Distribution by maturity SEK m	Within 1 yr	Between 1 and 5 yrs	Over 5 yrs	Total
2018				
Distribution of gross investment	5 052	15 847	11 588	**32 486**
Distribution of net investment	5 026	15 616	11 460	**32 102**

All leases where the Group is the lessor have been defined as finance leases. Lease agreements of this kind are accounted for as loans on the balance sheet, initially for an amount corresponding to the net investment. The change since the previous year is chiefly due to a decrease in leasing volumes (SEK -4 billion), of which the majority is attributable to one specific customer commitment that was terminated in 2019. Lease assets mainly consist of vehicles and machines. All leases have guaranteed residual values. At year-end, the Group had four lease exposures each with an individual carrying amount exceeding SEK 1 billion.

G43 Cont.

HANDELSBANKEN AS LESSEE

Income statement items SEK m	2019
Interest expenses for lease liabilities	-75
Depreciation of right-of-use assets	
Property	-708
Equipment	-17
Total	**-725**
Expenses for short-term leases	-49
Expenses for leases in which the underlying asset is of low value	-17
Variable lease fees that are not included in the calculation of lease liabilities	-98

Balance sheet items SEK m	2019
Right-of-use assets[1]	
Property	4 250
Equipment	66
Total	**4 316**
New right-of-use assets[2]	524
Lease liabilities[3]	4 240
Cash outflows for leases which have reduced lease liabilities	-753

[1] Right-of-use assets are included in the Property and equipment balance sheet item.
[2] New lease agreements during the year included in right-of-use assets.
[3] Lease liabilities are included in the Other liabilities balance sheet item.

Time to maturity regarding lease liabilities SEK m	2019
Up to 6 mths	395
6 mths to 1 yr	384
1 yr to 2 yrs	716
2 yrs to 5 yrs	1 692
Over 5 yrs	1 304
Total	**4 491**

The Bank's lease agreements primarily consist of contracts for the rental of premises. Excepting such contracts, other lease agreements refer mainly to multi-function printers, personal computers and various other office equipment.

The majority of contracts for the rental of premises have a term of three to ten years. Some of the Bank's contracts for the rental of premises include an option to extend the term of the agreement, entailing that the contract is extended for a specific period of time if it is not terminated by a specific point in time. There are also contracts for the rental of premises which include an option for the Bank to terminate the agreement before expiry. When determining the lease term, the options of extending the term or terminating the agreement before expiry are only included when it is highly probable that these options will be exercised.

The Bank has entered into lease agreements with maturities of under 12 months, and lease agreements in which the underlying asset is of low value, which are recognised as expenses in accordance with the exemption in IFRS 16 Leases, and thus are not included in lease liabilities or right-of-use assets.

Initial application of IFRS 16 Leases
The Bank applied the modified retrospective method in its implementation of IFRS 16 Leases. In accordance with IFRS 16, the Bank applied the practical expedient whereby there is no requirement that agreements be reviewed on the initial date of implementation, with regard to whether they are, or contain, a lease agreement. IFRS 16 was therefore applied to agreements assessed as lease agreements pursuant to IAS 17. In addition, the Bank has chosen, in accordance with the practical expedient in IFRS 16, not to include lease agreements with a remaining term of less than 12 months in its calculation of lease liabilities in conjunction with the transition. Moreover, the option of making assessments on the basis of hindsight, such as in determining the lease term, has been exercised.

Difference between disclosures regarding operating lease commitments in the Annual Report 2018, discounted by the incremental borrowing rate as at 1 January 2019, and lease liabilities recognised on the balance sheet at the date of initial application SEK m	2019
Future operating lease fees according to the Annual Report 2018, pursuant to IAS 17[4]	4 449
Discounting effects	-308
Other effects[5]	9
Total	**4 150**

[4] See note G9.
[5] Comprises a net amount of the effects of short-term leasing and lease agreements in which the underlying asset is of low value, which are not included in the calculation of the lease liabilities, additional variable lease fees linked to indexes, and changes in the assessment of lease terms, etc.

The weighted average incremental borrowing rate applied in the calculation of the lease liabilities as at 1 January 2019 was 1.8%.

G44 Segment reporting

Segment reporting 2019

	Home markets									
SEK m	Sweden	UK	Norway	Denmark	Finland	The Netherlands	Capital Markets	Other	Adjustments and eliminations	Total
Net interest income	17 503	6 029	3 957	1 666	1 386	800	437	357		32 135
Net fee and commission income	4 152	777	415	516	572	151	4 122	-8		10 697
Net gains/losses on financial transactions	485	222	63	98	46	37	1 044	-696		1 299
Risk result – insurance							145			145
Share of profit of associates								32		32
Other income	52	1	9	8	17	-2	12	159		256
Total income	**22 192**	**7 029**	**4 444**	**2 288**	**2 021**	**986**	**5 760**	**-156**		**44 564**
Staff costs	-3 429	-2 384	-884	-768	-446	-400	-1 795	-3 209	-234	-13 549
Other expenses	-849	-962	-190	-140	-193	-86	-696	-3 408		-6 524
Internal purchased and sold services	-3 743	-758	-443	-403	-399	-142	-1 178	7 066		
Depreciation, amortisation and impairment of property, equipment and intangible assets	-297	-246	-94	-49	-70	-55	-85	-774		-1 670
Total expenses	**-8 318**	**-4 350**	**-1 611**	**-1 360**	**-1 108**	**-683**	**-3 754**	**-325**	**-234**	**-21 743**
Profit before credit losses	**13 874**	**2 679**	**2 833**	**928**	**913**	**303**	**2 006**	**-481**	**-234**	**22 821**
Net credit losses	-1 069	10	-99	3	103	-3	9	1		-1 045
Gains/losses on disposal of property, equipment and intangible assets	6	1	6	6	-1	0	0	2		20
Operating profit	**12 811**	**2 690**	**2 740**	**937**	**1 015**	**300**	**2 015**	**-478**	**-234**	**21 796**
Profit allocation	2 012	42	124	72	175	2	-2 427			
Operating profit after profit allocation	**14 823**	**2 732**	**2 864**	**1 009**	**1 190**	**302**	**-412**	**-478**	**-234**	**21 796**
Internal income[1]	138	-1 549	-3 596	-240	-185	-366	-2 560	8 358		
C/I ratio, %	34.4	61.5	35.3	57.6	50.5	69.1	112.6			48.8
Credit loss ratio, %	0.08	-0.01	0.02	-0.01	-0.09	0.01	-0.02	-0.17		0.04
Assets	1 921 187	444 290	285 175	131 170	212 594	71 342	313 829	2 261 013	-2 570 933	3 069 667
Liabilities	1 835 508	426 997	264 894	124 060	205 113	69 144	307 637	2 261 013	-2 584 531	2 909 835
Allocated capital	85 679	17 293	20 281	7 110	7 481	2 198	6 192		13 598	159 832
Return on allocated capital, %	14.0	13.3	12.0	12.0	13.3	11.8	-6.2			11.9
The year's investments in non-financial non-current assets	165	208	48	1	81	6	148	1 021		1 678
The year's investments in associated companies								-		-
Average number of employees	3 841	2 361	699	600	506	317	990	3 234		12 548

[1] Internal income which is included in total income comprises income from transactions with other operating segments and Other. Since interest income and interest expense are reported net as income, this means that internal income includes the net amount of the internal funding cost among segments and Other.

The business segments are recognised in accordance with IFRS 8 Operating Segments, which means that the segment information is presented in a similar manner to that which is applied internally as part of company governance. Handelsbanken's operations are presented in the following segments: Sweden, the UK, Norway, Denmark, Finland, the Netherlands and Capital Markets. Handelsbanken's branch operations, which provide universal banking services, were divided into 14 regional banks in 2019. Five of these are Swedish, and nine are located outside Sweden. Each regional bank is led by a head of regional bank, and is monitored as an independent profit centre. The Capital Markets segment is Handelsbanken's investment bank, including securities trading and investment advisory services. Its operations also include asset management, insurance operations and the Bank's international operations outside its home markets.

Profit/loss for the segments is reported before and after internal profit allocation. Internal profit allocation means that the unit which is responsible for the customer is allocated all the profits deriving from its customers' transactions with the Bank, regardless of the segment where the transaction was performed. Furthermore, income and expenses for services performed internally are reported net in the line item Internal purchased and sold services. Transactions among the segments are reported primarily according to the cost price principle. The Other and Adjustments and eliminations columns show items which do not belong to a specific segment or which are eliminated at Group level. Other includes Treasury and central departments, as well as transactions attributable to the provision for the Oktogonen profit-sharing scheme. The Adjustments and eliminations column includes adjustments for staff costs. Adjustments for staff costs contain the difference between the Group's pension costs calculated in accordance with IAS 19, Employee Benefits, and locally calculated pension costs.

Internal income mainly consists of internal interest and commissions. The segment income statements also include internal items in the

G44 Cont.

Segment reporting 2018	Home markets									
SEK m	Sweden	UK	Norway	Denmark	Finland	The Netherlands	Capital Markets	Other	Adjustments and eliminations	Total
Net interest income	16 988	5 555	3 832	1 713	1 315	675	440	768		31 286
Net fee and commission income	3 995	704	413	478	502	160	3 968	27		10 247
Net gains/losses on financial transactions	626	210	88	103	45	21	802	-987		908
Risk result – insurance							106			106
Share of profit of associates								0		0
Other income	55	7	7	10	16	2	17	1 109		1 223
Total income	**21 664**	**6 476**	**4 340**	**2 304**	**1 878**	**858**	**5 333**	**917**		**43 770**
Staff costs	-3 428	-1 970	-824	-782	-437	-355	-1 791	-3 808	-70	-13 465
Other expenses	-1 036	-881	-250	-214	-195	-103	-781	-3 252		-6 712
Internal purchased and sold services	-3 616	-786	-460	-364	-365	-117	-789	6 497		
Depreciation, amortisation and impairment of property, equipment and intangible assets	-65	-72	-17	-8	-21	-17	-28	-485		-713
Total expenses	**-8 145**	**-3 709**	**-1 551**	**-1 368**	**-1 018**	**-592**	**-3 389**	**-1 048**	**-70**	**-20 890**
Profit before credit losses	**13 519**	**2 767**	**2 789**	**936**	**860**	**266**	**1 944**	**-131**	**-70**	**22 880**
Net credit losses	-202	-125	-413	5	-172	14	10	2		-881
Gains/losses on disposal of property, equipment and intangible assets	5	-1	4	5	0	-	0	1		14
Operating profit	**13 322**	**2 641**	**2 380**	**946**	**688**	**280**	**1 954**	**-128**	**-70**	**22 013**
Profit allocation	1 883	32	127	70	183	2	-2 297			
Operating profit after profit allocation	**15 205**	**2 673**	**2 507**	**1 016**	**871**	**282**	**-343**	**-128**	**-70**	**22 013**
Internal income[1]	-632	-1 086	-2 572	-209	-157	-296	-2 772	7 724		
C/I ratio, %	34.6	57.0	34.7	57.6	49.4	68.8	111.6			47.7
Credit loss ratio, %	0.02	0.06	0.17	-0.01	0.14	-0.03	-0.02	-0.23		0.04
Assets	1 831 844	384 417	262 164	122 915	193 618	54 684	277 159	2 160 503	-2 309 130	2 978 174
Liabilities	1 746 592	369 536	244 395	116 451	186 931	52 861	272 734	2 160 503	-2 314 090	2 835 913
Allocated capital	85 252	14 881	17 769	6 464	6 687	1 823	4 425		4 960	142 261
Return on allocated capital, %	14.4	14.7	11.5	12.7	10.4	12.9	-5.9			12.8
The year's investments in non-financial non-current assets	106	145	12	4	1	42	417	473		1 200
The year's investments in associated companies								-		-
Average number of employees	3 985	2 230	697	615	518	300	1 076	2 886		12 307

During the first quarter of 2019 a reorganisation was implemented which has meant that certain operations in the Handelsbanken Sweden and Handelsbanken Capital Markets business segments have been moved over to Group IT and the newly formed unit Group Products and Services. Income and expenses relating to Group IT and Group Products and Services are reported within Other units. Due to this the comparison figures have been adjusted. At the same time, the model for the internal capital allocation to the business segments has been adjusted somewhat.

[1] Internal income which is included in total income comprises income from transactions with other operating segments and Other. Since interest income and interest expense are reported net as income, this means that internal income includes the net amount of the internal funding cost among segments and Other.

form of payment for internal services rendered. Internal debiting is primarily according to the cost price principle.

In branch operations, assets consist mainly of loans to the public and liabilities of deposits from the public and also internal borrowing. In the Capital Markets segment, assets mainly consist of securities that are managed within the asset management and insurance operations. The assets in the Other column are mainly internal lending to the various segments, while the liabilities are mainly external borrowings. The allocated capital for the segments is the same as the capital allocation according to the internal financial control model.

Income per product area SEK m	2019	2018
Household deposits and lending	15 725	15 448
Corporate deposits and lending	17 784	16 711
Payments, net	2 025	1 975
Asset management	5 036	4 735
Pension & insurance	854	631
Investment bank services	1 201	1 818
Other	1 939	2 468
Total	**44 564**	**43 786**

G45 Geographical information

Geographical information 2019

SEK m	Income	Operating profit	Tax	Assets
Sweden	26 621	13 886	-4 078	2 612 909
UK	7 185	3 074	-830	360 677
Norway	4 336	2 646	-615	316 359
Denmark	2 312	849	-165	143 762
Finland	2 214	1 143	-201	262 504
The Netherlands	1 022	326	-74	66 371
USA	288	43	-20	340 105
Luxembourg	192	80	-20	43 596
China	123	-84	-11	5 300
Germany	100	-15	-10	14 011
France	64	31	-5	4 002
Singapore	49	-85	3	6 444
Poland	40	-57	-	1 118
Estonia	12	-14	-	215
Latvia	4	-13	-	482
Lithuania	2	-14	-	45
Eliminations	-	-	1 155	-1 108 233
Group	**44 564**	**21 796**	**-4 871**	**3 069 667**

Income, operating profit and assets presented in the geographical information are composed of internal and external income, expenses and assets in the respective country. The geographical distribution of income and expenses is based on the country where the business transaction has been carried out, and is not comparable with the reported segment information. Tax includes current and deferred taxes. Additional geographical information is provided in note P16 concerning the domicile of subsidiaries and associates and in note G8 concerning average number of employees per country.

Geographical information 2018

SEK m	Income	Operating profit	Tax	Assets
Sweden	27 004	16 196	-3 558	2 569 641
UK	6 346	1 730	-537	331 946
Norway	4 260	2 244	-577	288 393
Denmark	2 259	700	-175	136 549
Finland	2 079	768	-162	277 642
The Netherlands	889	235	-46	51 820
USA	359	101	-41	473 406
Luxembourg	208	70	-18	35 796
China	109	-11	-41	7 989
Germany	81	-20	-2	18 126
France	60	18	0	3 987
Singapore	53	4	-3	5 963
Poland	42	-6	-	1 128
Estonia	13	0	-	1 069
Latvia	5	-7	-	447
Lithuania	3	-9	-	206
Eliminations	-	-	504	-1 225 934
Group	**43 770**	**22 013**	**-4 656**	**2 978 174**

G46 Assets and liabilities by currency

2019 SEK m	SEK	EUR	NOK	DKK	GBP	USD	Other currencies	Total
Assets								
Cash and balances with central banks	46 552	114 477	22 096	291	85 069	58 039	1 434	327 958
Other loans to central banks	13	182	2 868	15 484	1 000	-	0	19 547
Loans to other credit institutions	2 260	5 569	440	366	1 046	7 028	1 230	17 939
Loans to the public	1 372 132	243 507	280 110	104 095	267 214	20 803	4 742	2 292 603
of which companies	*499 072*	*157 535*	*176 218*	*38 050*	*181 116*	*20 588*	*2 832*	*1 075 411*
of which households	*873 060*	*85 972*	*103 892*	*66 045*	*86 098*	*215*	*1 910*	*1 217 192*
Interest-bearing securities eligible as collateral with central banks	91 603	8 256	1 144	20	-	1 358	1 006	103 387
Bonds and other interest-bearing securities	32 612	2 032	4 112	12	0	3 872	-	42 640
Other items not broken down by currency	265 593							265 593
Total assets	**1 810 765**	**374 023**	**310 770**	**120 268**	**354 329**	**91 100**	**8 412**	**3 069 667**
Liabilities								
Due to credit institutions	38 010	89 030	5 384	4 119	2 527	8 428	491	147 989
Deposits and borrowing from the public	649 470	121 251	74 402	50 035	196 003	21 310	5 354	1 117 825
of which companies	*260 874*	*96 867*	*50 526*	*27 568*	*128 848*	*17 161*	*4 781*	*586 625*
of which households	*388 596*	*24 384*	*23 876*	*22 467*	*67 155*	*4 149*	*573*	*531 200*
Issued securities	469 814	345 368	25 878	100	68 584	451 930	23 287	1 384 961
Subordinated liabilities	3 003	15 829	-	-	19	16 697	-2	35 546
Other items not broken down by currency, incl. equity	383 346							383 346
Total liabilities and equity	**1 543 643**	**571 478**	**105 664**	**54 254**	**267 133**	**498 365**	**29 130**	**3 069 667**
Other assets and liabilities broken down by currency, net		197 540	-204 941	-65 918	-87 015	407 292	20 776	
Net foreign currency position		85	165	96	181	27	58	612

Note G2 describes the Bank's view of foreign exchange risk.

2018 SEK m	SEK	EUR	NOK	DKK	GBP	USD	Other currencies	Total
Assets								
Cash and balances with central banks	56	133 057	3 548	505	73 394	105 765	892	317 217
Other loans to central banks	10 128	-	-	22 583	846	-	-	33 557
Loans to other credit institutions	2 071	7 090	820	151	543	10 188	1 274	22 137
Loans to the public	1 338 696	225 596	255 700	99 330	238 624	24 637	6 509	2 189 092
of which companies	*493 278*	*147 086*	*160 461*	*34 663*	*163 535*	*24 514*	*5 090*	*1 028 627*
of which households	*845 418*	*78 511*	*95 239*	*64 667*	*75 089*	*123*	*1 419*	*1 160 466*
Interest-bearing securities eligible as collateral with central banks	89 716	7 139	5	14	-	24 567	819	122 260
Bonds and other interest-bearing securities	39 784	2 122	1 217	-	558	7 048	-	50 729
Other items not broken down by currency	243 182							243 182
Total assets	**1 723 633**	**375 004**	**261 290**	**122 583**	**313 965**	**172 205**	**9 494**	**2 978 174**
Liabilities								
Due to credit institutions	53 343	104 355	6 416	5 432	839	13 714	9 983	194 082
Deposits and borrowing from the public	603 103	108 519	64 004	43 719	161 974	23 835	3 333	1 008 487
of which companies	*238 197*	*86 964*	*42 505*	*23 915*	*106 423*	*21 444*	*2 830*	*522 278*
of which households	*364 906*	*21 555*	*21 499*	*19 803*	*55 551*	*2 390*	*504*	*486 208*
Issued securities	461 015	297 125	25 165	86	85 509	494 203	31 544	1 394 647
Subordinated liabilities	8 691	31 222	-	-	-	11 172	-	51 085
Other items not broken down by currency, incl. equity	329 873							329 873
Total liabilities and equity	**1 456 025**	**541 221**	**95 585**	**49 237**	**248 322**	**542 924**	**44 860**	**2 978 174**
Other assets and liabilities broken down by currency, net		166 291	-165 567	-73 215	-65 607	370 651	35 422	
Net foreign currency position		74	138	131	36	-68	56	367

G47 Related-party disclosures

Claims on and liabilities to related parties	Associated companies		Other related parties	
SEK m	2019	2018	2019	2018
Loans to the public	591	774	-	-
Other assets	-	43	6	4
Total	**591**	**817**	**6**	**4**
Deposits and borrowing from the public	72	104	724	252
Subordinated liabilities	-	-	-	654
Other liabilities	-	-	11	66
Total	**72**	**104**	**735**	**972**

Related parties – income and expenses	Associated companies		Other related parties	
SEK m	2019	2018	2019	2018
Interest income	7	8	0	0
Interest expenses	0	0	-16	-72
Fee and commission income	0	0	-	-
Fee and commission expenses	-65	-257	-37	-33
Net gains/losses on financial items at fair value	0	0	-	-
Other income	0	0	18	19
Other expenses	0	-53	-67	-51
Total	**-58**	**-302**	**-102**	**-137**

A list of associated companies and information about shareholder contributions to associated companies is presented in note G18. The associated companies' operations comprise various types of services related to the financial markets. The following companies comprise the group of related parties: Svenska Handelsbankens Pensionsstiftelse (pension foundation), Svenska Handelsbankens Personalstiftelse (staff foundation) and Pensionskassan SHB, Försäkringsförening (pension fund). These companies use Svenska Handelsbanken AB for customary banking and accounting services.

The parent company's Swedish subsidiaries have paid pension premiums for defined benefit pensions to the pension fund amounting to SEK 67m (50). The pension fund's commitments to the employees of subsidiaries are guaranteed by the parent company, so if the pension fund cannot pay its commitments, the parent company is liable to take over and pay the commitment. The pension fund's obligations are SEK 7,461m (6,904). Svenska Handelsbanken AB has requested compensation from Svenska Handelsbankens Pensionsstiftelse amounting to SEK 498m (480) regarding pension costs, SEK - m (455) regarding special supplementary pension and from Svenska Handelsbankens Personalstiftelse amounting to SEK 29m (25) for measures to benefit the employees.

Information regarding loans to executive officers, as well as conditions and other remuneration to executive officers, is given in note G8.

G48 Events after the balance sheet date

No significant events have occurred after the balance sheet date.

G49 Capital adequacy

The numbering of certain tables and figures in this Note is consistent with the numbering used in Handelsbanken's publication "Risk and Capital – Information according to Pillar 3".

CAPITAL POLICY

The Bank aims to maintain a robust capital level which meets the risk entailed in the Group's operations and which exceeds the minimum requirements prescribed by legislation. A healthy capital level is needed to manage situations of financial strain and also for other events such as acquisitions and major growth in volumes.

CAPITAL REQUIREMENTS REGULATIONS

According to the capital adequacy regulations, Regulation (EU) No 575/2013 EU (CRR), which came into force in the EU on 1 January 2014, and directive 2013/36/EU (CRD IV), which was implemented in Sweden on 2 August 2014, the Bank must have common equity tier 1 capital, tier 1 capital and total own funds which at least correspond to the individual requirements relative to the total risk exposure amount for credit risk, market risk and operational risk. In addition to holding capital in accordance with the minimum requirement, the Bank must also hold common equity tier 1 capital to comply with the combined buffer requirement which, in Sweden, comprises the sum of a capital conservation buffer, a countercyclical buffer and a systemic risk buffer. The Bank is also required to hold capital for the Pillar 2 requirement. The Pillar 2 requirement is an individual requirement which is intended to cover risks which are underestimated or not covered by the regulation's minimum requirement and combined buffer requirements. The Bank must also perform an internal capital assessment. Handelsbanken's capital policy states the guidelines for the internal capital assessment. The Bank must also comply with a capital requirement at the financial conglomerate level in accordance with the Financial Conglomerates (Special Supervision) Act (2006:531). See also Capital adequacy for the financial conglomerate below. Since 1 February 2016, the resolution authority, which in Sweden is the National Debt Office, must set a minimum requirement for own funds and eligible liabilities (MREL) for the Bank. See Minimum requirement for own funds and eligible liabilities below. In 2019, the Bank met all the statutory minimum and buffer levels by a comfortable margin. More detailed information about the Bank's own funds and capital requirement is available in note G2, Risk and capital management, and in Handelsbanken's publication titled Risk and Capital – Information according to Pillar 3 (see handelsbanken.com/ir). This publication also provides a complete description of the terms and conditions applying to all of Handelsbanken's own funds instruments.

DESCRIPTION OF CONSOLIDATED SITUATION

The regulatory consolidation (consolidated situation) consists of the parent company, subsidiaries and associated companies that are also included in the consolidated Group accounts, as shown in table 2.10, Companies included in consolidated situation. The companies that are included in the consolidated accounts but are excluded from the consolidated situation are also shown in table 2.10, Companies included in consolidated situation. Just as in the consolidated accounts, associated companies are consolidated using the equity method in the regulatory consolidated situation. Subsidiaries are further consolidated according to the acquisition method. All subsidiaries which are subject to the regulations are included in the consolidated situation. Handelsbanken has no subsidiaries where the actual own funds are less than the prescribed own funds.

DESCRIPTION OF OWN FUNDS FOR CONSOLIDATED SITUATION

Own funds consist of tier 1 capital and tier 2 capital. The tier 1 capital is divided into common equity tier 1 capital and additional tier 1 capital. Common equity tier 1 capital consists mainly of share capital, retained earnings and other reserves in the companies that are included in the consolidation. Remaining tier 1 capital consists of additional tier 1 instruments. The tier 2 capital mainly consists of subordinated loans. Certain deductions are subsequently made from own funds. The deductions are made mainly from the common equity tier 1 capital. For the Bank's risk management, it is important that in risk terms, both the Group and the regulatory consolidation can be viewed as one unit. To enable efficient risk management in the Group, capital may need to be re-allocated among the various companies in the Group. In general, Handelsbanken is able to re-allocate capital among the Group companies, to the extent that is permitted by legislation, for example, capital adequacy requirements and restrictions in corporate law. The Bank sees no other material or legal obstacles to a rapid transfer of funds from the capital base, or repayment of liabilities between the parent company and its subsidiaries.

Tier 1 capital

Tier 1 capital consists of common equity tier 1 capital and additional tier 1 capital.

Common equity tier 1 (CET1) capital

Common equity tier 1 capital consists chiefly of share capital, retained earnings and other reserves in the companies that are included in the regulatory consolidation. Since the Group's insurance companies are not part of the consolidation, shown in the table on page 179, retained earnings in these companies are not included in the common equity tier 1 capital. The items to be excluded from the common equity tier 1 capital are mainly goodwill and other intangible assets, and also capital contributions to the insurance companies in the Group or certain deferred tax assets which exceed 10 per cent of the common equity tier 1 capital. The total of capital contributions and deferred tax assets must not exceed 15 per cent of the common equity tier 1 capital. Since neither the capital contributions to the insurance companies in the Group nor the deferred tax assets exceed the threshold value, these do not reduce the common equity tier 1 capital. Neutrality adjustments are made for the effect of cash flow hedges on equity. A price adjustment must also be calculated and when necessary, be made for a cautious valuation of instruments at fair value. Institutions with permission to use internal ratings-based models must make a deduction for the difference between expected credit losses according to the IRB approach and the provisions made for probable credit losses if the expected credit losses exceed the provisions made. A deduction must also be made for the net value of recognised surplus values in pension assets. However, the deduction may be reduced by an amount corresponding to the Bank's right to reimbursement for pension costs from Handelsbanken's pension foundation. In addition, a deduction is made for permission to hold own shares in its capacity as market maker. The deduction must correspond to the highest market value covered by the permission. Finally, a deduction is made for investments in securitisation.

Additional tier 1 capital

Additional tier 1 capital consists of instruments which fulfil the requirements for additional tier 1 capital. This capital must be perpetual and must be redeemable after five years at the earliest, but only after permission is granted by the supervisory authority. It must be possible to write down the nominal value or convert it to shares to create common equity tier 1 capital at a pre-defined level for the common equity tier 1 capital and it must be possible to unconditionally suspend interest payments.

The Bank's total additional tier 1 capital amounts to SEK 15.8 billion. Of this amount, additional tier 1 capital for SEK 11.2 billion was issued in 2015 and SEK 4.6 billion was issued in 2019, which fulfils the requirements of CRR. If there are no distributable funds, coupon payments must be suspended for additional tier 1 capital.

Tier 2 (T2) capital

The tier 2 capital consists of subordinated loans with a maturity of at least five years. Deductions are made for subordinated loan contributions to the insurance companies within the Group.

G49 Cont.

CAPITAL REQUIREMENTS

Credit risk

The capital requirements for credit risk are calculated according to the standardised approach and the IRB approach according to CRR. There are two different IRB approaches: the IRB approach without own estimates of LGD and CCF (the foundation approach), and the IRB approach with own estimates of LGD and CCF (the advanced approach).

In the IRB approach without own estimates of LGD and CCF, the Bank uses its own method to determine the probability of the customer defaulting within one year (PD), while the other parameters are set out in CRR. In the IRB approach with own estimates of LGD and CCF, the Bank uses its own methods to calculate the loss given default (LGD) and the credit conversion factor (CCF). A definition of the credit conversion factor (CCF) is provided in Handelsbanken's Fact Book.

Handelsbanken uses the IRB approach without own estimates of LGD and CCF for exposures to institutions and for certain product and collateral types for corporate exposures in the whole of the regional banking operations and in the following subsidiaries: Stadshypotek AB, Handelsbanken Finans AB, Ecster AB and Rahoitus Oy.

The IRB approach with own estimates of LGD and CCF is applied to most exposures to large corporates, medium-sized companies, property companies and housing co-operative associations in the regional banks (excluding the Netherlands), Handelsbanken Capital Markets, Stadshypotek AB and Handelsbanken Finans AB, for retail exposures in Sweden, Norway, Denmark and Finland, and in the subsidiaries Stadshypotek AB, Handelsbanken Finans AB, Ecster AB and Rahoitus Oy.

As of 1 December 2018, operations in the UK are conducted in the subsidiary Handelsbanken plc. Previously, the operations were conducted in the form of a branch office. In the consolidated situation at Group level, capital adequacy for corporate exposure in the UK is set using the IRB approach, while the local capital requirement is set using the standardised approach.

At year-end, the IRB approach was applied to 86 per cent (86) of the total risk exposure amount for credit risk. For the remaining credit risk exposures, the capital requirements are calculated using the standardised approach. Figures reported in this section refer to the minimum capital requirements under Pillar 1 and buffers of the capital adequacy regulations, CRR and CRD IV.

The total average risk weight for exposures approved for the IRB approach decreased during the year to 13.7 per cent (13.9). The decrease was marginal and can mainly be attributed to the breakdown of the portfolio, in that exposure classes with somewhat lower risk weights, housing co-operative associations and households, have risen proportionally slightly more than those with higher risk weights. Adjusted for the move of the risk weight floor for Swedish mortgage loans from Pillar 2 to Pillar 1, the total average risk weight is 20.0 per cent (19.9).

Credit quality is good. Of Handelsbanken's corporate exposures, 98 per cent (98) were customers with a repayment capacity assessed as normal or better than normal, i.e. with a rating grade between one and five on the Bank's 10-point risk rating scale.

In 2017, Handelsbanken received permission to use new PD models for companies in the IRB approach. The models are based on historical default frequency, by both risk class and portfolio. The estimates for each portfolio are based on the Bank's internal data and data from other sources, such as external credit rating agencies, and the duration of a business cycle in which one of five years is a downturn year and in which the Swedish banking crisis of the 1990s is taken into account, as required by the Swedish Financial Supervisory Authority. Significant margins of conservatism are added, and the PD for the portfolios are not expected to vary year on year. The estimates by risk class are based on the Bank's internal default data and a model that determines the relationship of probability of default between different risk classes. The margins are then added up so that each portfolio's aggregate PD corresponds to the estimated portfolio PD. This means that the PD for each risk class may vary over time even if the portfolio PD does not, as counterparties may move between risk classes over time.

The capital requirements for equity exposures in the IRB approach are calculated according to a simplified risk weight method.

Further information about changes during the year is provided in the Bank's interim reports for 2019 and the publication 'Risk and Capital – Information according to Pillar 3'.

Market risks

The capital requirement for market risk is calculated for the Bank's consolidated situation. The capital requirements for interest rate risk and equity price risk are, however, only calculated for positions in the trading book. When calculating the capital requirement for market risk, the standardised approach is applied.

Capital requirement for operational risk

Handelsbanken uses the standardised approach to calculate the capital requirement for operational risk. According to the standardised approach, the capital requirement is calculated by multiplying a factor specified in the regulations by the average operating income during the last three years of operation. Different factors are applied in different business segments.

The total capital requirement for operational risks for the consolidated situation was SEK 5,282 million (5,115) at the end of 2019.

CAPITAL ADEQUACY FOR THE FINANCIAL CONGLOMERATE

Institutions and insurance companies which are part of a financial conglomerate must have own funds which are adequate in relation to the capital requirement for the financial conglomerate. Own funds and the capital requirement for the financial conglomerate have been calculated according to the deduction and aggregation method (method 2, Annex I, Directive 2002/87/EC). The financial conglomerate's total own funds exceed the financial conglomerate's capital requirement.

MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES (MREL)

The Bank Recovery and Resolution Directive (2014/59/EU, BRRD), was implemented in Swedish law through the Resolution Act (2015:1016). These regulations state ways to manage bank crises, and enable authorities, within a set framework, to assume control of, restructure and sell either all or parts of a bank, without liquidating the bank or entering it into bankruptcy. In addition to these crisis management measures, the regulations offer the opportunity to write down certain debt instruments to recapitalise a crisis-hit bank.

One aspect of these regulations was the introduction of a minimum requirement for such liabilities eligible for impairment (MREL) from 1 January 2018. The minimum requirement is set in the Bank's resolution plan, drawn up by the Swedish National Debt Office and the Swedish Financial Supervisory Authority. The Bank's 2020 MREL amounts to 5.8 per cent (6.2) of total liabilities and own funds at consolidated level. The requirement is comprised of a loss absorption amount and a recapitalisation amount.

The Swedish National Debt Office also applies the liabilities proportion principle, meaning that MREL must partially be fulfilled solely with eligible, qualified liabilities (as opposed to own funds). To meet this requirement, a new type of debt instrument was introduced in Swedish legislation in December 2018. This type is subordinate to current senior debt instruments, but ranks more highly than own funds instruments as part of a resolution procedure. Handelsbanken has issued this type of subordinated debt instrument in 2019. During 2020, the regulations will be adapted to comply with new EU directives. Handelsbanken is monitoring developments.

G49 Cont.

Table 2.10 (Pillar 3) Companies included in consolidated situation

Companies included in consolidated situation	Ownership share, %	Corporate identity number	Domicile
Handelsbanken AB (publ)[1]	excl.	502007-7862	Stockholm
SUBSIDARIES			
Handelsbanken Finans AB[1]	100	556053-0841	Stockholm
Handelsbanken Finans (Shanghai) Financial Leasing Co., Ltd	100	310101717882194	Shanghai
Stadshypotek AB[1]	100	556459-6715	Stockholm
Svenska Intecknings Garanti AB Sigab (inactive)	100	556432-7285	Stockholm
Handelsbanken Fondbolagsförvaltning AB	100	556070-0683	Stockholm
Handelsbanken Fonder AB	100	556418-8851	Stockholm
Handelsinvest Investeringsforvaltning A/S	100	12930879	Copenhagen
Xact Kapitalförvaltning AB	100	556997-8140	Stockholm
AB Handel och Industri	100	556013-5336	Stockholm
Ecster AB	100	556993-2311	Stockholm
Handelsbanken plc[13]	100	11305395	London
Heartwood Wealth Management Limited	100	04132340	London
Heartwood Nominees Limited (inactive)	100	2299877	London
Heartwood Second Nominees Limited (inactive)	100	3193458	London
Heartwood ACD Limited (inactive)	100	4332528	London
Svenska Property Nominees Limited (inactive)	100	2308524	London
Optimix Vermogensbeheer N.V.	100	33194359	Amsterdam
Add Value Fund Management B.V.	80	19196768	Amsterdam
Optimix Beheer en Belegging B.V. (inactive)	100	33186584	Amsterdam
Other			
Ejendomsselskabet af 1. maj 2009 A/S[1]	100	59173812	Hillerød
Forva AS	100	945812141	Oslo
Handelsbanken Markets Securities, Inc[1]	100	11-3257438	New York
Handelsbanken Rahoitus Oy	100	0112308-8	Helsinki
Lokalbolig A/S	71.05	78488018	Hillerød
Rådstuplass 4 AS	100	910508423	Bergen
Lila stugan i Stockholm AB (inactive)	100	556993-9084	Stockholm
Blå stugan i Stockholm (inactive)	100	556993-9357	Stockholm
Subsidary of Handelsbanken Liv Försäkrings AB			
Handelsbanken Fastigheter AB	100	556873-0021	Stockholm
ASSOCIATES			
Bankomat AB	20	556817-9716	Stockholm
BGC Holding AB	25.38	556607-0933	Stockholm
Bankgirocentralen BGC AB[2]	100	556047-3521	Stockholm
Torig AB	100	556564-5404	Stockholm
Finansiell ID-teknik BID AB	28.3	556630-4928	Stockholm
USE Intressenter AB	24.48	559161-9464	Stockholm
Getswish AB	20	556913-7382	Stockholm

[1] Credit institution.
[2] Refers to ownership shares in subsidiaries and associates.
[3] As of 1 December 2018, Handelsbanken's operations in the UK are conducted in the form of a subsidiary. Handelsbanken plc has a separate consolidated situation at solo level, which includes the subsidiary Heartwood.

Companies included in consolidated situation	Ownership share, %	Corporate identity number	Domicile
Handelsbanken Liv Försäkring AB (Group excl. Handelsbanken Fastigheter AB)	100	516401-8284	Stockholm
Svenska Re S.A.	100	RCS Lux B-32053	Luxembourg
Handelsbanken Skadeförsäkrings AB	100	516401-6767	Stockholm
Dyson Group plc	27	00163096	Sheffield
Dyson Industries Ltd	100	1187031	Sheffield
Beepart Ltd	100	177682	Sheffield
Pickford Holland & Company Ltd	100	128414	Sheffield
Millennium Materials Inc	100	-	Knoxville
Dyson US holdings Inc	100	-	Wilmington
EFN Ekonomikanalen AB	100	556930-1608	Stockholm
SHB Liv Försäkringsaktiebolag	100	2478149-7	Helsinki
Svenska RKA International Insurance Services AB (inactive)	100	556324-2964	Stockholm

G49 Cont.

Table 2.1 (Pillar 3) Balance sheet

Balance sheet SEK m	2019 Consolidated situation	2019 Group	2018 Consolidated situation	2018 Group
ASSETS				
Cash and balances with central banks	327 958	327 958	317 217	317 217
Other loans to central banks	19 547	19 547	33 557	33 557
Interest-bearing securities available as collateral with central banks	103 387	103 387	118 929	122 260
Loans to other credit institutions	17 934	17 939	22 133	22 137
Loans to the public	2 293 735	2 292 603	2 190 223	2 189 092
Value change of interest-hedged item in portfolio hedge	25	25	33	33
Bonds and other interest-bearing securities	42 640	42 640	47 850	50 729
of which interest-bearing instruments classified as available for sale (carrying amount)	*4 953*	*4 953*	*5 373*	*5 373*
of which interest-bearing instruments classified as available for sale, accumulated value change	*-73*	*-73*	*-79*	*-79*
Shares and participating interests	14 340	21 390	13 168	13 821
of which shares classified as available for sale (carrying amount)	*2 303*	*2 303*	*1 841*	*1 841*
of which shares classified as available for sale, accumulated value change	*739*	*739*	*367*	*367*
Investments in associates	6 560	285	6 534	259
Assets where the customer bears the value change risk	6 514	174 988	5 345	136 346
Derivative instruments	41 545	41 545	58 041	58 041
of which cash flow hedges	*4 203*	*4 203*	*1 263*	*1 263*
Reinsurance assets	-	11	-	12
Intangible assets	11 051	11 185	10 322	10 455
Property and equipment	6 644	6 645	2 229	2 229
Current tax assets	50	53	615	617
Deferred tax assets	693	693	1 044	1 044
of which related to cash flow hedges	-	-	-	-
of which related to interest-bearing instruments classified as available for sale	*20*	*20*	*21*	*21*
Pension assets	700	654	-	-
Assets held for sale	1	1	19	19
Other assets	5 917	6 167	16 652	16 880
Prepaid expenses and accrued income	1 925	1 951	3 406	3 426
Total assets	**2 901 166**	**3 069 667**	**2 847 317**	**2 978 174**
LIABILITIES AND EQUITY				
Liabilities to credit institutions	147 934	147 989	194 033	194 082
Deposits and borrowing from the public	1 117 260	1 117 825	1 007 837	1 008 487
Liabilities where the customer bears the value change risk	6 514	174 988	5 345	136 346
Issued securities	1 384 961	1 384 961	1 394 647	1 394 647
Derivative instruments	20 642	20 642	17 361	17 360
of which cash flow hedges	-	-	-	-
Short positions	1 856	1 856	6 163	6 163
Insurance liabilities		578	-	542
Current tax liabilities	1 264	1 284	1 105	1 118
Deferred tax liabilities	5 594	5 634	5 746	5 786
of which related to cash flow hedges	*1144*	*1144*	*344*	*344*
of which related to interest-bearing instruments classified as available for sale	*27*	*27*	*6*	*6*
Provisions	1132	1141	213	222
Pension obligations	0	0	3 171	3 226
Liabilities related to assets held for sale	-	-	-	-
Other liabilities	13 714	14 038	12 694	12 984
Accrued expenses and deferred income	3 271	3 353	3 784	3 865
Subordinated liabilities	35 546	35 546	51 085	51 085
of which tier 1 capital loans	*15 819*	*15 819*	*13 053*	*13 053*
of which loans with remaining time to maturity > 5 yrs	*18 639*	*18 639*	*18 325*	*18 325*
of which loans with remaining time to maturity < 5 yrs	-	-	-	-
of which other loans	*2*	*2*	*18 514*	*18 514*
Total liabilities	**2 739 688**	**2 909 835**	**2 703 184**	**2 835 913**
Minority interest	8	8	12	12
Share capital	3 069	3 069	3 013	3 013
Holdings of own shares	*0*	*0*	*0*	*0*
Share premium reserve	8 758	8 758	5 629	5 629
of which equity from combined financial instruments	*0*	*0*	*466*	*466*
Other reserves	13 130	13 141	5 105	5 098
Retained earnings	119 799	117 934	113 799	111 155
Profit for the year (attributable to shareholders of Svenska Handelsbanken AB)	16 714	16 922	16 575	17 354
Total equity	**161 478**	**159 832**	**144 133**	**142 261**
Total liabilities and equity	**2 901 166**	**3 069 667**	**2 847 317**	**2 978 174**

G49 Cont.

Table 2.2 (Pillar 3) Own funds

Presentation in accordance with the requirements of Commission Implementing Regulation (EU) No 1423/2013. Excluded rows are deemed not relevant for Handelsbanken at present.

Own funds		2019			2018	
SEK m		Amount at disclosure date	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013	Regulation (EU) No 575/2013 article reference	Amount at disclosure date	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
	Common equity tier 1 capital: instruments and reserves					
1	Capital instruments and the related share premium accounts	11 827		26 (1), 27, 28, 29, EBA list 26 (3)	8 177	
	of which: share capital	*11 827*		*EBA list 26 (3)*	*8 177*	
	of which: convertible securities			*EBA list 26 (3)*		
2	Retained earnings	119 799		26 (1) (c)	113 799	
3	Accumulated other comprehensive income (and any other reserves, to include unrealised gains and losses according to the applicable accounting standards)	13 130		26 (1)	5 536	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	5 824		26 (2)	5 881	
6	**Common equity tier 1 (CET1) capital before regulatory adjustments**	**150 580**			**133 393**	
	Common equity tier 1 (CET1) capital: regulatory adjustments					
7	Additional value adjustments (negative amount)	-399		34, 105	-375	
8	Intangible assets (net of related tax liability) (negative amount)	-11 119		36 (1) (b), 37	-10 390	
11	Fair value reserves related to gains or losses on cash flow hedges	-4 203		33 (1) (a)	-1 263	
12	Negative amounts resulting from the calculation of expected loss amounts	-1 581		36 (1) (d), 40, 159	-2 047	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-		33 (1) (b)	-	
15	Defined benefit pension fund assets (negative amount)	-		36 (1) (e), 41	-	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-527		36 (1) (f), 42	-508	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79	-	
20a	Exposure amount of the following items which qualify for a RW of 1,250%, where the institution opts for the deduction alternative	-20		36 (1) (k)		
20c	*of which: securitisation positions (negative amount)*	*-20*		*36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258*		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-		36 (1) (c), 38, 48 (1) (a)	-	
22	Amount exceeding the 15% threshold (negative amount)	-		48 (1)	-	
23	*of which: direct and indirect holdings by the institution of CET1 instruments of financial sector entities where the institution has significant investments in those entities*	-		*36 (1) (i), 48 (1) (b)*	-	
25	*of which: deferred tax assets arising from temporary differences*	-		*36 (1) (c), 38, 48 (1) (a)*	-	
25a	Losses for the current financial year (negative amount)	-		36 (1) (a)	-	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-		36 (1) (l)	-	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-		36 (1) (j)	-	
28	**Total regulatory adjustments to common equity tier 1 (CET1) capital**	**-17 849**			**-14 583**	
29	**Common equity tier 1 (CET1) capital**	**132 731**			**118 810**	
	Additional tier 1 (AT1) capital: instruments					
30	Capital instruments and the related share premium accounts	15 819		51, 52	10 701	
32	*of which: classified as liabilities under applicable accounting standards*	*15 819*			*10 701*	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	-		486 (3)	2 352	2 352
36	**Additional tier 1 (AT1) capital before regulatory adjustments**	**15 819**			**13 053**	

G49 Cont.

Own funds	2019			2018	
SEK m	Amount at disclosure date	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013	Regulation (EU) No 575/2013 article reference	Amount at disclosure date	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
Additional tier 1 (AT1) capital: regulatory adjustments					
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-		52 (1) (b), 56 (a), 57	-400	-400
40 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-		56 (d), 59, 79	-	
42 Qualifying (T2) deductions that exceed the T2 capital of the institution (negative amount)	-		56 (e)	-	
43 Total regulatory adjustments to additional tier 1 (AT1) capital	**0**			**-400**	
44 Additional tier 1 (AT1) capital	**15 819**			**12 653**	
45 Tier 1 capital (T1 = CET1 + AT1)	**148 550**			**131 463**	
Tier 2 (T2) capital: instruments and provisions					
46 Capital instruments and the related share premium accounts	18 639		62 ,63	33 704	
50 Credit risk adjustments	0			0	
51 Tier 2 (T2) capital before regulatory adjustments	**18 639**			**33 704**	
Tier 2 (T2) capital: regulatory adjustments			63 (b) (i), 66 (a), 67		
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-		66 (d), 69, 79	-15 379	
55 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-1 129		66 (d), 69, 79, 477 (4)	-1 129	
57 Total regulatory adjustments to tier 2 (T2) capital	**-1 129**			**-16 508**	
58 Tier 2 (T2) capital	**17 510**			**17 196**	
59 Total capital (TC = T1 + T2)	**166 060**			**148 659**	
60 Total risk-weighted assets	**716 462**			**707 579**	
Capital ratios and buffers					
61 Common equity tier 1 capital (as a percentage of total risk exposure amount)	18.5		92 (2) (a)	16.8	
62 Tier 1 capital (as a percentage of total risk exposure amount)	20.7		92 (2) (b)	18.6	
63 Total capital (as a percentage of total risk exposure amount)	23.2		92 (2) (c)	21.0	
64 Institution-specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer) expressed as a percentage of total risk exposure amount)	7.4		CRD 128, 129, 130	7.0	
65 of which: capital conservation buffer requirement	*2.5*			*2.5*	
66 of which: countercyclical buffer requirement	*1.9*			*1.5*	
67 of which: systemic risk buffer requirement	*3.0*			*3.0*	
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	*0.0*		*CRD 131*	*0.0*	
68 Common equity tier 1 capital available to meet buffers (as a percentage of risk exposure amount)	14.0		CRD 128	12.3	

G49 Cont.

Own funds SEK m		2019 Amount at disclosure date	2019 Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013	2019 Regulation (EU) No 575/2013 article reference	2018 Amount at disclosure date	2018 Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
	Capital ratios and buffers					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0		36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70	0	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-		36 (1) (i), 45, 48	-	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-2		36 (1) (c), 38, 48	-960	
	Applicable caps on the inclusion of provisions tier 2 capital					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-		62	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	1 084		62	1 093	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-		62	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	3 308		62	3 247	
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)					
80	Current cap on CET1 instruments subject to phase-out arrangements	-		484 (3), 486 (2) and (5)	58	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-		484 (3), 486 (2) and (5)	-	
82	Current cap on AT1 instruments subject to phase-out arrangements	-		484 (4), 486 (3) and (5)	2 445	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-		484 (4), 486 (3) and (5)	-	
84	Current cap on T2 instruments subject to phase-out arrangements	-		484 (5), 486 (4) and (5)	1 481	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-		484 (5), 486 (4) and (5)	-	

Table 2:12 (Pillar 3) Capital adequacy financial conglomerate
The table illustrates the relationship between capital and capital requirements for the financial conglomerate. The surplus has increased compared to the previous year.

Capital adequacy financial conglomerate SEK m	2019	2018
Own funds after reduction and adjustments	174 186	152 229
Capital requirement	153 484	139 687
Surplus	**20 702**	**12 542**

G49 Cont.

Table 2.11 (Pillar 3) EU OV1 – Overview of RWAs

The table shows risk-weighted exposure amounts (RWA) for credit risk, counterparty risk, market risk and operational risk the end of 2019 and the previous year. The amounts stated for credit risk are calculated for exposures processed according to the standardised approach, the foundation IRB approach and the advanced IRB approach. The amounts stated for market risk and operational risk are calculated for exposures processed according to the standardised approach. The RWA for credit risk has increased compared to the previous year. The RWA for counterparty risk has decreased compared to the previous year. The RWA for market risk has decreased compared to the previous year. The RWA for operational risk has increased compared to the previous year.

EU OV1 – Overview of risk-weighted exposure amounts			RWAs		Minimum capital requirements
SEK m			2019	2018	2019
	1	Credit risk (excluding CCR)	626 682	616 009	50 132
Article 438(c)(d)	2	Of which the standardised approach	86 573	87 147	6 926
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach[1]	53 846	53 978	4 305
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach[2]	475 964	467 474	38 077
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	10 299	7 410	824
Article 107 Article 438(c)(d)	6	CCR	11 371	12 603	910
Article 438(c)(d)	7	Of which mark to market	11 359	12 598	909
Article 438(c)(d)	8	Of which original exposure			
	9	Of which the standardised approach			
	10	Of which internal model method (IMM)			
Article 438(c)(d)	11	Of which risk exposure amount for contributions ot the default fund of a CCP	12	5	1
Article 438(c)(d)	12	CVA	4 114	5 219	329
Article 438 e	13	Settlement risk	9	0	1
Article 449(o)(i)	14	Securitisation exposures in the non-trading book (after the cap)	-	51	-
	15	Of which IRB Approach	-	51	-
	16	Of which IRB supervisory formula approach (SFA)			
	17	Of which internal assessment approach (IAA)			
	18	Of which standardised approach			
Article 438 e	19	Market risk	8 263	9 765	662
	20	Of which the standardised approach	8 263	9 765	662
	21	Of which IMA			
Article 438 e	22	Large exposures			
Article 438(f)	23	Operational risk	66 023	63 932	5 282
	24	Of which basic indicator approach			
	25	Of which standardised approach	66 023	63 932	5 282
	26	Of which advanced measurement approach			
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)			
Article 500	28	Floor adjustment			
	29	**Total**	**716 462**	**707 579**	**57 317**

[1] Non-credit-obligation assets are reported under the foundation IRB approach
[2] The risk weight floor for Swedish mortgage loans is reported under the advanced IRB approach

Table 4.1 (Pillar 3) EU MR1 – Market risk under the standardised approach

The following table shows capital requirements and REA for market risk according to the standardised approach (CRR) at year-end 2019.

EU MR1 – Market risk under the standardised approach	2019		2018	
	a	b	a	b
SEK m	REA	Capital requirements	REA	Capital requirements
Outright products				
Interest rate risk	8 130	651	9 552	764
of which general risk	*6 923*	*554*	*7 888*	*631*
of which specific risk	*1 207*	*97*	*1 664*	*133*
Equity risk	43	3	84	7
of which general risk	*12*	*1*	*27*	*2*
of which specific risk	*30*	*2*	*54*	*5*
of which CIUs	*1*	*0*	*3*	*0*
Foreign exchange risk	-	-	-	-
Commodity risk	54	4	85	7
Options				
Scenario approach	36	3	43	3
of which interest rate risk	*3*	*0*	*4*	*0*
of which equity risk	*33*	*3*	*39*	*3*
of which foreign exchange risk	-	-	-	-
of which commodity risk	-	-	*0*	*0*
Securitisation (specific risk)	-	-	-	-
Settlement risk	9	1	1	0
Total	**8 272**	**662**	**9 765**	**781**

G49 Cont.

Table AR:47 Minimum requirement for eligible liabilites (MREL)

MREL requirement of total liabilities and own funds (SFS 2015:1016). The minimum requirement of eligible liabilities and own funds is concluded in the Bank's resolution plan according to the resolution authority, SNDO, in consultation with the SFSA. Total liabilities and own funds and MREL requirement are based on third quarter numbers.

SEK m	2019	2018
MREL requirement	184 086	191 255
Eligible liabilities and own funds	350 820	289 591
Total liabilities and own funds	2 986 085	2 900 642

%	2019	2018
MREL requirement as a percentage of total liabilities and own funds	6.2	6.6
Eligible liabilities and own funds as a percentage of total liabilities and own funds	11.7	10.0

Table 3.14 (Pillar 3) Credit risk exposures approved for IRB approach

Credit risk exposures approved for IRB approach	Exposure amount		Of which off-balance sheet		Risk-weighted exposure amount		Capital requirement		Average risk weight, %	
SEK m	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Sovereign exposures	**426 414**	**436 476**	**10 983**	**13 141**	**7 098**	**7 694**	**568**	**616**	**1.7**	**1.8**
Corporate exposures	**909 304**	**899 041**	**121 194**	**133 763**	**246 710**	**250 750**	**19 737**	**20 060**	**27.1**	**27.9**
Corporate lending	900 795	888 991	121 194	133 763	244 106	247 764	19 529	19 821	27.1	27.9
of which other lending, IRB approach without own estimates of LGD and CCF	*110 550*	*125 126*	*64 725*	*72 146*	*33 651*	*37 526*	*2 693*	*3 002*	*30.4*	*30.0*
of which other lending, IRB approach with own estimates of LGD and CCF	*790 245*	*763 865*	*56 469*	*61 617*	*210 455*	*210 238*	*16 836*	*16 819*	*26.6*	*27.5*
of which large corporates	*140 751*	*154 297*	*32 185*	*36 485*	*51 641*	*57 241*	*4 131*	*4 579*	*36.7*	*37.1*
of which medium-sized companies	*91 926*	*85 130*	*9 533*	*8 961*	*37 399*	*37 275*	*2 992*	*2 982*	*40.7*	*43.8*
of which property companies	*557 568*	*524 438*	*14 751*	*16 171*	*121 415*	*115 722*	*9 713*	*9 258*	*21.8*	*22.1*
Counterparty risk	8 509	10 050	-	-	2 604	2 986	208	239	30.6	29.7
Housing co-operative associations	**235 554**	**216 026**	**2 796**	**3 812**	**9 806**	**9 902**	**783**	**791**	**4.2**	**4.6**
Retail exposures	**1 119 800**	**1 079 337**	**58 312**	**55 531**	**82 406**	**85 185**	**6 593**	**6 815**	**7.4**	**7.9**
Private individuals	1 095 928	1 054 730	52 195	49 507	74 659	77 746	5 973	6 220	6.8	7.4
of which property loans	*1 046 593*	*991 558*	*36 074*	*29 601*	*63 871*	*62 459*	*5 110*	*4 997*	*6.1*	*6.3*
of which other	*49 335*	*63 172*	*16 121*	*19 906*	*10 788*	*15 287*	*863*	*1 223*	*21.9*	*24.2*
Small companies	23 872	24 607	6 117	6 024	7 747	7 438	620	595	32.5	30.2
of which property loans	*11 892*	*7 280*	*1 010*	*63*	*4 268*	*1 409*	*341*	*113*	*35.9*	*19.4*
of which other	*11 980*	*17 327*	*5 107*	*5 961*	*3 479*	*6 029*	*279*	*482*	*29.0*	*34.8*
Exposures to institutions	**57 663**	**78 120**	**6 316**	**6 014**	**14 436**	**14 858**	**1 155**	**1 189**	**25.0**	**19.0**
Lending to institutions	16 554	17 559	6 316	6 014	5 920	5 640	474	452	35.8	32.1
Counterparty risk	41 109	60 561	-	-	8 516	9 218	681	737	20.7	15.2
Equity exposures	**3 028**	**2 121**	**-**	**-**	**10 299**	**7 410**	**824**	**593**	**340.2**	**349.4**
of which listed equities	*1 129*	*545*	*-*	*-*	*3 274*	*1 581*	*262*	*126*	*290.0*	*290.0*
of which other equities	*1 899*	*1 576*	*-*	*-*	*7 025*	*5 829*	*562*	*467*	*370.0*	*370.0*
Non credit-obligation asset exposures	**6 946**	**2 239**	**-**	**-**	**6 946**	**2 239**	**556**	**179**	**100.0**	**100.0**
Securitisation positions	**-**	**22**	**-**	**-**	**-**	**51**	**-**	**4**	**-**	**229.2**
of which traditional securitisation	*-*	*22*	*-*	*-*	*-*	*51*	*-*	*4*	*-*	*229.2*
of which synthetic securitisation	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Total IRB approach	**2 758 709**	**2 713 382**	**199 601**	**212 261**	**377 701**	**378 089**	**30 216**	**30 247**	**13.7**	**13.9**
Risk weight floor, Swedish mortgage loans**					**173 604**	**163 123**	**13 888**	**13 050**		
Total IRB approach with impact of risk weight floor, Swedish mortgage loans	**2 758 709**	**2 713 382**	**199 601**	**212 261**	**551 305**	**541 212**	**44 104**	**43 297**	**20.0**	**19.9**

** From 30 September 2019, the Bank reports exposure amounts for repos and securities loans at a net amount. The comparative figures for 31 December 2018 have been adjusted according to the same method.

G49 Cont.

Table 3.15 (Pillar 3) Credit risk exposures according to standardised approach[1]

Credit risk exposures according to standardised approach[1]	Exposure amount		Of which off-balance sheet		Risk-weighted exposure amount		Capital requirement		Average risk weight, %	
SEK m	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Sovereign and central banks	353	403	79	21	7	-	1	-	1.9	0.0
Municipalities	-	25	-	-	-	5	-	0	-	20.0
Multilateral development banks	274	183	2	-	0	-	0	-	0.0	0.0
International organisations		-	-	-	-	-	-	-	-	-
Institutions	9 639	9 570	407	490	762	897	61	72	7.9	9.4
Corporate	8 495	10 282	2 326	2 360	8 408	10 191	673	815	99.0	99.1
Retail	10 226	9 198	2 898	2 306	7 460	6 867	597	549	72.9	74.7
Property mortgages	141 499	125 107	2 064	7 126	50 655	46 682	4 052	3 735	35.8	37.3
Past due items	598	705	21	13	725	878	58	70	121.2	124.6
High risk items	26	-	-	-	39	-	3	-	150.0	-
Funds	151	-	-	-	151	-	12	-	100.0	-
Equities	6 254	6 254	-	-	15 636	15 636	1 251	1 251	250.0	250.0
of which listed equities	-	-	-	-	-	-	-	-	-	-
of which other equities	*6 254*	*6 254*	-	-	*15 636*	*15 636*	*1 251*	*1 251*	*250.0*	*250.0*
Other items	3 244	6 604	17	26	2 905	6 295	232	504	89.6	95.3
Total standardised approach	**180 759**	**168 331**	**7 814**	**12 342**	**86 748**	**87 451**	**6 940**	**6 996**	**48.0**	**52.0**

[1] Details of capital requirements for exposure classes where there are exposures.

Table 2.13 (Pillar 3) LRCom: Leverage ratio common disclosure

The table shows the leverage ratio for the current and previous period. The exposures are specified for the categories balance sheet, derivative, securities funding and off-balance sheet exposures. The table shows the leverage ratio is calculated as tier 1 capital divided by total exposures. The leverage ratio has increased compared to the previous year.

LRCom: Leverage ratio common disclosure SEK m		2019	2018
	On balance sheet exposures (excluding derivatives and SFTs)		
1	On balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2 843 612	2 777 127
2	(Asset amounts deducted in determining Tier 1 capital)	-17 849	-14 583
3	**Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**2 825 763**	**2 762 544**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	6 667	8 183
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	27 096	31 001
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-8 466	-5 418
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives	5 621	5 774
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-116	-
11	**Total derivatives exposures (sum of lines 4 to 10)**	**30 802**	**39 540**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	16 010	12 149
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	3 342	3 850
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b(4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**19 352**	**15 999**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	522 450	535 815
18	(Adjustments for conversion to credit equivalent amounts)	-338 171	-343 827
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**184 279**	**191 988**
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429 (7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
	Capital and total exposure measure		
20	Tier 1 capital	148 550	131 463
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	3 060 195	3 010 071
	Leverage ratio		
22	Leverage ratio	4.85%	4.37%
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429 (13) of Regulation (EU) No 575/2013	0	0

G49 Cont.

Table 2.14 (Pillar 3) LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

The table specifies accounting assets and leverage ratio exposures at the end of 2019 and the previous year.
The total exposure amount for the leverage ratio has increased compared to the previous year.

	LRSum: Summary reconciliation of accounting assets and leverage ratio exposures SEK m	2019	2018
1	Total assets as per published financial statements	3 069 667	2 978 174
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-168 500	-130 857
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-	-
4	Adjustments for derivative financial instruments	-10 743	-18 501
5	Adjustments for securities financing transactions (SFTs)	3 342	3 850
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	184 279	191 988
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with of Regulation (EU) No 575/2013) Article 429(7)	-	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-	-
7	Other adjustments	-17 850	-14 583
8	**Leverage ratio total exposure measure**	**3 060 195**	**3 010 071**

Table 2.15 (Pillar 3) LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

The table specifies accounting assets and leverage ratio exposures. The total exposure amount for the leverage ratio has increased compared to the previous year.

	LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) SEK m	2019	2018
EU-1	Total on balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	2 833 306	2 757 336
EU-2	Trading book exposures	160 009	180 589
EU-3	Non-trading book exposures, of which:	2 673 297	2 576 747
EU-4	Covered bonds	4 952	5 372
EU-5	Exposures treated as sovereigns	411 782	419 788
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	0	25
EU-7	Institutions	7 346	8 476
EU-8	Secured by mortgages of immovable properties	1 984 322	1 843 389
EU-9	Retail exposures	52 512	64 218
EU-10	Corporate	186 732	211 962
EU-11	Exposures in default	4 703	4 797
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	20 948	18 720

Parent company

Administration report for the Parent company

Performance in the parent company

The parent company's accounts cover parts of the operations that, in organisational terms, are included in branch operations within and outside Sweden, Capital Markets, and central departments and staff functions. Although most of Handelsbanken's business comes from the local branches and is co-ordinated by them, in legal terms a sizeable part of business volumes are outside the parent company in wholly owned subsidiaries – particularly in the Stadshypotek AB mortgage institution and, since 1 December 2018, in the UK, where the operations are conducted in Handelsbanken plc. Thus, the performance of the parent company is not equivalent to the performance of business operations in the Group as a whole.

The parent company's operating profit increased by 16 per cent to SEK 20,325 million (17,528), chiefly owing to increased dividends. Profit for the year increased by 13 per cent to SEK 15,648 million (13,855). Dividends have been received amounting to SEK 17,338 million (11,023). Net interest income decreased by 24 per cent to SEK 13,039 million (17,234) and net fee and commission income decreased by 3 per cent to SEK 6,011 million (6,218). The main reason for the decrease in net interest income is that the UK operations are no longer included in the parent company's accounts. Since the start of the year, the parent company's equity has increased to SEK 130,935 million (121,062). For the parent company's five-year overview, see pages 197–198.

Risk management

Handelsbanken has a low risk tolerance that is maintained through a strong risk culture which is sustainable in the long term and applies to all areas of the Group. For a detailed description of the Bank's exposure to risks, and the management of these, see note G2.

Principles for remuneration to executive officers

Handelsbanken's principles for remuneration to executive officers are set out in note G8 and in the Principles for remuneration to executive officers section of the Corporate Governance Report (see page 72).

Recommended appropriation of profits

In accordance with the balance sheet for Handelsbanken, profits totalling SEK 122,150 million are at the disposal of the annual general meeting.

The Board recommends that the profit be appropriated as follows:

Dividend per share paid to the shareholders SEK 5.50 (SEK 5.50 for 2018)	10 890
Balance carried forward to the next year	111 260
Total allocated	**122 150**

The Board's assessment is that the amount of the proposed dividend, totalling SEK 10,890 million, is justifiable in view of the nature of operations, their scope, consolidation requirement, risk-taking, liquidity, and the general situation in both the Bank and the rest of the Group.

Unrealised changes in assets and liabilities at fair value have had a net impact on equity of SEK 10,963 million.

The total capitalisation of the parent company and the consolidated situation at year-end, minus the proposed dividend based on completed conversions and other material changes since the year-end, exceeded the statutory minimum requirement pursuant to EU Regulation 575/2013 and Directive 2013/36/EU and other relevant requirements established for the Bank by public authorities.

The Handelsbanken share

Shares divided into share classes
31 December 2019

Share class	Number	% of capital	% of votes
Class A	1 944 777 165	98.22	99.82
Class B	35 251 329	1.78	0.18
Total	**1 980 028 494**	**100.00**	**100.00**

Two shareholders own more than 10 per cent of the shares: AB Industrivärden and the Oktogonen Foundation. Detailed information on the Bank's largest Swedish shareholders can be found on page 41.

Handelsbanken's Articles of Association state that at the AGM, no shareholder is allowed to exercise voting rights representing more than 10 per cent of the total number of votes in the Bank. For more information regarding shareholders' rights, see page 66.

At the AGM in March 2019, the Board received a mandate to repurchase a maximum of 120 million shares during the period until the AGM in March 2020. This mandate was not used in 2019. More detailed information on this can be found on pages 40-41.

Other

Handelsbanken works continually with measures to minimise the Bank's direct and indirect impact on the environment. For more information regarding the Bank's environmental activities, see page 43.

Handelsbanken strives for its decentralised working method and belief in the individual to be integral to its operations. For a more detailed description of the Bank as an employer, please refer to the information beginning on page 57.

Financial reports Parent company

CONTENTS

Income statement, Parent company

SEK m		2019	2018
Interest income	*Note P3*	28 701	30 745
Lease income	*Note P3*	1 488	724
Interest expenses	*Note P3*	-17 150	-14 235
Dividends received	*Note P4*	17 338	11 023
Fee and commission income	*Note P5*	8 028	8 206
Fee and commission expenses	*Note P5*	-2 017	-1 988
Net gains/losses on financial transactions	*Note P6*	618	1 020
Other operating income	*Note P7*	2 638	2 805
Total operating income		**39 644**	**38 300**
General administrative expenses			
Staff costs	*Note P8*	-10 148	-12 255
Other administrative expenses	*Note P9*	-5 808	-6 332
Depreciation, amortisation and impairment of property, equipment, lease and intangible assets	*Note P20, P21*	-2 156	-1 350
Total expenses before credit losses		**-18 112**	**-19 937**
Profit before credit losses		**21 532**	**18 363**
Net credit losses	*Note P10*	-1 059	-835
Impairment loss on financial fixed assets		-148	-
Operating profit		**20 325**	**17 528**
Appropriations	*Note P11*	-380	332
Profit before taxes		**19 945**	**17 860**
Taxes	*Note P28*	-4 297	-4 005
Profit for the year		**15 648**	**13 855**

Statement of comprehensive income, Parent company

SEK m	2019	2018
Profit for the year	15 648	13 855
Other comprehensive income		
Items that will not be reclassified to the income statement		
Equity instruments measured at fair value through other comprehensive income	372	-188
Tax on items that will not be reclassified to the income statement	-21	1
of which equity instruments measured at fair value through other comprehensive income	*-21*	*1*
Total items that will not be reclassified to the income statement	**351**	**-187**
Items that may subsequently be reclassified to the income statement		
Cash flow hedges	1 751	829
Debt instruments measured at fair value through other comprehensive income	7	-12
Translation difference for the year	-259	41
of which hedges of net assets in foreign operations	*-826*	*-848*
Tax on items that may subsequently be reclassified to the income statement	-200	19
of which cash flow hedges	*-375*	*-178*
of which debt instruments measured at fair value through other comprehensive income	*-2*	*3*
of which hedges of net assets in foreign operations	*177*	*194*
Total items that may subsequently be reclassified to the income statement	**1 299**	**877**
Total other comprehensive income	**1 650**	**690**
Total comprehensive income for the year	**17 298**	**14 545**

The year’s reclassifications to the income statement are presented in the Statement of changes in equity.

Balance sheet, Parent company

SEK m		2019	2018
ASSETS			
Cash and balances with central banks		242 889	243 824
Interest-bearing securities eligible as collateral with central banks	*Note P14*	103 370	118 918
Loans to credit institutions	*Note P12*	890 557	841 085
Loans to the public	*Note P13*	620 175	611 699
Bonds and other interest-bearing securities	*Note P14*	53 096	50 993
Shares	*Note P15*	14 335	13 156
Shares in subsidiaries and investments in associates	*Note P16*	72 138	72 267
Assets where the customer bears the value change risk		6 443	5 240
Derivative instruments	*Note P17*	41 840	59 109
Intangible assets	*Note P20*	3 190	2 772
Property, equipment and lease assets	*Note P21*	8 145	5 434
Current tax assets		-	531
Deferred tax assets	*Note P28*	653	285
Other assets	*Note P22*	21 522	25 910
Prepaid expenses and accrued income	*Note P23*	1 152	2 476
Total assets	*Note P34*	**2 079 505**	**2 053 699**
LIABILITIES AND EQUITY			
Due to credit institutions	*Note P24*	208 697	261 735
Deposits and borrowing from the public	*Note P25*	918 146	839 835
Liabilities where the customer bears the value change risk		6 443	5 240
Issued securities, etc.	*Note P26*	724 640	716 531
Derivative instruments	*Note P17*	38 669	36 226
Short positions	*Note P27*	1 856	6 163
Current tax liabilities		202	-
Deferred tax liabilities	*Note P28*	956	528
Provisions	*Note P29*	1 100	109
Other liabilities	*Note P30*	8 790	12 044
Accrued expenses and deferred income	*Note P31*	1 847	2 255
Subordinated liabilities	*Note P32*	35 546	51 085
Total liabilities	*Note P34*	**1 946 892**	**1 931 751**
Untaxed reserves	*Note P33*	**1 678**	**886**
Share capital		3 069	3 013
Share premium		8 758	5 629
Other funds		10 472	8 285
Retained earnings		92 988	90 280
Profit for the year		15 648	13 855
Total equity		**130 935**	**121 062**
Total liabilities and equity		**2 079 505**	**2 053 699**

Statement of changes in equity, Parent company

SEK m	Restricted equity: Share capital	Restricted equity: Statutory reserve	Restricted equity: Fund for internally developed software	Non-restricted equity: Share premium	Non-restricted equity: Hedge reserve[1]	Non-restricted equity: Fair value reserve[1]	Non-restricted equity: Translation reserve[1]	Non-restricted equity: Retained earnings incl. profit for the year	Total
Opening equity 2019	**3 013**	**2 682**	**2 497**	**5 629**	**564**	**304**	**2 238**	**104 135**	**121 062**
Profit for the year								15 648	15 648
Other comprehensive income					1 376	356	-82		1 650
of which reclassification within equity						*15*	*-99*		*-84*
Total comprehensive income for the year					**1 376**	**356**	**-82**	**15 648**	**17 298**
Reclassified to retained earnings								84	84
Dividend								-10 693	-10 693
Group contributions provided								-1	-1
Tax effect on Group contributions								0	0
Effects of convertible subordinated loans	56			3 129					3 185
Fund for internally developed software			537					-537	
Closing equity 2019	**3 069**	**2 682**	**3 034**	**8 758**	**1 940**	**660**	**2 156**	**108 636**	**130 935**

SEK m	Restricted equity: Share capital	Restricted equity: Statutory reserve	Restricted equity: Fund for internally developed software	Non-restricted equity: Share premium	Non-restricted equity: Hedge reserve[1]	Non-restricted equity: Fair value reserve[1]	Non-restricted equity: Translation reserve[1]	Non-restricted equity: Retained earnings incl. profit for the year	Total
Closing equity 2017	**3 013**	**2 682**	**2 223**	**5 629**	**-87**	**499**	**2 003**	**104 238**	**120 200**
Effect of transition to IFRS 9						1		-366	-365
Tax effect due to transition to IFRS 9						0		81	81
Opening equity 2018	**3 013**	**2 682**	**2 223**	**5 629**	**-87**	**500**	**2 003**	**103 953**	**119 916**
Profit for the year								13 855	13 855
Other comprehensive income					651	-196	235		690
of which reclassification within equity						*-5*	*-1 191*		*-1 196*
Total comprehensive income for the year					**651**	**-196**	**235**	**13 855**	**14 545**
Reclassified to retained earnings								1 196	1 196
Dividend								-14 581	-14 581
Group contributions provided								-11	-11
Tax effect on Group contributions								-3	-3
Effects of convertible subordinated loans	0			0					0
Fund for internally developed software			274					-274	
Closing equity 2018	**3 013**	**2 682**	**2 497**	**5 629**	**564**	**304**	**2 238**	**104 135**	**121 062**

[1] Included in fair value fund.

The translation reserve includes conversion effects relating to the balance sheets and income statements of the Group´s international branches. Accumulated conversion effects are reported for taxation when an international branch is closed down or diversted. The tax regulations for the taxation of conversion effects are highly complex, and therefore subject to different interpretations. Therefore, it cannot be ruled out that conversion effects may need to be reported for taxation at an earlier stage than when a divestment/closedown takes place.

During the period January to December 2019, convertibles for a nominal value of SEK 3,185m (0) relating to subordinated convertible bonds have been converted into 35,853,334 class A shares (1,609). At the end of the financial year, the number of Handelsbanken shares in the trading book was 0 (0).

Specification of changes in equity

Change in hedge reserve SEK m	2019	2018
Hedge reserve at beginning of year	564	-87
Cash flow hedges		
Effective part of change in fair value		
Interest rate risk	1 109	-442
Foreign exchange risk	654	1 271
Unrealised value changes		
Reclassified to the income statement[1]	-12	-
Tax	-375	-178
Hedge reserve at end of year	**1 940**	**564**

Change in fair value reserve SEK m	2019	2018
Fair value reserve at the end of 2017		**499**
Effect of transition to IFRS 9		1
Fair value reserve at beginning of year	**304**	**500**
Unrealised value change – equity instruments	351	-187
Realised value change – equity instruments	-15	5
Unrealised value change – debt instruments	4	-10
Change in reserve expected credit losses – debt instruments	1	1
Reclassified to retained earnings – equity instruments	15	-5
Reclassified to the income statement – debt instruments[2]	-	-
Fair value reserve at end of year	**660**	**304**

Change in translation reserve SEK m	2019	2018
Translation reserve at beginning of year	2 238	2 003
Change in translation difference	15	1 424
Reclassified to the income statement[3]	2	2
Reclassified to retained earnings[4]	-99	-1 191
Translation reserve at end of year	**2 156**	**2 238**

[1] Tax reclassified to the income statement pertaining to this item SEK 3m (-).
[2] Tax reclassified to the income statement pertaining to this item SEK 0m (-).
[3] Tax reclassified to the income statement pertaining to this item SEK 0m (0).
[4] Tax reclassified to the retain earnings pertaining to this item SEK 21m (335).

Cash flow statement, Parent company

SEK m	2019	2018
OPERATING ACTIVITIES		
Operating profit	20 325	17 528
of which paid-in interest	*28 760*	*28 226*
of which paid-out interest	*-18 524*	*-9 853*
of which paid-in dividends	*17 338*	*11 023*
Adjustment for non-cash items in profit/loss		
Credit losses	1 204	937
Unrealised changes in value	-59	1 385
Depreciation, amortisation and impairment	2 297	1 350
Group contribution to be received	-15 992	-10 104
Paid income tax	-3 702	-4 386
Changes in the assets and liabilities of operating activities		
Loans to credit institutions	-49 473	-177 047
Loans to the public	-9 636	182 800
Interest-bearing securities and shares	12 716	1 138
Due to credit institutions	-52 988	69 415
Deposits and borrowing from the public	78 261	-103 068
Issued securities	8 110	61 893
Derivative instruments, net positions	20 070	-4 781
Short positions	-4 439	4 178
Claims and liabilities on investment banking settlements	7 396	-7 684
Other	-9 950	-13 409
Cash flow from operating activities	**4 140**	**20 145**
INVESTING ACTIVITIES		
Acquisitions of and contributions to associates	-134	-25 432
Sales of shares	39	542
Acquisitions of property and equipment	-6 833	-5 484
Disposals of property and equipment	2 460	1 926
Acquisitions of intangible assets	-894	-658
Disposals of intangible assets		137
Cash flow from investing activities	**-5 362**	**-28 969**
FINANCING ACTIVITIES		
Repayment of subordinated loans	-17 730	-
Issued subordinated loans	4 670	15 449
Dividend paid	-10 693	-14 581
Dividends received from Group companies	15 992	11 814
Cash flow from financing activities	**-7 761**	**12 682**
of which changes in foreign exchange rates	*635*	*3 936*
Cash flow for the year	**-8 983**	**3 858**
Liquid funds at beginning of year	243 824	226 314
Cash flow from operating activities	4 140	20 145
Cash flow from investing activities	-5 362	-28 969
Cash flow from financing activities	-7 761	12 682
Exchange difference on liquid funds	8 048	13 652
Liquid funds at end of year	**242 889**	**243 824**

The cash flow statement has been prepared in accordance with the indirect method, which means that operating profit has been adjusted for transactions that did not entail paid-in or paid-out cash such as depreciations and credit losses.

Liquid funds are defined as cash and balances with central banks

Five-year overview, Parent company

Income statement SEK m	2019	2018	2017	2016	2015
Net interest income	13 039	17 234	16 326	15 011	15 250
Dividends received	17 338	11 023	13 705	17 045	11 978
Net fee and commission income	6 011	6 218	6 592	6 509	6 778
Net gains/losses on financial transactions	618	1 020	1 339	3 076	2 349
Other operating income	2 638	2 805	1 690	1 647	1 644
Total operating income	**39 644**	**38 300**	**39 652**	**43 288**	**37 999**
General administrative expenses					
Staff costs	-10 148	-12 255	-10 938	-10 427	-10 904
Other administrative expenses	-5 808	-6 332	-5 702	-5 224	-5 040
Depreciation, amortisation and impairment of property, equipment, lease and intangible assets	-2 156	-1 350	-1 094	-591	-507
Total expenses before credit losses	**-18 112**	**-19 937**	**-17 734**	**-16 242**	**-16 451**
Profit before credit losses	**21 532**	**18 363**	**21 918**	**27 046**	**21 548**
Net credit losses	-1 059	-835	-1 685	-1 730	-1 614
Impairment loss on financial fixed assets	-148	-	-	-20	-15
Operating profit	**20 325**	**17 528**	**20 233**	**25 296**	**19 919**
Appropriations	-380	332	115	-193	100
Profit before tax	**19 945**	**17 860**	**20 348**	**25 103**	**20 019**
Taxes	-4 297	-4 005	-4 662	-4 503	-4 176
Profit for the year	**15 648**	**13 855**	**15 686**	**20 600**	**15 843**
Dividend for the year	10 890[1]	10 693	14 581	9 721	11 442

[1] As proposed by the Board.

Statement of comprehensive income SEK m	2019	2018	2017	2016	2015
Profit for the year	15 648	13 855	15 686	20 600	15 843
Other comprehensive income					
Items that will not be reclassified to the income statement					
Equity instruments measured at fair value through other comprehensive income	372	-188			
Tax on items that will not be reclassified to the income statement	-21	1			
of which equity instruments measured at fair value through other comprehensive income	*-21*	*1*			
Total items that will not be reclassified to the income statement	**351**	**-187**			
Items that may subsequently be reclassified to the income statement					
Cash flow hedges	1 751	829	41	-1 882	195
Debt instruments measured at fair value through other comprehensive income	7	-12			
Available-for-sale instruments (IAS 39)			-470	-1 152	694
Translation difference for the year	-259	41	-2 261	387	-1 155
of which hedges of net assets in foreign operations	*-826*	*-848*	*-1 476*	*-65*	*-444*
Tax on items that may subsequently be reclassified to the income statement	-200	19	311	538	73
of which cash flow hedges	*-375*	*-178*	*-9*	*414*	*-43*
of which debt instruments measured at fair value through other comprehensive income	*-2*	*3*			
of which available-for-sale instruments (IAS 39)			*-5*	*110*	*18*
of which hedges of net assets in foreign operations	*177*	*194*	*325*	*14*	*98*
Total items that may subsequently be reclassified to the income statement	**1 299**	**877**	**-2 379**	**-2 109**	**-193**
Total other comprehensive income	**1 650**	**690**	**-2 379**	**-2 109**	**-193**
Total comprehensive income for the year	**17 298**	**14 545**	**13 307**	**18 491**	**15 650**

Five-year overview, Parent company, cont.

Balance sheet SEK m	2019	2018	2017	2016	2015
Assets					
Loans to the public	620 175	611 699	795 691	763 567	733 988
Loans to credit institutions	890 557	841 085	664 018	593 125	596 441
Interest-bearing securities	156 466	169 911	172 107	154 547	112 410
Other assets	412 307	431 004	381 060	383 465	397 219
Total assets	**2 079 505**	**2 053 699**	**2 012 876**	**1 894 704**	**1 840 058**
Liabilities and equity					
Deposits and borrowing from the public	918 146	839 835	941 401	827 753	755 066
Due to credit institutions	208 697	261 735	193 822	189 176	173 533
Issued securities	724 640	716 531	654 637	648 977	676 950
Subordinated liabilities	35 546	51 085	32 896	33 400	34 216
Other liabilities	59 863	62 565	69 237	77 963	92 611
Untaxed reserves	1 678	886	683	793	570
Equity	130 935	121 062	120 200	116 642	107 112
Total liabilities and equity	**2 079 505**	**2 053 699**	**2 012 876**	**1 894 704**	**1 840 058**

Key figures	2019	2018	2017	2016	2015
Impaired loans reserve ratio, %			65.7	60.1	54.3
Proportion of impaired loans, %			0.18	0.23	0.30
Common equity tier 1 ratio, % according to CRR	20.2	18.7	21.4	23.4	19.9
Tier 1 ratio, % according to CRR	23.0	21.0	23.9	26.3	22.6
Total capital ratio, % according to CRR	26.2	24.1	27.5	30.0	26.1
Return on capital employed, %	0.74	0.63	0.74	0.99	0.74

For definitions of alternative key figures, see page 254 and, for the calculation of these key figures, see the Fact Book which is available at handelsbanken.com/ir.

Notes, Parent company

P1 Accounting policies

Statement of compliance

The parent company's annual report is prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) and the regulations and general guidelines issued by the Swedish Financial Supervisory Authority, FFFS 2008:25, on annual reports in credit institutions and securities companies. The parent company also applies the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for legal entities and statements. In accordance with the Financial Supervisory Authority's general advice, the parent company applies statutory IFRS. This means that the international accounting standards and interpretations of these standards as adopted by the EU have been applied to the extent that is possible within the framework of national laws and directives and the link between accounting and taxation.

The relationship between the parent company's and the Group's accounting policies

The parent company's accounting policies correspond largely to those of the Group. The following reports only on the areas where the parent company's policies differ from those of the Group. In all other respects, reference is made to the accounting policies in note G1.

Changed accounting policies

IFRS 16 Leases should be applied as of the 2019 financial year. The main change arising from the new standard is that all lease contracts (with the exception of short-term lease contracts and lease contracts of low value) must be recognised as an asset (right-of-use asset) and as a liability on the lessee's balance sheet. In the income statement, the straight-line expense for the operating lease is replaced by a charge for depreciation on the leased asset and an interest expense for the lease liability. In accordance with the exemption in RFR 2 Accounting for Legal Entities, under which the application of IFRS 16 is not mandatory in legal entities, the Bank does not apply IFRS 16 in the parent company.

Presentation

The parent company applies the presentation models for the income statement and balance sheet in compliance with the Annual Accounts Act for Credit Institutions and Securities Companies and the Swedish Financial Supervisory Authority's regulations. This mainly implies the following differences relative to the presentation models used by the Group:

- Claims on central banks that are immediately available upon demand are reported as Loans to credit institutions in the parent company's balance sheet. These are reported under Other loans to central banks in the Group.
- Broker and stock exchange costs are reported in the parent company as commission expenses.
- Dividends received are reported on a separate line in the parent company's income statement.
- The gain/loss arising when divesting property, equipment and intangible non-current assets in the parent company is reported as other income or expenses.
- Untaxed reserves are reported as a separate balance sheet item in the parent company. These are split into an equity share and a tax liability in the Group.

Assets and liabilities in foreign currencies

Loans in the parent company which are hedging net investments in foreign operations are measured at the historical rate of exchange.

Assets held for sale and discontinued operations

Net profit after tax from discontinued operations is not recognised separately in the parent company's income statement. Assets held for sale are also not presented separately on the balance sheet.

Shares in subsidiaries and associated companies

Shares in subsidiaries and associated companies are measured at cost. All holdings are tested on each balance sheet date in order to assess whether they require impairment. If a value has decreased, impairment is recognised to adjust the value to the consolidated value. Any impairment costs are classified as Impairment loss on financial assets in the income statement. Dividends on shares in subsidiaries and associated companies are recognised as income in profit or loss under Dividends received.

Financial guarantees

Financial guarantees, in the form of guarantee commitments on behalf of subsidiaries and associated companies, are recognised in the parent company as a provision on the balance sheet, where the parent company has an existing commitment and payment will probably be required to settle this commitment.

Intangible assets

In the parent company, acquisition assets and other intangible assets with an indefinite useful life are amortised in compliance with the provisions of the above-mentioned Annual Accounts Act. According to experience, the customer relations that the acquisitions have led to are very long, and consequently the useful life of goodwill on acquisitions. The amortisation period has been set at 20 years.

Leases

The Bank as lessor

The parent company recognises finance leases as operating leases. Accordingly, the assets are reported as lease assets with depreciation recognised within Depreciation, amortisation and impairments of property, equipment and intangible assets in the income statement. Rental income is recognised as a lease fee in Net interest income in the income statement.

Lease assets mainly consist of vehicles and machinery. Lease assets are depreciated during the term of the lease agreement according to the annuity method.

The Bank as lessee

The parent company recognises lease fees as expenses on a straight-line basis over the term of the lease.

Dividends

The item Dividends received comprises all dividends received in the parent company including dividends from subsidiaries and associated companies, and Group contributions received. Anticipated dividends are recognised only if the parent company has the right to decide the amount of the dividend and the decision has been taken before the financial reports were published.

Accounting for pensions

The parent company does not apply the provisions of IAS 19 concerning accounting for defined benefit plans. Instead, pension costs are calculated on an actuarial basis in the parent company in accordance with the provisions of the Act on Safeguarding Pension Obligations and the Swedish Financial Supervisory Authority's regulations. This mainly means that there are differences regarding how the discount rate is established and that the calculation of the future commitment does not take into account assumptions of future salary increases. The recognised net cost of pensions is calculated as the sum total of disbursed pensions, pension premiums and an allocation to the pension foundation, with a deduction for any compensation from the pension foundation. The net pension cost for the year is reported under Staff costs in the parent company's income statement.

Excess amounts as a result of the value of the plan assets exceeding the estimated pension obligations are not recognised as an asset in the parent company's balance sheet. Deficits are recognised as a liability.

Taxes

In the parent company, untaxed reserves are recognised as a separate item in the balance sheet. Untaxed reserves comprise one component consisting of deferred tax liabilities and one component consisting of equity.

P2 Risk and capital management

The Handelsbanken Group's risk management is described in note G2. Specific information about the parent company's risks is presented below. For definitions, see pages 250–252.

Credit risk exposures, geographical breakdown 2019 SEK m		Sweden	Norway	Denmark	Finland	The Netherlands	Other countries	Total
Balance sheet items								
Cash and balances with central banks		46551	22 097	270	106 105	7 996	59 870	242 889
Loans to credit institutions	*Note P12*	820 107	9 588	19 175	37 221	89	4 377	890 557
Loans to the public	*Note P13*	210 745	185 803	60 055	84 693	56 975	21 904	620 175
Interest-bearing securities eligible as collateral with central banks	*Note P14*	102 364	-	-	-	-	1006	103 370
Bonds and other interest-bearing securities	*Note P14*	53 096	-	-	-	-	-	53 096
Derivative instruments[1]	*Note P17*	41 807	-	7	-	-	26	41 840
Total		**1 274 670**	**217 488**	**79 507**	**228 019**	**65 060**	**87 183**	**1 951 927**
Off-balance sheet items								
Contingent liabilities	*Note P37*	372 096	66 221	33 826	43 017	7 765	47 280	570 205
of which guarantee commitments		*54 307*	*6 920*	*10 588*	*15 518*	*195*	*27 537*	*115 065*
of which obligations		*317 789*	*59 301*	*23 238*	*27 499*	*7 570*	*19 743*	*455 140*
Total		**372 096**	**66 221**	**33 826**	**43 017**	**7 765**	**47 280**	**570 205**
Total on and off-balance sheet items		**1 646 766**	**283 709**	**113 333**	**271 036**	**72 825**	**134 463**	**2 522 132**

Credit risk exposures, geographical breakdown 2018 SEK m		Sweden	Norway	Denmark	Finland	The Netherlands	Other countries	Total
Balance sheet items								
Cash and balances with central banks		55	3 549	505	129 633	3 096	106986	243 824
Loans to credit institutions	*Note P12*	763 204	5 312	28 145	36 123	10	8291	841 085
Loans to the public	*Note P13*	230 846	173 161	58 010	77 760	47 319	24603	611 699
Interest-bearing securities eligible as collateral with central banks	*Note P14*	93 532	-	-	-	-	25386	118 918
Bonds and other interest-bearing securities	*Note P14*	43 959	-	-	-	-	7034	50 993
Derivative instruments[1]	*Note P17*	58 820	-	10	-	-	279	59 109
Total		**1 190 416**	**182 022**	**86 670**	**243 516**	**50 425**	**172579**	**1 925 628**
Off-balance sheet items								
Contingent liabilities	*Note P37*	396 292	65 239	32 105	43 508	7 233	50137	594 514
of which guarantee commitments		*64 437*	*7 131*	*9 462*	*15 432*	*186*	*26332*	*122 980*
of which obligations		*331 855*	*58 108*	*22 643*	*28 076*	*7 047*	*23805*	*471 534*
Total		**396 292**	**65 239**	**32 105**	**43 508**	**7 233**	**50137**	**594 514**
Total on and off-balance sheet items		**1 586 708**	**247 261**	**118 775**	**287 024**	**57 658**	**222716**	**2 520 142**

Geographical breakdown refers to the country in which the exposures are reported.
[1] Refers to the sum total of positive market values. If legally enforceable master netting agreements are included, exposure amounts to SEK 29,817m (46,505).

Loans to the public, breakdown by sector 2019 SEK m	Gross			Provisions			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Net
Private individuals	115 165	3 663	1 023	-23	-27	-498	119 303
Housing co-operative associations	33 325	1 116	68	-4	-4	-2	34 499
Property management	292 213	5 515	977	-69	-87	-203	298 346
Manufacturing	21 172	3 142	1287	-10	-33	-1214	24 344
Retail	20 542	1 921	158	-11	-22	-110	22 478
Hotel and restaurant	3 898	103	15	-2	-2	-7	4 005
Passenger and goods transport by sea	4 427	49	1 616	-1	-3	-496	5 592
Other transport and communication	6 034	579	93	-3	-8	-78	6 617
Construction	12 489	1 030	250	-11	-15	-209	13 534
Electricity, gas and water	9 779	2 142	8	-2	-8	-8	11 911
Agriculture, hunting and forestry	4 939	335	73	-3	-7	-34	5 303
Other services	10 204	745	234	-7	-18	-129	11 029
Holding, investment, insurance companies, mutual funds, etc.	43 470	883	138	-11	-11	-106	44 363
Sovereigns and municipalities	1 161	2	-	0	0	-	1 163
Other corporate lending	17 258	143	522	-2	-2	-231	17 688
Total	**596 076**	**21 368**	**6 462**	**-159**	**-247**	**-3 325**	**620 175**

P2 Cont.

Loans to the public, breakdown by sector 2018 SEK m	Gross			Provisions			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Net
Private individuals	111 695	3 963	1 043	-22	-30	-516	116 133
Housing co-operative associations	35 248	1 630	46	-6	-11	-5	36 902
Property management	272 357	9 042	620	-51	-101	-236	281 631
Manufacturing	20 510	3 403	440	-8	-63	-272	24 010
Retail	14 968	1 569	133	-9	-24	-106	16 531
Hotel and restaurant	4 096	135	30	-2	-2	-22	4 235
Passenger and goods transport by sea	4 900	145	1 574	-1	-3	-405	6 210
Other transport and communication	6 262	1 629	105	-5	-10	-80	7 901
Construction	15 828	771	151	-11	-33	-110	16 596
Electricity, gas and water	11 359	957	51	-1	-9	-50	12 307
Agriculture, hunting and forestry	3 975	248	77	-2	-8	-36	4 254
Other services	15 325	459	277	-8	-16	-137	15 900
Holding, investment, insurance companies, mutual funds, etc.	57 795	2 662	283	-10	-18	-201	60 511
Sovereigns and municipalities	807	7	-	0	0	-	814
Other corporate lending	6 138	1 335	613	-18	-8	-296	7 764
Total	**581 263**	**27 955**	**5 443**	**-154**	**-336**	**-2 472**	**611 699**

Credit risk exposures Breakdown by type of collateral 2019 SEK m		Residential property[1]	Other property	Sovereigns, municipalities and county councils[2]	Guarantees as for own debt[3]	Financial collateral	Collateral in assets	Other collateral	Unsecured[4]	Total
Balance sheet items										
Cash and balances with central banks				242 889						242 889
Loans to credit institutions[5]	*Note P12*	-	-	2 969	45	-	-	-	887 543	890 557
Loans to the public	*Note P13*	186 011	213 300	23 547	13 051	10 614	5 537	23 125	144 990	620 175
Interest-bearing securities eligible as collateral	*Note P14*			103 370						103 370
with central banks	*Note P14*			2 982					50 114	53 096
Bonds and other interest-bearing securities	*Note P17*	463	875	1 739	60	29 993	0	184	8 526	41 840
Derivative instruments		**186 474**	**214 175**	**377 496**	**13 156**	**40 607**	**5 537**	**23 309**	**1 091 173**	**1 951 927**
Total										
Off-balance sheet items	*Note P37*	56 661	33 796	39 213	3 678	4 703	1 209	20 315	410 630	570 205
Contingent liabilities		*3 510*	*2 403*	*15 266*	*1 692*	*1 033*	*1 024*	*2 986*	*87 151*	*115 065*
of which guarantee commitments		*53 151*	*31 393*	*23 947*	*1 986*	*3 670*	*185*	*17 329*	*323 479*	*455 140*
of which obligations		**56 661**	**33 796**	**39 213**	**3 678**	**4 703**	**1 209**	**20 315**	**410 630**	**570 205**
Total		**243 135**	**247 971**	**416 709**	**16 834**	**45 310**	**6 746**	**43 624**	**1 501 803**	**2 522 132**

Credit risk exposures Breakdown by type of collateral 2018 SEK m		Residential property[1]	Other property	Sovereigns, municipalities and county councils[2]	Guarantees as for own debt[3]	Financial collateral	Collateral in assets	Other collateral	Unsecured[4]	Total
Balance sheet items										
Cash and balances with central banks				243 824						243 824
Loans to credit institutions	*Note P12*	-	-	38 495	-	46 101	-	-	756 489	841 085
Loans to the public	*Note P13*	167 065	192 243	20 138	23 026	18 794	8 932	15 240	166 261	611 699
Interest-bearing securities eligible as collateral with central banks	*Note P14*			118 918						118 918
Bonds and other interest-bearing securities	*Note P14*								50 993	50 993
Derivative instruments	*Note P17*	101	65	2 372	68	43 709	-	-	12 794	59 109
Total		**167 166**	**192 308**	**423 747**	**23 094**	**108 604**	**8 932**	**15 240**	**986 537**	**1 925 628**
Off-balance sheet items										
Contingent liabilities	*Note P37*	53 804	40 382	52 956	12 163	16 019	4 027	5 095	410 068	594 514
of which guarantee commitments		*6 229*	*2 333*	*16 861*	*6 277*	*874*	*1 876*	*639*	*87 891*	*122 980*
of which obligations		*47 575*	*38 049*	*36 095*	*5 886*	*15 145*	*2 151*	*4 456*	*322 177*	*471 534*
Total		**53 804**	**40 382**	**52 956**	**12 163**	**16 019**	**4 027**	**5 095**	**410 068**	**594 514**
Total on and off-balance sheet items		**220 970**	**232 690**	**357 785**	**35 257**	**124 623**	**12 959**	**20 335**	**1 345 612**	**2 520 142**

[1] Including housing co-operative apartments.
[2] Refers to direct sovereign exposures and government guarantees.
[3] Does not include government guarantees.
[4] This column includes the parent company's internal lending and commitments to subsidiaries in the Group. For balance sheet items, internal lending amounts to SEK 939,007m, and for off-balance sheet items to SEK 86,766m.

Market risks

Market risks SEK m	2019	2018
Interest rate risk	1 098	831
Foreign exchange risk[1]	56	11
Equity price risk	221	174
Commodity risk	5	4

[1] Worst outcome in the case of +/- 5% change in SEK.

P2 Cont.

Liquidity risk

Maturity analysis for financial assets and liabilities 2019 SEK m	Up to 30 days	31 days –6 mths	6–12 mths	1–2 yrs	2–5 yrs	Over 5 yrs	Unspecified maturity	Total
Cash and balances with central banks	242 844	-	-	-	-	-	-	242 844
Interest-bearing securities eligible as collateral with central banks[1]	103 370	-	-	-	-	-	-	103 370
Bonds and other interest-bearing securities[2]	53 095	-	-	-	-	-	-	53 095
Loans to credit institutions	93 282	87 882	82 087	164 154	195 014	289 158	-	911 577
of which reverse repos	*211*	-	-	-	-	-	-	*211*
Loans to the public	44 767	124 985	92 110	83 439	157 207	140 807	-	643 315
of which reverse repos	*10 438*	-	-	-	-	-	-	*10 438*
Other	17 318	-	-	-	-	-	153 742	171 060
of which shares and participating interests	*14 335*	-	-	-	-	-	-	*14 335*
of which claims on investment banking settlements	*2 983*	-	-	-	-	-	-	*2 983*
Total assets	**554 676**	**212 867**	**174 197**	**247 593**	**352 221**	**429 965**	**153 742**	**2 125 261**
Due to credit institutions	121 452	26 407	5 239	304	854	1 328	54 029	209 613
of which repos	-	-	-	-	-	-	-	*0*
of which deposits from central banks	*40 025*	*12 795*	-	-	-	-	*26*	*52 846*
Deposits and borrowing from the public	16 651	11 350	2 685	3 382	342	51	883 197	917 658
of which repos	-	-	-	-	-	-	-	*0*
Issued securities[3]	49 583	272 285	214 779	75 202	110 421	15 966	-	738 236
of which covered bonds	-	-	-	-	-	-	-	*0*
of which certificates and other securities with original maturity of less than one year	*44 672*	*245 855*	*114 912*	-	-	-	-	*405 439*
of which senior bonds and other securities with original maturity of more than one year	*4 911*	*26 430*	*99 867*	*75 202*	*110 421*	*15 966*	-	*332 797*
Subordinated liabilities	-	1 125	29	12 623	24 631	-	-	38 408
Other	4 705	-	-	-	-	-	190 412	195 117
of which short positions	*1 865*	-	-	-	-	-	-	*1 865*
of which liabilities on investment banking settlements	*2 840*	-	-	-	-	-	-	*2 840*
Total liabilities	**192 391**	**311 167**	**222 732**	**91 511**	**136 248**	**17 345**	**1 127 638**	**2 099 032**
Off-balance sheet items								
Financial guarantees and unutilised committed loan offers	455 140							

Derivatives 2019 SEK m	Up to 30 days	31 days –6 mths	6–12 mths	1–2 yrs	2–5 yrs	Over 5 yrs	Total
Total derivatives inflow	210 539	467 477	134 089	155 969	255 219	96 562	1 319 855
Total derivatives outflow	212 872	470 500	129 877	151 188	251 681	96 252	1 312 370
Net	**-2 333**	**-3 023**	**4 212**	**4 781**	**3 538**	**310**	**7 485**

Maturity analysis for financial assets and liabilities 2018 SEK m	Up to 30 days	31 days –6 mths	6–12 mths	1–2 yrs	2–5 yrs	Over 5 yrs	Unspecified maturity	Total
Cash and balances with central banks	277 322	-	-	-	-	-	-	277 322
Interest-bearing securities eligible as collateral with central banks[1]	118 918	-	-	-	-	-	-	118 918
Bonds and other interest-bearing securities[2]	50 993	-	-	-	-	-	-	50 993
Loans to credit institutions	102 361	149 638	80 275	205 131	257 626	31 841	-	826 872
of which reverse repos	*3 288*	-	-	-	-	-	-	*3 288*
Loans to the public	39 083	130 252	89 676	95 255	157 575	146 231	-	658 072
of which reverse repos	*9 050*	-	-	-	-	-	-	*9 050*
Other	23 607	-	-	-	-	-	165 262	188 869
of which shares and participating interests	*13 156*	-	-	-	-	-	-	*13 156*
of which claims on investment banking settlements	*10 451*	-	-	-	-	-	-	*10 451*
Total assets	**612 284**	**279 890**	**169 951**	**300 386**	**415 201**	**178 072**	**165 262**	**2 121 046**
Due to credit institutions	146 767	41 623	12 408	354	1 505	5 994	56 189	264 840
of which repos	-	-	-	-	-	-	-	*0*
of which deposits from central banks	*42 352*	*24 075*	*13*	-	-	-	*2 316*	*68 756*
Deposits and borrowing from the public	7 435	7 731	3 731	3 645	589	66	815 993	839 190
of which repos	-	-	-	-	-	-	-	*0*
Issued securities[3]	92 228	260 213	138 236	81 949	155 342	8 803	-	736 771
of which covered bonds	-	-	-	-	-	-	-	*0*
of which certificates and other securities with original maturity of less than one year	*59 297*	*199 372*	*63 516*	-	-	-	-	*322 185*
of which senior bonds and other securities with original maturity of more than one year	*32 931*	*60 841*	*74 720*	*81 949*	*155 342*	*8 803*	-	*414 586*
Subordinated liabilities	15 655	6 495	27	824	22 839	7 748	-	53 588
Other	9 108	-	-	-	-	-	179 167	188 275
of which short positions	*6 195*	-	-	-	-	-	-	*6 195*
of which liabilities on investment banking settlements	*2 913*	-	-	-	-	-	-	*2 913*
Total liabilities	**271 193**	**316 062**	**154 402**	**86 772**	**180 275**	**22 611**	**1 051 349**	**2 082 664**
Off-balance sheet items								
Financial guarantees and unutilised committed loan offers	471 534							

Derivatives 2018 SEK m	Up to 30 days	31 days –6 mths	6–12 mths	1–2 yrs	2–5 yrs	Over 5 yrs	Total
Total derivatives inflow	262 718	425 667	113 562	142 710	323 843	89 287	1 357 787
Total derivatives outflow	256 863	420 409	114 013	136 070	314 483	88 361	1 330 199
Net	**5 855**	**5 258**	**-451**	**6 640**	**9 360**	**926**	**27 588**

[1] SEK 83,175m (72,611) of the amount (excl. interest) has a residual maturity of less than one year.
[2] SEK 16,653m (7,047) of the amount (excl. interest) has a residual maturity of less than one year.
[3] SEK 528,690m (480,492) of the amount (excl. interest) has a residual maturity of less than one year.
For deposit volumes the column Unspecified maturity refers to deposits payable on demand.
The table contains interest flows which means that the balance sheet rows are not reconcilable with the parent company's balance sheet.

P3 Net interest income

SEK m	2019	2018
Interest income		
Loans to credit institutions and central banks	8 193	6 478
Loans to the public	14 230	19 897
Interest-bearing securities eligible as collateral with central banks	333	386
Bonds and other interest-bearing securities	519	810
Derivative instruments	4 083	1 816
Other interest income	832	1 165
Total	**28 190**	**30 552**
Interest income reported in net gains/losses on financial transactions	-511	-193
Total interest income	**28 701**	**30 745**
of which interest income according to effective interest method and interest on derivatives for hedging	*28 105*	*29 915*
Leasing income	**1 488**	**724**
Interest expenses		
Due to credit institutions and central banks	-1 161	-1 428
Deposits and borrowing from the public	-1 413	-1 775
Issued securities	-14 370	-12 827
Derivative instruments	2 776	5 250
Subordinated liabilities	-1 282	-1 542
Other interest expenses	-1 699	-2 214
Total	**-17 149**	**-14 536**
Interest expenses reported in net gains/losses on financial transactions	1	-301
Total interest expenses	**-17 150**	**-14 235**
of which interest expenses according to effective interest method and interest on derivatives for hedging	*-15 802*	*-12 528*
Net interest income	**13 039**	**17 234**
Depreciation according to plan for finance leases[1]	-1 348	-651
Total net interest income including depreciation according to plan for finance leases	11 691	16 583

[1] Recognised in the item Depreciation, amortisation and impairment of property, equipment, lease and intangible assets.
The derivative instrument rows include net interest income related to hedged assets and liabilities. These may have both a positive and a negative impact on interest income and interest expenses.

P4 Dividends received

SEK m	2019	2018
Dividends on shares	246	372
Dividends from associates	3	2
Dividends from Group companies	1 097	545
Group contributions received	15 992	10 104
Total	**17 338**	**11 023**

P5 Net fee and commission income

SEK m	2019	2018
Brokerage and other securities commissions	604	657
Mutual funds	1 186	1 227
Custody and other asset management fees	790	709
Advisory services	207	170
Payments	3 424	3 526
Loans and deposits	870	1 007
Guarantees	377	387
Other	570	523
Total fee and commission income	**8 028**	**8 206**
Securities	-251	-303
Payments	-1 695	-1 626
Other	-71	-59
Total fee and commission expenses	**-2 017**	**-1 988**
Net fee and commission income	**6 011**	**6 218**

Fee and commission income refers to income from contracts with customers. Income from Brokerage and other securities commissions, Advisory services, Payments and Loans and deposits is generally recognised in conjunction with the rendering of the service, i.e. at a specific point in time. Payments also includes the issuing and acquisition of cards. Income from Mutual funds, Custody and other asset management fees, Insurance and Guarantees is generally recognised as the services are rendered, i.e. on a straight-line basis over time.

P6 Net gains/losses on financial transactions

SEK m	2019	2018
Amortised cost	89	200
of which loans	*73*	*200*
of which interest-bearing securities	*0*	*0*
of which issued securities	*16*	*0*
Fair value through other comprehensive income	-1	0
of which expected credit losses	*-1*	*-1*
Fair value through profit or loss, fair value option	646	-129
of which interest-bearing securities	*646*	*-129*
Fair value through profit or loss, mandatory including FX effects	-71	991
Hedge accounting	-45	-42
of which net gains/losses on fair value hedges	*-37*	*-3*
of which cash flow hedge ineffectiveness	*-8*	*-39*
Total	**618**	**1 020**

P7 Other operating income

SEK m	2019	2018
Rental income	27	24
Other operating income	2 611	2 781
Total	**2 638**	**2 805**

P8 Staff costs

SEK m	2019	2018
Salaries and fees	-7 015	-7 968
Social security costs	-1 816	-1 900
Pension costs[1]	-1 202	-1 236
Provision for the profit-sharing scheme	644	-794
Other staff costs	-759	-357
Total	**-10 148**	**-12 255**

[1] Information about pension costs is presented in note P38.

Salaries and fees SEK m	2019	2018
Executive officers[2], 23 persons (23)	-81	-95
Others	-6 934	-7 873
Total	**-7 015**	**-7 968**

[2] Executive officers including Board members.

Gender distribution	2019		2018	
%	Men	Women	Men	Women
Board	55	45	64	36
Executive officers excluding Board members	67	33	62	38

Average number of employees	2019	Men	Women	2018	Men	Women
Sweden	6 971	3 315	3 656	6 803	3 258	3 545
UK	0	0	0	1 998	1 160	838
Norway	768	408	360	762	407	355
Denmark	646	330	316	654	325	329
Finland	557	244	313	576	248	328
The Netherlands	293	188	105	271	178	93
USA	56	37	19	59	39	20
China	80	30	50	75	28	47
Luxembourg	46	26	20	52	30	22
Singapore	30	11	19	33	11	22
Germany	38	19	19	42	21	21
Poland	33	11	22	36	14	22
Other countries	42	14	28	44	18	26
Total	**9 560**	**4 633**	**4 927**	**11 405**	**5 737**	**5 668**

Note G8 provides information about the principles for remuneration to executive officers in the parent company.

P9 Other administrative expenses

SEK m	2019	2018
Property and premises	-1 241	-1 425
External IT costs	-2 108	-2 121
Communication	-248	-311
Travel and marketing	-214	-259
Purchased services	-1 200	-1 536
Supplies	-157	-163
Other administrative expenses	-640	-517
Total	**-5 808**	**-6 332**
of which expenses for operating leases		
Lease fee	*-525*	*-995*
Variable fee	*-112*	*-80*
Total	**-637**	**-1 075**

Operating leases are mainly related to agreements that are normal for the operations regarding office premises and office equipment.
Rental costs for premises normally have a variable fee related to the inflation rate and to property taxes.

Contracted irrevocable future operating lease charges distributed by maturity SEK m	2019	2018
Within 1 year	-964	-898
Between 1 and 5 years	-3 070	-2 872
Over 5 years	-3 348	-3 587
Total	**-7 382**	**-7 357**

Remuneration to auditors and audit companies	Ernst & Young AB		PricewaterhouseCoopers AB	
SEK m	2019	2018	2019	2018
Audit assignment	-10	-13	-4	-4
Audit operations outside the audit assignment	-1	-2	-	-
Tax advice	-	-	-	-
Other services	-	-	-	-

P10 Credit losses

SEK m	2019	2018
Expected credit losses on balance sheet items		
The year's provision Stage 3	-1 475	-1 058
Reversal of Stage 3 provisions to Stage 1 or Stage 2	334	246
Total expected credit losses in Stage 3	**-1 141**	**-812**
The year's net provision Stage 2	90	85
The year's net provision Stage 1	-7	58
Total expected credit losses in Stage 1 and Stage 2	**83**	**143**
Total expected credit losses on balance sheet items	**-1 058**	**-669**
Expected credit losses on off-balance sheet items		
The year's net provision Stage 3	-107	0
The year's net provision Stage 2	-7	26
The year's net provision Stage 1	-2	25
Total expected credit losses on off-balance sheet items	**-116**	**51**
Write-offs		
Actual credit losses for the year[1]	-353	-2 985
Utilised share of previous provisions in Stage 3	323	2 667
Total write-offs	**-30**	**-318**
Recoveries	145	101
Net credit losses	**-1 059**	**-835**
of which loans to the public	*-943*	*-833*

[1] Of the year's actual credit losses, SEK 107m (376) is subject to enforcement activities.

P10 Cont.

Balance sheet and off-balance sheet items that are subject to impairment testing 2019

	Gross			Provisions		
SEK m	Stage 1	Stage 2	Stage 3[1]	Stage 1	Stage 2	Stage 3
Balance sheet items						
Cash and balances with central banks	242 889	-	-	0	-	-
Interest-bearing securities eligible as collateral with central banks	1 410	-	-	0	-	-
Loans to credit institutions	890 368	193	-	-1	-3	-
Loans to the public	596 076	21 368	6 462	-159	-247	-3 325
Bonds and other interest-bearing securities	4 953	-	-	-2	-	-
Total	**1 735 696**	**21 561**	**6 462**	**-162**	**-250**	**-3 325**
Off-balance sheet items						
Contingent liabilities	435 921	7 921	685	-38	-50	-106
of which contingent liabilities	*111 518*	*3 020*	*527*	*-7*	*-13*	*-71*
of which commitments	*324 403*	*4 901*	*158*	*-31*	*-37*	*-35*
Total	**435 921**	**7 921**	**685**	**-38**	**-50**	**-106**

Balance sheet and off-balance sheet items that are subject to impairment testing 2018

	Gross			Provisions		
SEK m	Stage 1	Stage 2	Stage 3[1]	Stage 1	Stage 2	Stage 3
Balance sheet items						
Cash and balances with central banks	243 824	-	-	0	-	-
Interest-bearing securities eligible as collateral with central banks	1 225	-	-	0	-	-
Loans to credit institutions	840 668	397	-	-3	-8	-
Loans to the public	581 252	27 956	5 443	-149	-331	-2 472
Bonds and other interest-bearing securities	5 373	-	-	-1	-	-
Total	**1 672 342**	**28 353**	**5 443**	**-153**	**-339**	**-2 472**
Off-balance sheet items						
Contingent liabilities	463 128	7 304	425	-36	-43	-
of which contingent liabilities	*119 488*	*3 069*	*423*	*-8*	*-12*	-
of which commitments	*343 640*	*4 235*	*2*	*-28*	*-31*	-
Total	**463 128**	**7 304**	**425**	**-36**	**-43**	**-**

[1] Gross volume in Stage 3 for which no provision has been made, due to collateral received, amounts to SEK 1,237m (738).

Key figures, credit losses **Loans to the public**	**2019**	**2018**
Credit loss ratio, acc., %	0.15	0.10
Total reserve ratio, %	0.60	0.48
Reserve ratio Stage 1, %	0.03	0.03
Reserve ratio Stage 2, %	1.16	1.20
Reserve ratio Stage 3, %	51.45	45.42
Proportion of loans in Stage 3, %	0.50	0.48

P10 Cont.

CHANGE ANALYSIS

Change in provision for expected credit losses, balance sheet items that are subject to impairment testing

	2019				2018			
SEK m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	-153	-339	-2 472	-2 964	-258	-519	-4 499	-5 276
Derecognised assets	20	41	75	136	74	136	264	474
Write-offs	0	1	322	323	0	25	2 642	2 667
Remeasurements due to changes in credit risk	-62	-167	42	-187	-62	-579	-29	-670
Changes due to update in the methodology for estimation	0	0	-	0	29	156	0	185
Foreign exchange effect, etc.	-2	-4	-35	-41	-4	-20	-35	-59
Purchased or originated assets	-19	-7	-3	-29	-31	-30	-11	-72
Transfer to Stage 1	-13	24	1	12	-8	21	0	13
Transfer to Stage 2	38	-101	13	-50	51	-126	1	-74
Transfer to Stage 3	29	302	-1 268	-937	56	597	-805	-152
Provision at end of year	**-162**	**-250**	**-3 325**	**-3 737**	**-153**	**-339**	**-2 472**	**-2 964**

Change in provision for expected credit losses, loans to the public

	2019				2018			
SEK m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	-149	-331	-2 472	-2 952	-254	-516	-4 499	-5 269
Derecognised assets	19	35	75	129	73	135	264	472
Write-offs	0	1	322	323	0	25	2 642	2 667
Remeasurements due to changes in credit risk	-62	-166	42	-186	-59	-577	-29	-665
Changes due to update in the methodology for estimation	0	0	-	0	28	155	0	183
Foreign exchange effect, etc.	-2	-4	-35	-41	-3	-20	-35	-58
Purchased or originated assets	-19	-7	-3	-29	-29	-29	-11	-69
Transfer to Stage 1	-13	24	1	12	-8	20	0	12
Transfer to Stage 2	38	-100	13	-49	47	-121	1	-73
Transfer to Stage 3	29	301	-1 268	-938	56	597	-805	-152
Provision at end of year	**-159**	**-247**	**-3 325**	**-3 731**	**-149**	**-331**	**-2 472**	**-2 952**

Change in provision for expected credit losses, off-balance sheet items that are subject to impairment testing

	2019				2018			
SEK m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	-36	-43	-	-79	-67	-71	0	-138
Derecognised assets	5	7	-	12	9	13	0	22
Write-offs	0	0	-	0	-	-	-	-
Remeasurements due to changes in credit risk	-6	-1	-106	-113	6	-20	-	-14
Changes due to update in the methodology for estimation	0	0	-	0	18	23	-	41
Foreign exchange effect, etc.	0	0	-	0	-1	-1	-	-2
Purchased or originated assets	-7	-8	-	-15	-9	-1	-	-10
Transfer to Stage 1	-2	5	-	3	-3	7	-	4
Transfer to Stage 2	7	-21	-	-14	7	-20	-	-13
Transfer to Stage 3[1]	1	11	-	12	4	27	-	31
Provision at end of year	**-38**	**-50**	**-106**	**-194**	**-36**	**-43**	**-**	**-79**

[1] Contingent liabilities and commitments classified in Stage 1 or 2 at the beginning of the year but which have been utilised at the end of the period are recorded as an asset on the balance sheet on the reporting date. When such agreements are transferred to Stage 3, the reserved amount is recognised in the corresponding table for balance sheet items.

The change analysis shows the net effect on the provision for the Stage in question for each explanatory item during the period. The effect of derecognitions and write-offs is calculated on the opening balance. The effect of revaluations due to changes in the methodology for estimation and foreign exchange effects, etc., is calculated before any transfer of the net amount between Stages. Purchased or originated assets and amounts transferred between Stages are recognised after the effects of other explanatory items are taken into account. The transfer rows present the effect on the provision for the stated Stage.

P10 Cont.

Change in gross volume, balance sheet items that are subject to impairment testing

	2019				2018			
SEK m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	1 672 342	28 353	5 443	1 706 138	1 667 693	23 611	8 627	1 699 931
Derecognised assets	-101 993	-5 894	-272	-108 159	-380 230	-10 617	-1 304	-392 151
Write-offs	-7	-6	-334	-347	-11	-37	-2 892	-2 940
Remeasurements due to changes in credit risk	61 480	-2 513	-608	58 359	246 418	6 354	-897	251 875
Changes due to update in the methodology for estimation	-	-	-	-	-	-	-	-
Foreign exchange effect, etc.	17 888	531	79	18 498	27 867	670	89	28 626
Purchased or originated assets	87 237	1 973	20	89 230	116 989	3 750	58	120 797
Transfer to Stage 1	15 479	-15 455	-24	-	14 704	-14 517	-187	-
Transfer to Stage 2	-16 519	16 622	-103	-	-20 719	21 056	-337	-
Transfer to Stage 3	-211	-2 050	2 261	-	-369	-1 917	2 286	-
Volume at end of year	**1 735 696**	**21 561**	**6 462**	**1 763 719**	**1 672 342**	**28 353**	**5 443**	**1 706 138**

Change in gross volume, loans to the public

	2019				2018			
SEK m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	581 252	27 956	5 443	614 651	768 640	23 483	8 486	800 609
Derecognised assets	-80 023	-5 656	-272	-85 951	-281 423	-10 567	-1 304	-293 294
Write-offs	-7	-6	-334	-347	-11	-37	-2 892	-2 940
Remeasurements due to changes in credit risk	17 501	-2 448	-599	14 454	-833	6 085	-753	4 499
Changes due to update in the methodology for estimation	-	-	-	-	-	-	-	-
Foreign exchange effect, etc.	8 078	531	79	8 688	10 604	658	89	11 351
Purchased or originated assets	70 478	1 913	20	72 411	90 684	3 688	54	94 426
Transfer to Stage 1	15 477	-15 453	-24	-	14 424	-14 238	-186	-
Transfer to Stage 2	-16 469	16 573	-104	-	-20 464	20 801	-337	-
Transfer to Stage 3	-211	-2 042	2 253	-	-369	-1 917	2 286	-
Volume at end of year	**596 076**	**21 368**	**6 462**	**623 906**	**581 252**	**27 956**	**5 443**	**614 651**

Change in gross volume, off-balance sheet items that are subject to impairment testing

	2019				2018			
SEK m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	463 128	7 304	425	470 857	468 905	7 752	936	477 593
Derecognised assets	-25 408	-1 257	-9	-26 674	-78 738	-3 167	-19	-81 924
Write-offs	0	0	-6	-6	0	0	-45	-45
Remeasurements due to changes in credit risk	-33 812	1 774	131	-31 907	24 220	5 558	-571	29 207
Changes due to update in the methodology for estimation	-	-	-	-	-	-	-	-
Foreign exchange effect, etc.	2 893	166	12	3 071	4 783	396	12	5 191
Purchased or originated assets	28 172	1 014	0	29 186	40 319	515	1	40 835
Transfer to Stage 1	6 127	-6 126	-1	-	13 312	-13 294	-18	-
Transfer to Stage 2	-5 152	5 164	-12	-	-9 631	9 651	-20	-
Transfer to Stage 3	-27	-118	145	-	-42	-107	149	-
Volume at end of year	**435 921**	**7 921**	**685**	**444 527**	**463 128**	**7 304**	**425**	**470 857**

Like the analysis for provisions, the change analysis for gross volumes shows the effect of selected explanatory items on the volumes for a stated Stage. The items showing transfers between Stages, and 'Purchased or originated assets', present the amounts in the stated Stage at the end of the period. Other items present the effect in the Stage applying at the start of the period.

P10 Cont.

SENSITIVITY ANALYSIS

Sensitivity analys, macroscenarios

The calculation of expected credit losses pursuant to IFRS 9 applies forward-looking information in the form of macroscenarios. The expected credit loss is a probability-weighted average of the estimated forecasts over three scenarios. The forecast in the normal scenario (Base case) is assigned a weighting of 60% (70), while an upturn in the economy is assigned a weighting of 15% (15) and a downturn in the economy is assigned a weighting of 25% (15). The following table presents the minimum, maximum and average annual forecasts for some of the central risk factors by home market and scenario for the next five years. These have formed the basis for the calculation of expected credit losses in Stage 1 and Stage 2 as at 31 December 2019 and 31 December 2018, respectively.

	Minimum						Average						Maximum					
	Downturn		Base case		Upturn		Downturn		Base case		Upturn		Downturn		Base case		Upturn	
Macro factors	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
GDP growth																		
Sweden	-1.49	-0.40	0.81	1.60	1.70	1.70	1.84	1.89	1.96	2.00	2.08	2.11	2.70	2.50	2.20	2.20	2.84	3.20
Norway	-0.04	0.10	1.24	1.50	1.20	1.20	1.57	1.60	1.67	1.69	1.78	1.81	1.85	2.21	1.84	2.40	3.64	3.30
Denmark	-0.66	-0.90	1.09	0.70	1.10	1.10	1.39	1.39	1.49	1.48	1.59	1.59	1.81	1.81	1.81	1.81	3.04	2.50
Finland	-1.67	-0.70	0.73	1.20	1.10	1.10	1.50	1.56	1.62	1.66	1.73	1.77	1.95	1.95	1.88	1.95	2.63	3.10
The Netherlands and the rest of Europe	-1.17	-0.40	0.93	1.30	1.00	1.00	1.16	1.20	1.28	1.32	1.39	1.42	1.70	1.70	1.40	1.63	2.63	2.80
USA	0.54	0.80	1.25	1.30	1.94	1.80	1.95	1.95	1.98	1.98	2.02	2.02	2.50	2.50	2.30	2.35	2.30	2.44
Other countries	2.40	2.90	2.90	3.00	3.00	3.00	3.07	3.10	3.10	3.13	3.12	3.15	3.50	3.50	3.50	3.52	3.50	3.61
Unemployment rate																		
Sweden	6.60	6.30	6.60	6.30	6.30	5.90	6.90	6.80	6.75	6.66	6.65	6.58	8.35	7.70	7.24	6.70	6.70	6.70
Norway	3.50	3.50	3.40	3.40	2.80	2.80	3.61	3.61	3.50	3.50	3.39	3.39	4.40	4.30	3.60	3.53	3.50	3.53
Denmark	5.50	4.50	5.18	4.50	4.68	4.30	5.67	5.60	5.50	5.44	5.40	5.31	7.00	6.70	5.60	5.50	5.50	5.50
Finland	6.90	6.90	6.48	6.90	5.80	6.20	7.05	7.09	6.88	6.93	6.74	6.82	8.20	8.35	6.90	7.23	6.90	7.23
The Netherlands and the rest of Europe	7.80	7.80	7.80	7.80	6.90	7.10	8.05	8.02	7.83	7.85	7.70	7.72	9.50	9.50	8.10	8.20	7.80	7.93
USA	4.24	3.70	4.04	3.70	3.74	3.70	4.53	4.65	4.48	4.61	4.42	4.57	4.90	5.60	4.50	5.30	4.50	5.00
Other countries	6.00	5.59	6.00	5.59	5.85	5.59	6.03	6.01	6.01	5.99	5.99	5.97	6.40	6.35	6.10	6.10	6.00	6.00
Policy interest rate																		
Sweden	-0.50	0.00	0.00	0.21	0.50	0.21	2.14	2.55	2.34	2.72	2.45	2.82	3.30	3.30	3.30	3.30	3.30	3.30
Norway	0.25	0.50	1.50	1.21	2.00	1.21	2.08	2.48	2.29	2.67	2.38	2.78	3.10	3.10	3.10	3.10	3.10	3.10
Denmark	-0.05	0.00	0.05	0.14	0.25	0.14	1.70	2.38	1.91	2.53	1.99	2.61	3.12	3.20	3.12	3.20	3.12	3.20
Finland	-0.10	0.00	0.00	0.00	0.25	0.00	1.69	2.38	1.91	2.53	1.99	2.61	3.12	3.20	3.12	3.20	3.12	3.20
The Netherlands and the rest of Europe	-0.10	0.00	0.00	0.00	0.25	0.00	1.69	2.38	1.91	2.53	1.99	2.61	3.12	3.20	3.12	3.20	3.12	3.20
USA	0.88	2.08	1.38	2.38	1.63	2.58	2.64	2.89	2.70	2.92	2.73	2.94	3.30	3.10	3.30	3.10	3.30	3.10
Other countries	2.60	3.00	2.80	3.09	2.95	3.09	3.54	3.74	3.57	3.75	3.60	3.76	4.10	4.10	4.10	4.10	4.10	4.10
Commercial property price growth																		
Sweden	-7.65	-8.72	-7.77	-6.13	-11.16	-9.55	-1.53	-1.47	-1.42	-1.43	-1.17	-1.33	6.92	7.71	11.48	9.52	22.99	12.34
Norway	-5.77	-9.49	-5.03	-8.21	-7.44	-9.28	-1.54	-1.82	-1.45	-1.70	-1.31	-1.51	3.06	4.19	5.20	6.29	9.47	8.67
Denmark	-8.94	-9.21	-8.49	-7.55	-10.81	-6.79	-2.11	-2.24	-1.97	-2.05	-1.81	-1.84	3.42	3.13	7.07	4.22	12.50	5.33
Finland	-8.25	-7.89	-7.24	-6.27	-9.98	-5.73	-1.08	-1.06	-0.92	-0.98	-0.72	-0.86	7.07	7.99	8.74	5.14	17.77	6.23
The Netherlands and the rest of Europe	-6.29	-5.95	-5.72	-3.61	-5.46	-6.51	0.03	0.64	0.27	0.48	0.75	0.49	2.02	2.73	4.70	4.07	12.48	5.85
USA	1.25	1.30	-4.97	-3.98	1.25	1.30	1.98	1.98	0.75	0.60	1.98	1.98	2.30	2.35	2.58	2.00	2.30	2.35
Other countries	-1.17	-0.40	0.93	1.30	1.00	1.00	1.16	1.20	1.28	1.32	1.39	1.42	1.70	1.70	1.40	1.63	2.63	2.80
Residential property price growth																		
Sweden	-0.74	-2.63	0.03	-0.72	-0.37	-0.14	1.79	2.00	1.96	2.10	2.14	2.18	6.55	4.64	5.28	2.99	7.76	3.55
Norway	-0.40	-1.70	1.86	1.00	0.43	1.73	2.85	2.60	2.96	2.68	3.09	2.76	4.80	3.80	5.62	3.00	9.31	3.00
Denmark	-2.77	-1.90	1.75	1.50	1.45	1.00	2.88	2.28	3.02	2.37	3.17	2.47	4.72	2.70	3.90	2.60	6.23	4.20
Finland	0.92	-1.50	1.51	0.75	1.57	0.80	1.59	2.10	1.71	2.18	1.81	2.25	1.77	2.70	1.89	2.50	2.46	2.80
The Netherlands and the rest of Europe	-1.70	0.20	1.80	1.50	1.70	1.60	2.14	2.28	2.36	2.37	2.43	2.45	2.50	2.50	2.50	3.10	3.20	4.00
USA	-1.70	0.20	1.80	1.50	1.70	1.60	2.14	2.28	2.36	2.37	2.43	2.45	2.50	2.50	2.50	3.10	3.20	4.00
Other countries	-1.70	0.20	1.80	1.50	1.70	1.60	2.14	2.28	2.36	2.37	2.43	2.45	2.50	2.50	2.50	3.10	3.20	4.00

The table below shows the percentage increase/decrease in the provision for expected credit losses in Stage 1 and Stage 2, as at 31 December, which arises when a probability of 100% is assigned to the negative and positive scenarios, respectively.

	2019		2018	
%	Increase in the provision in a negative scenario, %	Decrease in the provision in a positive scenario, %	Increase in the provision in a negative scenario, %	Decrease in the provision in a positive scenario, %
Sweden	8.26	-8.20	3.55	-3.05
Norway	4.20	-4.42	1.78	-1.97
Denmark	4.60	-4.78	1.40	-1.45
Finland	5.95	-5.78	2.72	-2.54
The Netherlands	1.28	-1.27	0.14	-0.13
USA	6.60	-7.54	0.52	-0.51
Other	7.11	-6.94	1.45	-1.37

P10 Cont.

Sensitivity analysis, significant increase in credit risk

The table below shows how the provision in Stage 1 and Stage 2 as at 31 December is affected if the threshold value applied for the ratio between residual credit risk calculated on the reporting date and on initial recognition were to be set 0.5 units lower and higher, respectively, than the applied threshold value of 2.5. A reduction of 0.5 to the threshold value would increase the number of loans transferred from Stage 1 to Stage 2 and would also entail an increase in the provision for expected credit losses. An increase of 0.5 to the threshold value would have the opposite effect. The Bank uses both quantitative and qualitative indicators to assess significant increases in credit risk. Further information is provided in note G2 under the heading "Credit risk".

Change in the total provision in Stage 1 and Stage 2 Threshold value	2019	2018
2	3.09	3.53
2.5	0.00	0.00
3	-2.97	-3.31

CREDIT EXPOSURE THAT IS SUBJECT TO IMPAIRMENT TESTING, BY PD RANGE

Balance sheet items by PD range	2019			2018		
	Gross volume, SEK m			Gross volume, SEK m		
PD value[1]	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
0.00 to <0.15	1 513 033	6 227	-	1 431 555	5 612	-
0.15 to <0.25	97 650	1 022	-	99 433	2 032	-
0.25 to <0.50	59 019	1 487	-	65 134	2 129	-
0.50 to <0.75	21 998	1 859	-	25 118	968	-
0.75 to <2.50	34 696	3 810	-	42 614	6 580	-
2.50 to <10.00	8 763	5 669	-	7 795	8 419	-
10.00 to <100	537	1 487	-	693	2 613	-
100 (default)	-	-	6 462	-	-	5 443
Total	**1 735 696**	**21 561**	**6 462**	**1 672 342**	**28 353**	**5 443**

Loans to the public by PD range	2019			2018		
	Gross volume, SEK m			Gross volume, SEK m		
PD value[1]	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
0.00 to <0.15	519 609	6 079	-	497 561	5 534	-
0.15 to <0.25	33 535	1 013	-	34 560	2 004	-
0.25 to <0.50	20 268	1 474	-	22 639	2 099	-
0.50 to <0.75	7 555	1 842	-	8 730	954	-
0.75 to <2.50	11 915	3 776	-	14 812	6 488	-
2.50 to <10.00	3 010	5 710	-	2 709	8 301	-
10.00 to <100	184	1 474	-	241	2 576	-
100 (default)	-	-	6 462	-	-	5 443
Total	**596 076**	**21 368**	**6 462**	**581 252**	**27 956**	**5 443**

Off-balance sheet items by PD range	2019			2018		
	Gross volume, SEK m			Gross volume, SEK m		
PD value[1]	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
0.00 to <0.15	372 960	2 728	-	400 362	3 209	-
0.15 to <0.25	24 789	1 350	-	24 240	430	-
0.25 to <0.50	19 580	528	-	16 858	458	-
0.50 to <0.75	6 152	557	-	7 667	143	-
0.75 to <2.50	11 317	851	-	12 477	1 088	-
2.50 to <10.00	1 078	1 555	-	1 476	1 432	-
10.00 to <100	45	352	-	48	544	-
100 (default)	-	-	685	-	-	425
Total	**435 921**	**7 921**	**685**	**463 128**	**7 304**	**425**

[1] Refers to 12-month PD value as at the reporting date.

Assets repossessed for protection of claims SEK m	2019	2018
Property	3	46
Movable property	1	0
Shares	0	0
Carrying amount	**4**	**46**

P11 Appropriations

SEK m	2019	2018
Change in accelerated depreciation, machinery, equipment and lease assets	-500	210
Change in accelerated amortisation, goodwill on the acquisition of net assets	120	122
Total	**-380**	**332**

P12 Loans to credit institutions

SEK m	2019	2018
Loans in Swedish kronor		
Banks	2 259	12 047
Other credit institutions	571 995	528 146
Total	**574 254**	**540 193**
Loans in foreign currency		
Banks	29 250	34 861
Other credit institutions	287 057	266 042
Total	**316 307**	**300 903**
Provision for expected credit losses	-4	-11
Total loans to credit institutions	**890 557**	**841 085**
of which accrued interest income	*1 047*	*1 072*
of which reverse repos	*211*	*3 286*
of which subordinated	*29 078*	*21 719*

Average volumes SEK m	2019	2018
Loans to credit institutions in Swedish kronor	579 403	531 180
Loans to credit institutions in foreign currency	332 246	223 313
Total	**911 649**	**754 493**
of which reverse repos	*7 048*	*7 497*

P13 Loans to the public

SEK m	2019	2018
Loans in Swedish kronor		
Households	31 380	34 943
Companies	150 255	165 370
National Debt Office	-	120
Total	**181 635**	**200 433**
Loans in foreign currency		
Households	113 975	105 324
Companies	328 296	308 894
National Debt Office	-	-
Total	**442 271**	**414 218**
Provision for expected credit losses	-3 731	-2 952
Total loans to the public	**620 175**	**611 699**
of which accrued interest income	*1 119*	*1 038*
of which reverse repos	*10 441*	*9 050*
of which subordinated	*1 132*	*1 221*

Average volumes, excl. National Debt Office SEK m	2019	2018
Loans to the public in Swedish kronor	203 571	208 299
Loans to the public in foreign currency	444 497	633 910
Total	**648 068**	**842 209**
of which reverse repos	*16 205*	*13 648*

P14 Interest-bearing securities

SEK m	2019 Carrying amount	2019 Fair value	2019 Nominal amount	2018 Carrying amount	2018 Fair value	2018 Nominal amount
Interest-bearing securities eligible as collateral with central banks	103 370	103 370	101 137	118 918	118 918	117 680
of which accrued interest income	*217*			*314*		
Bonds and other interest-bearing securities	53 096	53 096	50 698	50 993	50 993	45 324
of which accrued interest income	*212*			*203*		
Total	**156 466**	**156 466**	**151 835**	**169 911**	**169 911**	**163 004**
of which subordinated	*15*	*15*		*20*	*20*	

Interest-bearing securities broken down by issuer

SEK m	2019 Carrying amount	2019 Fair value	2019 Nominal amount	2018 Carrying amount	2018 Fair value	2018 Nominal amount
Government	103 370	103 370	101 137	118 918	118 918	117 680
Credit institutions	10 529	10 529	9 911	12 972	12 972	12 265
Mortgage institutions	36 273	36 273	34 597	32 981	32 981	28 979
Other	6 294	6 294	6 190	5 040	5 040	4 080
Total	**156 466**	**156 466**	**151 835**	**169 911**	**169 911**	**163 004**

Interest-bearing securities that are subject to impairment testing

SEK m	2019	2018
Interest-bearing securities eligible as collateral with central banks		
Fair value through other comprehensive income	403	405
Amortised cost	1 007	819
Total gross volumes	**1 410**	**1 224**
Provision for expected credit losses on instruments measured at amortised cost	0	0
Total carrying amount	**1 410**	**1 224**
Provision for expected credit losses recognised in the fair value reserve in equity	0	0
Bonds and other interest-bearing securities		
Fair value through other comprehensive income	4 953	5 373
Total carrying amount	**4 953**	**5 373**
Provision for expected credit losses recognised in the fair value reserve in equity	-2	-1

Average volumes

SEK m	2019	2018
Interest-bearing securities	222 592	206 191

P15 Shares

SEK m	2019	2018
Fair value through profit or loss, mandatory	12 032	11 316
Fair value through other comprehensive income	2 303	1 840
Total shares	**14 335**	**13 156**

Holdings at fair value through other comprehensive income

SEK m	2019	2018
Asiakastieto Group Oyj	712	545
BEC	489	432
Euroclear plc	431	381
Visa Inc	308	207
Other holdings	363	275
Total	**2 303**	**1 840**

Handelsbanken classifies the shareholdings above as measured at fair value through other comprehensive income, as these holdings are not held for trading. During the year Handelsbanken received dividends only on shares still held at the end of the reporting period. These dividends total SEK 110m (218) and are recognised in the income statement under Other dividend income. During the year, the Bank has divested its holdings in DLR Kredit, Let-P Holdings AS, Samlink Oy and two tenant-owners associations, amounting to SEK 39m (5). The primary reason for the divestments was reallocations, together with adjustments to the shares in relation to the participating interests.
For information about realised and unrealised gains/losses on equity instruments measured at fair value through other comprehensive income, refer to the Statement of changes in equity for the Group.

P16 Shares in subsidiaries and investments in associates

Shares in subsidiaries and investments in associates SEK m	2019	2018
Associates, unlisted	213	213
Subsidiaries, unlisted	71 925	72 054
Total	**72 138**	**72 267**

Associates	Corporate identity number	Domicile	Number of shares	Ownership share, %	Carrying amount, SEK m 2019	Carrying amount, SEK m 2018
Bankomat AB	556817-9716	Stockholm	150	20.00	67	67
BGC Holding AB	556607-0933	Stockholm	25 382	25.38	80	80
Dyson Group plc	00163096	Sheffield	74 333 672	27.00	21	21
Finansiell ID-teknik BID AB	556630-4928	Stockholm	12 735	28.30	24	24
Getswish AB	556913-7382	Stockholm	10 000	20.00	21	21
USE Intressenter AB	559161-9464	Stockholm	2 448	24.48	0	0
Total					**213**	**213**

Subsidiaries	Corporate identity number	Domicile	Number of shares	Ownership share, %	Carrying amount, SEK m 2019	Carrying amount, SEK m 2018
Handelsbanken Finans AB[1]	556053-0841	Stockholm	1 550 000	100	11 672	11 672
Handelsbanken Finans (Shanghai) Financial Leasing Co., Ltd	310101717882194	Shanghai		100		
Stadshypotek AB[1]	556459-6715	Stockholm	162 000	100	26 870	26 870
Handelsbanken Fondbolagsförvaltning AB	556070-0683	Stockholm	10 000	100	1	1
Handelsbanken Fonder AB	556418-8851	Stockholm		100		
Handelsinvest Investeringsforvaltning A/S	12930879	Copenhagen		100		
Xact Kapitalförvaltning AB	556997-8140	Stockholm		100		
Handelsbanken Liv Försäkrings AB	516401-8284	Stockholm	100 000	100	6 189	6 189
SHB Liv Försäkringsaktiebolag	2478149-7	Helsinki		100		
Handelsbanken Fastigheter AB	556873-0021	Stockholm		100		
Ecster AB	556993-2311	Stockholm	50 000	100	850	850
Handelsbanken plc[1]	11305395	London	5 050 401	100	24 087	24 087
Heartwood Wealth Management Limited	04132340	London	1 319 206	100		
Optimix Vermogensbeheer N.V.	33194359	Amsterdam	10 209	100	668	655
Add Value Fund Management BV	19196768	Amsterdam		80		
Övriga dotterbolag						
EFN Ekonomikanalen AB	556930-1608	Stockholm	100	100	0	0
Ejendomsselskabet af 1. maj 2009 A/S	59173812	Hillerød	2 700 000	100	200	200
Forva AS	945812141	Oslo	4 000 000	100	1	1
AB Handel och Industri	556013-5336	Stockholm	100 000	100	14	104
Handelsbanken Markets Securities, Inc.[1]	11-3257438	New York	1 000	100	30	82
Handelsbanken Rahoitus Oy	0112308-8	Helsinki	37 026 871	100	1 276	1 276
Handelsbanken Skadeförsäkrings AB	516401-6767	Stockholm	1 500	100	31	31
Lokalbolig A/S	78488018	Hillerød	540 000	71.05	1	1
Rådstuplass 4 AS	910508423	Bergen	40 000	100	0	0
Svenska Re S.A.	RCS Lux B-32053	Luxembourg	20 000	100	35	35
Lila stugan i Stockholm AB	556993-9084	Stockholm	50	100	0	0
Blå stugan i Stockholm AB	556993-9357	Stockholm	50	100	0	0
Summa					**71 925**	**72 054**

The list of Group companies contains directly owned subsidiaries and large subsidiaries of these companies.
[1] Credit institution.

P17 Derivative instruments

	Nominal amount/maturity			Nominal amount		Positive market values		Negative market values	
SEK m	up to 1 yr	over 1 yr up to 5 yrs	Over 5 yrs	2019	2018	2019	2018	2019	2018
Derivatives held for trading									
Interest rate-related contracts									
Options	13 258	22 286	2 442	37 986	46 688	19	160	71	225
FRA/futures	738 287	157 955	0	896 242	1 464 133	211	85	170	462
Swaps	498 638	1 371 914	423 474	2 294 026	2 471 431	28 228	26 689	29 733	27 700
Currency-related contracts									
Options	25 101	540	44	25 685	42 936	136	238	212	344
Futures	56 339	7 007	517	63 863	108 713	863	1 188	480	792
Swaps	663 691	206 980	66 735	937 406	815 094	13 986	18 046	21 327	16 565
Equity-related contracts									
Options	6 973	2 506	106	9 585	13 139	545	534	425	779
Futures	1 814	0	0	1 814	1 217	0	5	13	0
Swaps	10 373	4 345	37	14 755	15 385	138	742	1 157	587
Commodity-related contracts									
Options	241	738	43	1 022	2 377	35	178	103	324
Futures	9 840	3 111	0	12 951	17 119	430	671	494	1 016
Credit-related contracts									
Swaps	1 127	6 740	168	8 035	6 098	465	252	289	246
Total	**2 025 682**	**1 784 122**	**493 566**	**4 303 370**	**5 004 330**	**45 056**	**48 788**	**54 474**	**49 040**
Derivatives for fair value hedges									
Interest rate-related contracts									
Swaps	26 321	90 760	14 833	131 914	74 410	1 233	25	587	241
Currency-related contracts									
Swaps	0	580	919	1 499		166			
Total	**26 321**	**91 340**	**15 752**	**133 413**	**74 410**	**1 399**	**25**	**587**	**241**
Derivatives for cash flow hedges									
Interest rate-related contracts									
Swaps	66 580	211 311	18 464	296 355	363 884	5 083	5 861	1 857	2 360
Currency-related contracts									
Swaps	53 260	137 718	3 473	194 451	254 194	15 634	25 485	985	2 405
Total	**119 840**	**349 029**	**21 937**	**490 806**	**618 078**	**20 717**	**31 346**	**2 842**	**4 765**
Total derivative instruments	**2 171 842**	**2 224 491**	**531 255**	**4 927 588**	**5 696 818**	**67 172**	**80 159**	**57 902**	**54 046**
of which exchange traded derivatives				*440 829*	*1 060 603*	*347*	*745*	*1 223*	*1 127*
of which OTC derivatives settled by CCP				*2 472 024*	*2 335 104*	*22 588*	*17 488*	*16 293*	*14 121*
of which OTC derivatives not settled by CCP				*2 014 736*	*2 301 111*	*44 237*	*61 926*	*40 385*	*38 798*
Amounts offset				-2 147 269	-2 241 073	-25 332	-21 050	-19 233	-17 820
Net amount				**2 780 319**	**3 455 745**	**41 840**	**59 109**	**38 669**	**36 226**
Currency breakdown of market values									
SEK						-18 191	-111 747	164 129	40 309
USD						39 129	296 695	-326 930	-48 975
EUR						191 180	156 637	67 564	63 778
Others						-144 946	-261 426	153 140	-1 066
Total						**67 172**	**80 159**	**57 903**	**54 046**

Derivative contracts are presented gross in the note. Amounts offset consist of the offset market value and the associated nominal amounts of contracts for which the Bank has the legal right and intention to settle contractual cash flows net (including cleared contracts). These contracts are presented on a net basis on the balance sheet per counterparty and currency.

The Bank amortises positive differences between the value measured by a valuation model upon initial recognition and the transaction price (day 1 profit) over the life of the derivative. Such as-yet-unrecognised day 1 profit amounted to SEK 630m (602) at year-end.

P18 Hedge accounting

Hedging instruments in cash flow hedges	2019			2018		
SEK m	Up to 1 year	1-5 years	Over 5 years	Up to 1 year	1-5 years	Over 5 years
Interest rate risk						
Interest rate swaps, fixed interest paid and variable interest received						
Nominal amount	12 687	63 337	17 136	9 829	67 520	14 160
Average fixed interest %	0.72	0.62	0.87	1.22	0.85	0.99
Interest rate swaps, variable interest paid and fixed interest received						
Nominal amount	53 893	147 974	1 328	62 672	195 787	13 916
Average fixed interest %	2.63	2.45	3.02	2.73	2.50	1.98
Foreign exchange risk						
Foreign exchange derivatives, EUR/NOK						
Nominal amount	4 741	36 400	-	-	40 184	-
Average exchange rate EUR/NOK	0.1200	0.1200	-	-	0.1172	-
Foreign exchange derivatives, USD/GBP						
Nominal amount	11 599	19 410	932	6 012	29 252	879
Average exchange rate USD/GBP	1.4300	1.3600	1.3200	1.6033	1.3913	1.3157
Foreign exchange derivatives, USD/NOK						
Nominal amount	19 402	25 572	337	16 220	43 356	368
Average exchange rate USD/NOK	0.1300	0.1300	0.1300	0.1561	0.1289	0.1326
Foreign exchange derivatives, USD/SEK						
Nominal amount	4 167	12 145	-	20 868	15 952	-
Average exchange rate USD/SEK	0.1400	0.1200	-	0.1135	0.1201	-
Foreign exchange derivatives, AUD/USD						
Nominal amount	-	9 300	-	4 740	8 949	796
Average exchange rate AUD/USD	-	1.3800	-	1.0819	1.3823	1.3928
Foreign exchange derivatives, other currency pairs						
Nominal amount	13 351	34 891	2 204	15 338	39 155	12 125
Total	**119 840**	**349 029**	**21 937**	**135 679**	**440 155**	**42 244**

Hedging instruments and ineffectiveness in cash flow hedges 2019	Nominal amount hedging instrument	Carrying amount hedging instrument		Change in fair value used to calculate ineffectiveness	Change in the value of the hedging instrument recognised in other comprehensive income	Ineffectiveness recognised in the income statement	Reclassified from the hedge reserve to the income statement
SEK m		Assets	Liabilities				
Interest rate risk							
Interest rate swaps, fixed interest paid and variable interest received	93 160	118	1 727	-810	-810	-	-
Interest rate swaps, variable interest paid and fixed interest received	203 195	4 965	130	1 919	1 919	-	8
Foreign exchange risk[1]							
Foreign exchange derivatives, EUR/DKK	3 653	4	-	15	15	-	-
Foreign exchange derivatives, EUR/GBP	12 915	735	122	147	147	-	-
Foreign exchange derivatives, EUR/NOK	41 141	4 309	-	60	57	3	-
Foreign exchange derivatives, EUR/SEK	12 922	458	246	5	5	-	-
Foreign exchange derivatives, USD/GBP	31 941	1 715	169	-79	-74	-5	-
Foreign exchange derivatives, USD/NOK	45 311	4 682	-	0	0	-	-
Foreign exchange derivatives, USD/SEK	16 312	1 985	-	-30	-30	-	-
Foreign exchange derivatives, AUD/USD	9 300	22	265	78	78	-	-2
Foreign exchange derivatives, other currency pairs	20 956	1 724	183	450	456	-6	6
Total	**490 806**	**20 717**	**2 842**	**1 755**	**1 763**	**-8**	**12**

Hedging instruments and ineffectiveness in cash flow hedges 2018	Nominal amount hedging instrument	Carrying amount hedging instrument		Change in fair value used to calculate ineffectiveness	Change in the value of the hedging instrument recognised in other comprehensive income	Ineffectiveness recognised in the income statement	Reclassified from the hedge reserve to the income statement
SEK m		Assets	Liabilities				
Interest rate risk							
Interest rate swaps, fixed interest paid and variable interest received	91 509	579	792	-21	-21	-	-
Interest rate swaps, variable interest paid and fixed interest received	272 375	5 282	1 568	-421	-421	-	-
Foreign exchange risk[1]							
Foreign exchange derivatives, EUR/DKK	3 797	4	12	45	45	-	-
Foreign exchange derivatives, EUR/GBP	12 331	1 333	-	75	75	-	-
Foreign exchange derivatives, EUR/NOK	40 184	4 625	-	-53	-44	-9	-
Foreign exchange derivatives, USD/GBP	36 143	4 007	-	240	246	-6	-
Foreign exchange derivatives, USD/NOK	59 944	8 922	-	320	320	-	-
Foreign exchange derivatives, USD/SEK	36 820	2 104	14	115	115	-	-
Foreign exchange derivatives, AUD/USD	14 485	-	1 548	-22	-22	-	-
Foreign exchange derivatives, other currency pairs	50 490	4 490	831	512	536	-24	-
Total	**618 078**	**31 346**	**4 765**	**790**	**829**	**-39**	

[1] When analysing for the purposes of hedge accounting, the conversion to the parent company's functional currency, SEK, is taken into account by imputing nominal derivative legs in the hedging relationships. The imputed derivative legs are not included in the nominal volumes presented in the tables above.
The carrying amount of hedging instruments is included in the item Derivative instruments in the balance sheet.
Ineffectiveness recognised in the income statement is included in the item Net gains/losses on financial transactions.
Reclassified to the income statement is included under Net gains/losses on financial transactions and refers to cash flow hedges terminated before their maturity date.

P18 Cont.

Hedged items in cash flow hedges	2019			2018		
SEK m	Change in fair value used to calculate ineffectiveness	Hedge reserve	Amounts remaining in the hedge reserve from hedging relationships for which hedge accounting is no longer applied	Change in fair value used to calculate ineffectiveness	Hedge reserve	Amounts remaining in the hedge reserve from hedging relationships for which hedge accounting is no longer applied
Interest rate risk						
Issued variable-interest securities	810	-1 493	-	21	-377	-
Variable-interest loans to the public	-1 919	4 355	639	421	2 171	-
Foreign exchange risk						
Securities issued in EUR and internal loans in DKK, GBP and NOK	-340	-384	-	-276	-644	-
Securities issued in USD and internal loans in DKK, EUR, GBP and NOK	54	68	121	-700	181	-
Securities issued in AUD	-78	77	-4	-5	-9	-
Securities issued and internal loans in other currencies	-290	-155	23	-290	-605	-
Total	**-1 763**	**2 468**	**779**	**-829**	**717**	**-**

Hedging instruments in fair value hedges	2019			2018		
SEK m	Up to 1 year	1-5 years	Over 5 years	Up to 1 year	1-5 years	Over 5 years
Interest rate risk						
Interest rate swaps, fixed interest paid and variable interest received						
Nominal amount	26 321	71 963	2 412	15 141	56 946	2 323
Average fixed interest %	0.00	0.07	0.53	-0.22	0.12	0.62
Interest rate swaps, variable interest paid and fixed interest received						
Nominal amount	-	18 797	12 421	-	-	-
Average fixed interest %	-	1.94	0.93	-	-	-
Cross-currency interest rate swaps, variable interest paid and fixed interest received						
Nominal amount	-	580	919	-	-	-
Average fixed interest %	-	3.26	3.69	-	-	-
Total	**26 321**	**91 340**	**15 752**	**15 141**	**56 946**	**2 323**

Hedging instruments and ineffectiveness in fair value hedges 2019		Carrying amount hedging instrument			
SEK m	Nominal amount hedging instrument	Assets	Liabilities	Change in fair value used to calculate ineffectiveness	Ineffectiveness recognised in the income statement
Interest rate risk					
Interest rate swaps, fixed interest paid and variable interest received	100 696	219	355	82	5
Interest rate swaps, variable interest paid and fixed interest received	31 218	1 014	232	-63	-39
Cross-currency interest rate swaps, variable interest paid and fixed interest received	1 499	166	-	-17	-3
Total	**133 413**	**1 399**	**587**	**2**	**-37**

Hedging instruments and ineffectiveness in fair value hedges 2018		Carrying amount hedging instrument			
SEK m	Nominal amount hedging instrument	Assets	Liabilities	Change in fair value used to calculate ineffectiveness	Ineffectiveness recognised in the income statement
Interest rate risk					
Interest rate swaps, fixed interest paid and variable interest received	74 410	25	241	-131	-4

The carrying amount of hedging instruments is included in the item Derivative instruments in the balance sheet.
Ineffectiveness recognised in the income statement is included in the item Net gains/losses on financial transactions.

Hedged items in fair value hedges 2019	Carrying amount hedged item		Accumulated fair value adjustment included in the carrying amount of the hedged item			
SEK m	Assets	Liabilities	Assets	Liabilities	Change in value used to calculate ineffectiveness	Accumulated amount of adjustments to fair value hedges remaining on the balance sheet for hedged items which are no longer adjusted for changes in fair value
Interest rate risk						
Fixed-interest loans to the public	101 432		114		-77	-
Issued fixed-interest securities and subordinated liabilities		32 950		-38	38	-
Total	**101 432**	**32 950**	**114**	**-38**	**-39**	**-**

Hedged items in fair value hedges 2018	Carrying amount hedged item		Accumulated fair value adjustment included in the carrying amount of the hedged item			
SEK m	Assets	Liabilities	Assets	Liabilities	Change in value used to calculate ineffectiveness	Accumulated amount of adjustments to fair value hedges remaining on the balance sheet for hedged items which are no longer adjusted for changes in fair value
Interest rate risk						
Fixed-interest loans to the public	74 652		191		127	-

P19 Offsetting of financial instruments

2019 SEK m	Derivatives	Repurchase agreements, securities lending	Total
Financial fixed assets subject to offsetting, enforceable master netting arrangements and similar agreements			
Gross amount	67 172	18 648	85 820
Amounts offset	-25 332	-5 816	-31 148
Carrying amount on the balance sheet	**41 840**	**12 832**	**54 672**
Related amounts not offset on the balance sheet			
Financial instruments, netting arrangements	-12 023	-	-12 023
Financial assets received as collateral	-22 340	-12 832	-35 172
Total amounts not offset on the balance sheet	**-34 363**	**-12 832**	**-47 195**
Net amount	**7 477**	**-**	**7 477**
Financial liabilities subject to offsetting, enforceable master netting arrangements and similiar agreements			
Gross amount	57 902	5 816	63 718
Amounts offset	-19 233	-5 816	-25 049
Carrying amount on the balance sheet	**38 669**	**-**	**38 669**
Related amounts not offset on the balance sheet			
Financial instruments, netting arrangements	-12 023	-	-12 023
Financial assets pledged as collateral	-5 179	-	-5 179
Total amounts not offset on the balance sheet	**-17 202**	**-**	**-17 202**
Net amount	**21 467**	**-**	**21 467**

2018 SEK m	Derivatives	Repurchase agreements, securities lending	Total
Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements			
Gross amount	80 159	20 571	100 730
Amounts offset	-21 050	-7 155	-28 205
Carrying amount on the balance sheet	**59 109**	**13 416**	**72 525**
Related amounts not offset on the balance sheet			
Financial instruments, netting arrangements	-12 604	-	-12 604
Financial assets received as collateral	-38 698	-13 416	-52 114
Total amounts not offset on the balance sheet	**-51 302**	**-13 416**	**-64 718**
Net amount	**7 807**	**-**	**7 807**
Financial liabilities subject to offsetting, enforceable master netting arrangements and similiar agreements			
Gross amount	54 046	7 155	61 201
Amounts offset	-17 820	-7 155	-24 975
Carrying amount on the balance sheet	**36 226**	**-**	**36 226**
Related amounts not offset on the balance sheet			
Financial instruments, netting arrangements	-12 604	-	-12 604
Financial assets pledged as collateral	-1 766	-	-1 766
Total amounts not offset on the balance sheet	**-14 370**	**-**	**-14 370**
Net amount	**21 856**	**-**	**21 856**

P20 Intangible assets

2019 SEK m	Acquisition assets	Internally developed software	Total 2019
Cost of acquisition at beginning of year	2 383	3 239	5 622
Cost of acquisition of additional intangible assets	-	894	894
Disposals and retirements	-	-3	-3
Foreign exchange effect	51	2	53
Cost of acquisition at end of year	**2 434**	**4 132**	**6 566**
Accumulated amortisation and impairment at beginning of year	-2 108	-742	-2 850
Disposals and retirements	-	3	3
Amortisation for the year according to plan	-126	-329	-455
Impairment for the year	-	-30	-30
Foreign exchange effect	-43	-1	-44
Accumulated amortisation and impairment at end of year	**-2 277**	**-1 099**	**-3 376**
Carrying amount	**157**	**3 033**	**3 190**

In 2019, development costs amounting to SEK 1,395 m (1,609) have been recognised as expenses.

2018 SEK m	Acquisition assets	Internally developed software	Total 2018
Cost of acquisition at beginning of year	2 298	2 819	5 117
Cost of acquisition of additional intangible assets	-	658	658
Disposals and retirements	-	-241	-241
Foreign exchange effect	85	3	88
Cost of acquisition at end of year	**2 383**	**3 239**	**5 622**
Accumulated amortisation and impairment at beginning of year	-1 912	-595	-2 507
Disposals and retirements	-	104	104
Amortisation for the year according to plan	-128	-245	-373
Impairment for the year	-	-4	-4
Foreign exchange effect	-68	-2	-70
Accumulated amortisation and impairment at end of year	**-2 108**	**-742**	**-2 850**
Carrying amount	**275**	**2 497**	**2 772**

P21 Property, equipment and lease assets

Property, equipment and lease assets SEK m	2019	2018
Equipment	624	545
Property	133	140
Lease assets	7 385	4 704
Property repossessed for protection of claims	3	45
Total	**8 145**	**5 434**

Property repossessed for protection of claims contains properties which are regularly measured at fair value in accordance with the Group's accounting policies for assets repossessed to protect claims. See note G1. The fair value of properties which are regularly measured at fair value is SEK 3m (45). Unrealised value changes on these properties had an impact of SEK 0m (0) on the year's profit. The valuation of private housing is essentially based on market observations of comparable property purchases in the location in question. The valuation of commercial properties is based on discounting future cash flows using assumptions such as rents, vacancy levels, operating and maintenance costs, yield requirement and calculation interest rates. The valuation is also based on the condition of the property, its location and alternative areas of use. The Bank's principle is always to use an independent authorised valuer for valuing commercial and office buildings, and industrial properties. Valuations which are only based on market observations SEK 0m (43) are classified as level 2 in the valuation hierarchy described in note G1. Valuations where own assumptions are used to a material extent SEK 2m (2) are classified as level 3 in the valuation hierarchy. Unrealised value changes in level 3 relating to properties which are regularly measured at fair value have affected the year's profit by SEK 0m (0). The year's sale of properties which are regularly measured at fair value amounts to SEK 47m (49) of which SEK 2m (1) was classified as level 3 before the sale. The value of new properties added during the year is SEK 2m (2), with SEK 2m (0) of this classified as level 3.

Equipment SEK m	2019	2018
Cost of acquisition at beginning of year	1 617	2 032
Cost of additional acquisition for the year	373	342
Changes due to business combination during the year	22	-531
Disposals and retirements	-484	-275
Foreign exchange effect	-1	49
Cost of acquisition at end of year	**1 527**	**1 617**
Accumulated depreciation and impairment at beginning of year	-1 072	-1 267
Accumulated depreciation due to business combinations during the year	-5	270
Depreciation for the year according to plan	-316	-316
Disposals and retirements	483	272
Foreign exchange effect	7	-31
Accumulated depreciation and impairment at end of year	**-903**	**-1 072**
Carrying amount	**624**	**545**

P21 Cont.

Property SEK m	2019	2018
Cost of acquisition at beginning of year	238	221
New construction and conversion	0	17
Cost of acquisition at end of year	**238**	**238**
Accumulated depreciation and impairment at beginning of year	-98	-91
Depreciation for the year according to plan	-7	-7
Accumulated depreciation and impairment at end of year	**-105**	**-98**
Carrying amount	**133**	**140**

Lease assets SEK m	2019	2018
Cost of acquisition at beginning of year	8 383	3 276
Disposals due to business transfer during the year	-	-64
Acquired through business combination during the year	3 971	4 628
Cost of additional acquisition for the year	1 907	1 283
Disposals and retirements	-1 976	-841
Foreign exchange effect	85	101
Cost of acquisition at end of year	**12 370**	**8 383**
Accumulated depreciation and impairment at beginning of year	-3 679	-1 445
Accumulated depreciation due to business transfer during the year	-	44
Accumulated depreciation due to business combination during the year	-1 337	-1 735
Depreciation for the year according to plan	-1 350	-1 166
Impairments for the year	-16	-10
Disposals and retirements	1 436	677
Foreign exchange effect	-39	-44
Accumulated depreciation and impairment at end of year	**-4 985**	**-3 679**
Carrying amount	**7 385**	**4 704**

Distribution of future lease payments by maturity SEK m	Within 1 yr	Between 1 and 5 yrs	Over 5 yrs	Total
2019				
Distribution of future lease payments	1 513	5 471	616	**7 600**
2018				
Distribution of future lease payments	1 236	3 109	595	**4 940**

Lease assets mainly consist of vehicles and machines. Lease assets are depreciated during the term of the lease agreement according to the annuity method. Lease fees recognised as income during the financial year amount to SEK 141 million (73), of which the variable part of the lease income is SEK 73 million (44).

P22 Other assets

SEK m	2019	2018
Claims on investment banking settlements	2 983	10 451
Other	18 539	15 459
Total	**21 522**	**25 910**

P23 Prepaid expenses and accrued income

SEK m	2019	2018
Accrued income	437	1 811
Prepaid expenses	715	665
Total	**1 152**	**2 476**

P24 Due to credit institutions

SEK m	2019	2018
Due in Swedish kronor		
Banks	28 251	43 174
Other credit institutions	32 005	30 409
Total	**60 256**	**73 583**
Due in foreign currency		
Banks	108 954	140 403
Other credit institutions	39 487	47 749
Total	**148 441**	**188 152**
Total due to credit institutions	**208 697**	**261 735**
of which accrued interest expenses	*-68*	*212*

Average volumes SEK m	2019	2018
Due to credit institutions in Swedish kronor	71 299	78 728
Due to credit institutions in foreign currency	187 932	176 224
Total	**259 231**	**254 952**
of which repos	*84*	*237*

P25 Deposits and borrowing from the public

Deposits from the public SEK m	2019	2018
Deposits in Swedish kronor		
Households	376 202	351 450
Companies	258 687	229 046
National Debt Office	-	-
Total	**634 889**	**580 496**
Deposits in foreign currency		
Households	75 928	64 995
Companies	181 306	163 678
National Debt Office	-	-
Total	**257 234**	**228 673**
Total deposits from the public	**892 123**	**809 169**

Borrowing from the public SEK m	2019	2018
Borrowing in Swedish kronor	15 066	21 306
Borrowing in foreign currency	10 957	9 360
Total borrowing from the public	**26 023**	**30 666**
Total deposits and borrowing from the public	**918 146**	**839 835**
of which accrued interest expenses	*498*	*767*

Average volumes SEK m	2019	2018
Deposits from the public		
Deposits from the public in Swedish kronor	619 620	568 313
Deposits from the public in foreign currency	263 585	385 349
Total	**883 205**	**953 662**
Borrowing from the public		
Borrowing from the public in Swedish kronor	33 072	31 863
Borrowing from the public in foreign currency	42 309	82 674
Total	**75 381**	**114 537**
of which repos	*10 976*	*12 239*

P26 Issued securities

SEK m	2019 Carrying amount	2019 Nominal amount	2018 Carrying amount	2018 Nominal amount
Commercial paper				
Commercial paper in Swedish kronor	2 286	2 254	1 040	1 556
of which amortised cost	*1 480*	*1 480*	-	-
of which fair value through profit or loss	*806*	*774*	*1 040*	*1 556*
Commercial paper in foreign currency	462 968	463 059	426 314	426 284
of which amortised cost	*460 521*	*460 666*	*425 104*	*425 087*
of which fair value through profit or loss	*2 447*	*2 393*	*1 210*	*1 197*
Total	**465 254**	**465 313**	**427 354**	**427 840**
Bonds				
Bonds in Swedish kronor	7 074	6 939	11 107	10 688
of which amortised cost	*7 074*	*6 939*	*11 107*	*10 688*
Bonds in foreign currency	252 312	251 701	278 070	276 714
of which amortised cost	*252 312*	*251 701*	*278 070*	*276 714*
of which included in fair value hedges	*26 329*	*26 549*		
Total	**259 386**	**258 640**	**289 177**	**287 402**
Total issued securities	**724 640**	**723 953**	**716 531**	**715 242**
of which accrued interest expenses	*1 790*		*2 250*	

SEK m	2019	2018
Issued securities at beginning of year	716 531	654 637
Issued	768 077	938 857
Repurchased	-5 666	-2 954
Matured	-768 391	-855 460
Transferred		-54 838
Foreign exchange effect, etc.	14 089	36 289
Issued securities at end of year	**724 640**	**716 531**

Average volumes SEK m	2019	2018
Swedish kronor	11 797	15 296
Foreign currency	731 930	728 635
Total	**743 727**	**743 931**

P27 Short positions

SEK m	2019	2018
Short positions at fair value		
Equities	708	1 731
Interest-bearing securities	1 148	4 432
Total	**1 856**	**6 163**
of which accrued interest expenses	*9*	*32*

Average volumes SEK m	2019	2018
Swedish kronor	13 129	13 683
Foreign currency	520	530
Total	**13 649**	**14 213**

P28 Taxes

Deferred tax assets SEK m	2019	2018
Property and equipment	-	2
Hedging instruments	321	84
Other	332	199
Total	**653**	**285**

Deferred tax liabilities SEK m	2019	2018
Property and equipment	22	19
Hedging instruments	934	499
Other	-	10
Total	**956**	**528**
Net deferred tax liabilities	**303**	**243**

Change in deferred taxes 2019 SEK m	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Closing balance
Property and equipment	17	5	-	22
Hedging instruments	415	-	198	613
Other	-189	-143	-	-332
Total	**243**	**-138**	**198**	**303**

Change in deferred taxes 2018 SEK m	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Closing balance
Property and equipment	13	4	-	17
Hedging instruments	441	-10	-16	415
Other	-155	-34	-	-189
Total	**299**	**-40**	**-16**	**243**

Tax expenses recognised in the income statemet SEK m	2019	2018
Current tax		
Tax expense for the year	-4 479	-4 029
Adjustment of tax relating to prior years	44	-16
Deferred tax		
Changes in temporary differences	138	45
Changes due to change in tax rate	-	-5
Total	**-4 297**	**-4 005**
Tax at 21.4% (22) of profits before tax	**-4 268**	**-3 929**
Difference	**-29**	**-76**
The difference is explained by the following items		
Various non-deductible expenses	-61	-59
Non-deductible interest on subordinated loans	-263	-310
Non-taxable capital gains and dividends	258	346
Deviating tax rates in other countries	-	-93
Remeasurement of deferred taxes due to change in tax rate	-	-5
Other	37	45
Total	**-29**	**-76**

P29 Provisions

SEK m	Provision for expected credit losses off-balance sheet items[1]	Provision for restructuring[2]	Other provisions[3]	Total 2019	Total 2018
Provisions at beginning of year	**79**	**-**	**30**	**109**	**189**
Provisions during the year		930	22	952	10
Utilised		-66	-4	-70	-22
Reversed			-6	-6	-9
Change in expected credit losses, net	115			115	-59
Provisions at end of year	**194**	**864**	**42**	**1 100**	**109**

[1] For more information, see notes P10 and P37.
[2] The restructuring provision is primarily intended to cover the costs attributable to the closure of branches outside the home markets, the discontinuation of certain product areas, and to dealing with surpluses of staff, primarily at central units. The majority of the reserved amount is expected to be settled by the end of 2021. As for any other provision there is an uncertainty around timing and amount, which is expected to decrease as the plan is executed.
[3] The amounts allocated for future settlement of the claims on the Bank are presented under Other provisions.

P30 Other liabilities

SEK m	2019	2018
Liabilities on investment banking settlements	2 840	2 913
Other	5 950	9 131
Total	**8 790**	**12 044**

P31 Accrued expenses and deferred income

SEK m	2019	2018
Accrued expenses	1 118	1 670
Deferred income	729	585
Total	**1 847**	**2 255**

P32 Subordinated liabilities

SEK m	2019	2018
Subordinated loans in Swedish kronor	3 003	8 691
Subordinated loans in foreign currency	32 543	42 394
Total	**35 546**	**51 085**
of which accrued interest expenses	*932*	*1 193*

Average volumes SEK m	2019	2018
Subordinated loans in Swedish kronor	5 625	8 758
Subordinated loans in foreign currency	32 400	35 428
Total	**38 025**	**44 186**

Specification, subordinated loans **Issuance/Maturity**	**Currency**	**Original nominal amount in each currency**	**Interest rate, %**	**Outstanding amount**
In Swedish kronor				
Swedish subordinated loans[1]		6 179		3 003
Total				**3 003**
In foreign currency				
2015/perpetual[3]	USD	1 200	5.250	11 675
2018/fixed-term[2]	EUR	750	1.250	7 904
2018/fixed-term[2]	EUR	750	1.630	7 926
2019/perpetual[3]	USD	500	6.250	5 038
Total				**32 543**
Total subordinated liabilities				**35 546**

[1] For information regarding Swedish subordinated loans, see note G49.
[2] For further information about subordinated loans in EUR, see note G49.
[3] For further information about subordinated loans in USD, see note G49.

SEK m	2019	2018
Subordinated loans at beginning of year	51 085	32 896
Issued	4 654	15 498
Repurchased	-3 179	0
Matured	-17 674	-
Foreign exchange effect, etc.	660	2 691
Subordinated loans at end of year	**35 546**	**51 085**

P33 Untaxed reserves

SEK m	2019	2018
Accumulated accelerated depreciation, machinery, equipment and lease assets	1 532	627
Accumulated accelerated amortisation, goodwill on the acquisition of net assets	146	259
Total	**1 678**	**886**

P34 Classification of financial assets and liabilities

2019	Fair value through profit or loss						
SEK m	Mandatory	Fair value option	Derivatives identified as hedge instruments	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
Assets							
Cash and balances with central banks					242 889	242 889	242 889
Interest-bearing securities eligible as collateral with central banks	3 001	98 959		403	1 007	103 370	103 370
Loans to credit institutions	21 335				869 222	890 557	895 178
Loans to the public					620 175	620 175	623 065
Bonds and other interest-bearing securities	19 099	29 044		4 953		53 096	53 096
Shares	12 032			2 303		14 335	14 335
Assets where the customer bears the value change risk	6 381				62	6 443	6 443
Derivative instruments	22 105		19 735			41 840	41 840
Other assets	10				21 512	21 522	21 522
Total	**83 963**	**128 003**	**19 735**	**7 659**	**1 754 867**	**1 994 227**	**2 001 738**
Shares in subsidiaries and investments in associates						72 138	
Non-financial assets						13 140	
Total assets						**2 079 505**	
Liabilities							
Due to credit institutions					208 697	208 697	209 030
Deposits and borrowing from the public					918 146	918 146	918 069
Liabilities where the customer bears the value change risk		6 381			62	6 443	6 443
Issued securities	3 253				721 387	724 640	731 197
Derivative instruments	36 869		1 800			38 669	38 669
Short positions	1 856					1 856	1 856
Other liabilities	11				8 779	8 790	8 790
Subordinated liabilities					35 546	35 546	35 825
Total	**41 989**	**6 381**	**1 800**		**1 892 617**	**1 942 787**	**1 949 879**
Non-financial liabilities						4 105	
Total liabilities						**1 946 892**	

2018	Fair value through profit or loss						
SEK m	Mandatory	Fair value option	Derivatives identified as hedge instruments	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
Assets							
Cash and balances with central banks					243 824	243 824	243 824
Interest-bearing securities eligible as collateral with central banks	2 567	115 127		405	819	118 918	118 918
Loans to credit institutions	21 731				819 354	841 085	850 090
Loans to the public					611 699	611 699	613 327
Bonds and other interest-bearing securities	11 892	33 728		5 373		50 993	50 993
Shares	11 316			1 840		13 156	13 156
Assets where the customer bears the value change risk	5 181				59	5 240	5 240
Derivative instruments	32 481		26 628			59 109	59 109
Other assets	19				25 891	25 910	25 910
Total	**85 187**	**148 855**	**26 628**	**7 618**	**1 701 646**	**1 969 934**	**1 980 567**
Shares in subsidiaries and investments in associates						72 267	
Non-financial assets						11 498	
Total assets						**2 053 699**	
Liabilities							
Due to credit institutions					261 735	261 735	264 096
Deposits and borrowing from the public					839 835	839 835	839 918
Liabilities where the customer bears the value change risk		5 181			59	5 240	5 240
Issued securities	2 250				714 281	716 531	720 568
Derivative instruments	33 091		3 135			36 226	36 226
Short positions	6 163					6 163	6 163
Other liabilities	20				12 024	12 044	12 044
Subordinated liabilities					51 085	51 085	51 081
Total	**41 524**	**5 181**	**3 135**		**1 879 019**	**1 928 859**	**1 935 336**
Non-financial liabilities						2 892	
Total liabilities						**1 931 751**	

P35 Fair value measurement of financial instruments

Financial instruments at fair value 2018 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Interest-bearing securities eligible as collateral with central banks				
Fair value through profit or loss, mandatory	1 452	1 549	-	3 001
Fair value through profit or loss, fair value option	98 959	-	-	98 959
Fair value through other comprehensive income	403	-	-	403
Loans to credit institutions	-	21 335	-	21 335
Bonds and other interest-bearing securities				
Fair value through profit or loss, mandatory	15 093	4 006	-	19 099
Fair value through profit or loss, fair value option	29 044	-	-	29 044
Fair value through other comprehensive income	4 740	213	-	4 953
Shares				
Fair value through profit or loss, mandatory	10 706	1 326	-	12 032
Fair value through other comprehensive income	711	340	1 252	2 303
Assets where the customer bears the value change risk	5 888	-	493	6 381
Derivative instruments	402	41 369	69	41 840
Total	**167 399**	**70 137**	**1 814**	**239 350**
Liabilities				
Liabilities where the customer bears the value change risk	5 888	-	493	6 381
Issued securities	-	3 253	-	3 253
Derivative instruments	489	38 110	70	38 669
Short positions	1 708	148	-	1 856
Total	**8 085**	**41 511**	**563**	**50 159**

The principles applied are described in note G40.

Financial instruments at fair value 2018 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Interest-bearing securities eligible as collateral with central banks				
Fair value through profit or loss, mandatory	2 507	60	-	2 567
Fair value through profit or loss, fair value option	115 127	-	-	115 127
Fair value through other comprehensive income	405	-	-	405
Loans to credit institutions	-	21 731	-	21 731
Bonds and other interest-bearing securities				
Fair value through profit or loss, mandatory	11 298	594	-	11 892
Fair value through profit or loss, fair value option	33 728	-	-	33 728
Fair value through other comprehensive income	5 373	-	-	5 373
Shares				
Fair value through profit or loss, mandatory	9 530	1 786	-	11 316
Fair value through other comprehensive income	545	238	1 057	1 840
Assets where the customer bears the value change risk	4 697	-	484	5 181
Derivative instruments	421	58 864	-176	59 109
Total	**183 631**	**83 273**	**1 365**	**268 269**
Liabilities				
Liabilities where the customer bears the value change risk	4 697	-	484	5 181
Issued securities	-	2 250	-	2 250
Derivative instruments	501	35 901	-176	36 226
Short positions	6 060	103	-	6 163
Total	**11 258**	**38 254**	**308**	**49 820**

The principles applied are described in note G40.

P35 Cont.

Change in holdings in financial instruments in level 3 2019 SEK m	Shares	Derivative assets	Derivative liabilities	Loans to the public	Assets where the customer bears the value change risk	Liabilities where the customer bears the value change risk
Carrying amount at beginning of year	**1 057**	**-176**	**176**	**-**	**484**	**-484**
Acquisitions	74	-	-	-	-	-
Repurchases/sales	-28	2	-	-	-	-
Matured	-	-	-	-	-	-
Unrealised value change in income statement	-	-13	10	-	-	-
Unrealised value change in other comprehensive income	149	-	-	-	9	-9
Changes in the methodology	-	352	-352	-	-	-
Transfer from level 1 or 2	-	4	-4	-	-	-
Transfer to level 1 or 2	-	-100	100	-	-	-
Carrying amount at end of year	**1 252**	**69**	**-70**	**-**	**493**	**-493**

Change in holdings in financial instruments in level 3 2018 SEK m	Shares	Derivative assets	Derivative liabilities	Loans to the public	Assets where the customer bears the value change risk	Liabilities where the customer bears the value change risk
Carrying amount 31 Dec 2017	1 121	-87	88	13	464	-464
Effect of transition to IFRS 9	-	-	-	-13	-	-
Carrying amount at beginning of year	**1 121**	**-87**	**88**	**-**	**464**	**-464**
Acquisitions	24	-20	14	-	-	-
Repurchases/sales	-	-	4	-	-	-
Matured	-5	10	-	-	-	-
Unrealised value change in income statement	25	-107	100	-	-	-
Unrealised value change in other comprehensive income	-108	-	-	-	20	-20
Changes in methods						
Transfer from level 1 or 2	-	-3	3	-	-	-
Transfer to level 1 or 2	-	31	-33	-	-	-
Carrying amount at end of year	**1 057**	**-176**	**176**	**-**	**484**	**-484**

Fair value of financial instruments at amortised cost 2019 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	242 889	-	-	242 889
Interest-bearing securities eligible as collateral with central banks	550	457	-	1 007
Loans to credit institutions	24 032	849 811	-	873 843
Loans to the public	2 475	15 086	605 504	623 065
Assets where the customer bears the value change risk	-	62	-	62
Total	**269 946**	**865 416**	**605 504**	**1 740 866**
Liabilities				
Due to credit institutions	51 041	157 989	-	209 030
Deposits and borrowing from the public	895 063	23 006	-	918 069
Liabilities where the customer bears the value change risk	-	62	-	62
Issued securities	246 814	481 130	-	727 944
Subordinated liabilities	-	35 825	-	35 825
Total	**1 192 918**	**698 012**	**-**	**1 890 930**

Fair value of financial instruments at amortised cost 2018 SEK m	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	243 824	-	-	243 824
Interest-bearing securities eligible as collateral with central banks	557	262	-	819
Loans to credit institutions	33 684	790 724	3 951	828 359
Loans to the public	301	15 642	597 384	613 327
Assets where the customer bears the value change risk	-	59	-	59
Total	**278 366**	**806 687**	**601 335**	**1 686 388**
Liabilities				
Due to credit institutions	73 878	190 218	-	264 096
Deposits and borrowing from the public	824 794	15 124	-	839 918
Liabilities where the customer bears the value change risk	-	59	-	59
Issued securities	296 005	422 313	-	718 318
Subordinated liabilities	-	51 081	-	51 081
Total	**1 194 677**	**678 795**	**-**	**1 873 472**

P36 Pledged assets, collateral received and transferred financial assets

Assets pledged for own debt SEK m	2019	2018
Cash	9 640	5 797
Government instruments and bonds	7 526	35 641
Loans to the public	-	-
Shares	292	451
Other	536	509
Total	**17 994**	**42 398**
of which pledged assets that may be freely withdrawn by the Bank	*38*	*27 056*

Other pledged assets SEK m	2019	2018
Cash	224	480
Government instruments and bonds	41 761	40 632
Loans to the public	-	-
Shares	6 760	6 664
Other	192	241
Total	**48 937**	**48 017**
of which pledged assets that may be freely withdrawn by the Bank	*39 110*	*38 919*

Other pledged assets refers to collateral pledged for obligations not reported on the balance sheet.

Assets received

As a component in reverse repurchase agreements and securities loans, the Group has received assets that can be sold or repledged to a third party. The fair value of received assets of this type was SEK 28,741m (29,122) at the end of the financial year, where assets worth SEK 8,761m (8,034) had been sold or repledged to a third party.

Transferred financial assets reported on the balance sheet	2019		2018	
SEK m	Carrying amount	Carrying amount associated liability	Carrying amount	Carrying amount associated liability
Shares, securities lending	7 051	342[1]	7 115	486[1]
Shares, other	-	-	-	-
Government instruments and bonds, repurchase agreements	5 811	-	7 141	-
Government instruments and bonds, other	549	-	262	-
Assets where the customer bears the value change risk	561	561	547	547
Total	**13 972**	**903**	**15 065**	**1 033**

[1] Received cash collateral.

P37 Contingent liabilities

SEK m	2019	2018
Contingent liabilities		
Guarantees, credits	28 293	37 860
Guarantees, other	82 482	80 454
Irrevocable letters of credit	4 269	4 645
Other	21	21
Total	**115 065**	**122 980**
of which subject to impairment testing	*115 065*	*122 980*
Commitments		
Loan commitments	267 501	271 214
Unutilised part of granted overdraft facilities	116 715	116 947
Other[1]	70 924	83 373
Total	**455 140**	**471 534**
of which subject to impairment testing	*329 462*	*347 877*
Total contingent liabilities	**570 205**	**594 514**
Provision for expected credit losses reported as provisions, see note P29	194	79

[1] “Other” includes internal liquidity guarantees to subsidiaries amounting to SEK 56,194m (63,594).

Contingent liabilities

Contingent liabilities mainly consist of various types of guarantees. Credit guarantees are provided to customers in order to guarantee commitments in other credit and pension institutions. Other guarantees are mainly commercial guarantees such as bid bonds, guarantees relating to advance payments, guarantees during a warrranty period and export-related guarantees. Contingent liabilities also comprise unutilised irrevocable import letters of credit and confirmed export letters of credit. These transactions are included in the Bank’s services and are provided to support the Bank’s customers. The nominal amounts of the guarantees are shown in the table.

Claims

Handelsbanken is the subject of claims in a number of civil actions which are being pursued in general courts of law. The assessment is that the actions will essentially be settled in our favour. The assessment is that the amounts in dispute would not have a material effect on the Bank’s financial position or profit/loss.

The Bank’s Polish operation has a portfolio of mortgages, with a book value of just under SEK 400 million, which are issued in the Swiss franc and euro, respectively. It has become apparent that there exists general uncertainty in Polish law as regards the application of various credit terms involving foreign currencies. A binding legal precedent is expected in the near future from the Supreme Court of Poland. This legislative development may also prove to be relevant to the Bank, and could entail that certain contractual terms and conditions in its Polish operations cannot be applied as intended, and that certain customers will have to be replaced. At present, it is not practically possible to estimate any future financial impact on the Bank, nor the respective probabilities of the potential outcomes.

P38 Pension obligations

SEK m	2019	2018
Fair value of plan assets	31 212	26 868
Pension obligations	32 799	31 712
Net pensions[1]	**-1 587**	**-4 844**

Pension obligations are calculated in accordance with the Swedish Financial Supervisory Authority's regulations, which for the Swedish obligation means in accordance with the Act on Safeguarding Pension Obligations and for foreign obligations in accordance with their corresponding local regulation. Plan assets are held by Svenska Handelsbankens Pensionsstiftelse, Pensionskasssan SHB, Försäkringsföreningen, and similar legal entities regarding commitments of the Bank's branches in the UK and Germany. As neither the assets of Pensionskassan nor the actuarial provisions can be allocated to employers with insurance with Pensionskassan, these are not included in the above table. The pension obligations are SEK 7,461m (6,904) in the Bank's pension fund (Pensionskassan SHB, Försäkringsförening) and the market value of the assets is SEK 15,015m (12,132). The surplus value in Pensionskassan SHB, Försäkringsförening is thus SEK 7,554m (5,228).

SEK 10,072m (10,458) of the fair value of the plan assets in Svenska Handelsbankens Pensionsstiftelse consists of the provisions made in the years 1989–2004 to a special supplementary pension (SKP). The obligations include a commitment regarding SKP of the same amount as the fair value of the plan assets.

Part of the commitment, SEK 7,631m (7,919), is conditional.

[1] Given that the surplus in Pensionskassan SHB, Försäkringsförening can be used to cover the parent company's pension obligations, and that part of the commitment is conditional, a deficit is not recorded as a liability in the balance sheet for 2019.

Pension costs SEK m	2019	2018
Pensions paid	-1 022	-522
Pension premiums	-512	-663
Social security costs	-154	-38
Compensation from pension foundation	498	480
Provisions to pension foundation	-13	-492
Total pension costs	**-1 202**	**-1 235**

Pensions paid in the parent company have increased, due to the Bank refraining from taking compensation for parts of the pension payments, in order to increase the consolidation of Svenska Handelsbankens Pensionsstiftelse.

The expected pensions to be paid next year for defined benefit pension plans amount to SEK 1,034m. The costs for pension premiums include premiums to the BTPK plan (defined contribution pension) of SEK 94m (89).

Plan assets SEK m	2019	2018
Opening balance	26 868	28 838
Return	4 830	-1 982
Payments to own pension trusts	13	492
Compensation from own pension trust	-498	-480
Closing balance	**31 212**	**26 868**
Percentage return on plan assets	18%	-7%

Pension obligations SEK m	2019	2018
Opening balance	31 712	30 978
Technical fee	787	1 199
Interest	223	203
Indexation	494	444
Early retirement	128	48
Pensions paid	-1 022	-595
Changed assumptions	420	603
Value change conditional obligation	181	-346
Effect of change of plan	-	-30
	-	-571
Other change in capital value	-124	-222
Closing balance	**32 799**	**31 712**

Allocation of plan assets SEK m	2019	2018
Shares and fund shares[2]	28 924	25 180
Interest-bearing securities	1 909	1 801
Other plan assets[3]	379	-112
Total	**31 212**	**26 868**

In Sweden, a retirement pension is paid from the age of 65 in accordance with the pension agreement between the Employers' Association of the Swedish Banking Institutions (BAO) and the Swedish Financial Sector Union/Swedish Confederation of Professional Associations. The amount is 10% of the annual salary up to 7.5 income base amounts. On the part of the salary between 7.5 and 20 income base amounts, the retirement pension is 65% and in the interval between 20 and 30 income base amounts, it is 32.5% of the annual salary. No retirement pension is paid on the portion of the salary in excess of 30 income base amounts. The value of the pension obligations is calculated annually on the balance sheet date, on actuarial grounds.

In Sweden, the most important calculation assumptions are mortality and the discount rate. The mortality and discount rate assumptions follow the assumptions in the Act on Safeguarding Pension Obligations. The discount rate is 0.4% (0.4%) after tax and assumptions for overhead costs.

The pension obligations in the foreign branches are calculated in accordance with local accounting requirements.

[2] The fund shares are entirely invested in fixed income funds and amount to SEK 13,921m (10,799).
[3] Other plan assets include a liability for compensation that has not yet been paid out from the pension foundation.

P39 Assets and liabilities by currency

2019 SEK m	SEK	EUR	NOK	DKK	GBP	USD	Other currencies	Total
Assets								
Cash and balances with central banks	46 552	114 477	22 096	291	0	58 039	1 434	242 889
Loans to credit institutions	574 251	47 731	74 116	66 964	119 238	6 983	1 274	890 557
Loans to the public	179 594	172 820	181 266	54 719	7 455	19 732	4 589	620 175
of which companies	*147 362*	*109 793*	*150 209*	*37 678*	*7 180*	*19 555*	*2 699*	*474 476*
of which households	*32 232*	*63 027*	*31 057*	*17 041*	*275*	*177*	*1 890*	*145 699*
Interest-bearing securities eligible as collateral with central banks	91 604	8 256	1 144	2	-	1 358	1 006	103 370
Bonds and other interest-bearing securities	43 080	2 032	4 112	-	0	3 872	-	53 096
Other items not broken down by currency	169 418							169 418
Total assets	**1 104 499**	**345 316**	**282 734**	**121 976**	**126 693**	**89 984**	**8 303**	**2 079 505**
Liabilities								
Due to credit institutions	60 256	93 137	6 000	7 388	29 890	11 444	582	208 697
Deposits and borrowing from the public	649 955	116 248	74 576	50 187	4 768	17 221	5 191	918 146
of which companies	*264 122*	*92 631*	*50 705*	*27 763*	*2 328*	*13 808*	*4 650*	*456 007*
of which households	*385 833*	*23 617*	*23 871*	*22 424*	*2 440*	*3 413*	*541*	*462 139*
Issued securities	9 360	236 261	403	100	24 395	430 834	23 287	724 640
Subordinated liabilities	3 003	15 829	-	-	-	16 716	-2	35 546
Other items not broken down by currency, incl. equity	192 476							192 476
Total liabilities and equity	**915 050**	**461 475**	**80 979**	**57 675**	**59 053**	**476 215**	**29 058**	**2 079 505**
Other assets and liabilities broken down by currency, net		116 238	-201 588	-64 205	-67 453	386 252	20 807	
Net foreign currency position		79	167	96	187	21	52	602

Note G2 describes the Bank's view of foreign exchange risk.

2018 SEK m	SEK	EUR	NOK	DKK	GBP	USD	Other currencies	Total
Assets								
Cash and balances with central banks	56	133 057	3 548	505	1	105 765	892	243 824
Loans to credit institutions	540 185	48 861	62 920	72 072	105 699	10 120	1 228	841 085
Loans to the public	199 328	154 864	168 628	51 867	6 967	23 716	6 329	611 699
of which companies	*164 605*	*99 729*	*138 018*	*34 245*	*6 890*	*23 608*	*4 930*	*472 025*
of which households	*34 723*	*55 135*	*30 610*	*17 622*	*77*	*108*	*1 399*	*139 674*
Interest-bearing securities eligible as collateral with central banks	86 386	7 139	5	2	-	24 567	819	118 918
Bonds and other interest-bearing securities	40 048	2 122	1 217	-	558	7 048	-	50 993
Other items not broken down by currency	187 180							187 180
Total assets	**1 053 183**	**346 043**	**236 318**	**124 446**	**113 225**	**171 216**	**9 268**	**2 053 699**
Liabilities								
Due to credit institutions	73 583	108 705	8 135	8 763	35 745	16 790	10 014	261 735
Deposits and borrowing from the public	601 802	103 464	64 082	43 708	3 527	20 142	3 110	839 835
of which companies	*239 733*	*82 795*	*42 588*	*23 990*	*2 220*	*18 457*	*2 644*	*412 427*
of which households	*362 069*	*20 669*	*21 494*	*19 717*	*1 308*	*1 684*	*466*	*427 407*
Issued securities	12 147	187 023	913	86	24 649	460 169	31 544	716 531
Subordinated liabilities	8 691	31 223	-	-	-	11 171	-	51 085
Other items not broken down by currency, incl. equity	184 513							184 513
Total liabilities and equity	**880 736**	**430 415**	**73 130**	**52 557**	**63 921**	**508 272**	**44 668**	**2 053 699**
Other assets and liabilities broken down by currency, net		84 447	-163 041	-71 758	-49 268	336 988	35 456	
Net foreign currency position		75	147	131	36	-68	56	377

P40 Related-party disclosures

Claims on and liabilities to related parties	Subsidiaries		Associated companies		Other related parties	
SEK m	2019	2018	2019	2018	2019	2018
Loans to credit institutions	854 999	786 883	-	-	-	-
Loans to the public	1 132	1 131	591	774	-	-
Derivatives	295	1 068	-	-	-	-
Other assets	16 154	10 263	0	43	6	4
Total	**872 580**	**799 345**	**591**	**817**	**6**	**4**
Due to credit institutions	65 577	72 068	-	-	-	-
Deposits and borrowing from the public	9 080	9 159	66	98	724	252
Derivatives	18 028	18 867	0	-	-	-
Subordinated liabilities	0	0	0	-	0	654
Other liabilities	42	126	0	-	11	66
Total	**92 727**	**100 220**	**66**	**98**	**735**	**972**
Contingent liabilities	21 911	28 578	-	-	7 461	6 904
Derivatives, nominal amount	368 435	372 757	-	-	-	-

Related parties – income and expenses	Subsidiaries		Associated companies		Other related parties	
SEK m	2019	2018	2019	2018	2019	2018
Interest income	5 771	3 472	7	8	0	0
Interest expenses	-540	-268	0	0	-16	-72
Fee and commission income	0	0	0	0	-	-
Fee and commission expenses	0	0	-55	-248	0	-
Net gains/losses on financial items at fair value	0	0	0	0	-	-
Other income	2 521	1 805	0	1	18	19
Other expenses	-376	-308	0	-54	-	-
Total	**7 376**	**4 701**	**-48**	**-293**	**2**	**-53**

Note P16 contains a specification of subsidiaries and associated companies. The associated companies' operations comprise various types of services related to the financial markets. The following companies are included in the group of other related parties: Svenska Handelsbankens Pensionsstiftelse (pension foundation), Svenska Handelsbankens Personalstiftelse (staff foundation) and Pensionskassan SHB, Försäkringsförening (pension fund). These companies use Svenska Handelsbanken AB for normal banking and accounting services. Disclosures concerning shareholders' contributions to Group and associated companies are provided in note P16.

The pension fund's commitments to the employees of subsidiaries are guaranteed by the parent company, so if the pension fund cannot pay its commitments, the parent company is liable to take over and pay the commitment. The pension fund's obligations are SEK 7,461m (6,904). Svenska Handelsbanken AB has requested compensation from Svenska Handelsbankens Pensionsstiftelse amounting to SEK 498m (480) regarding pension costs, SEK - m (455) regarding special supplementary pension and from Svenska Handelsbankens Personalstiftelse amounting to SEK 29m (25) for measures to benefit the employees.
Information regarding loans to executive officers, conditions and other remuneration to executive officers is given in note G8.

P41 Recommended appropriation of profits

The Board proposes a dividend of SEK 5,50 per share (SEK 5.50 for 2018). The Board's recommended appropriation of profits is shown on page 189.

P42 Share information

31 December 2019 Share class	Number	% of capital	% of votes	Share capital	Quotient value
Class A	1 944 777 165	98.22	99.82	3 014 404 605	1.55
Class B	35 251 329	1.78	0.18	54 639 560	1.55
	1 980 028 494	**100.00**	**100.00**	**3 069 044 165**	

P43 Events after the balance sheet date

No significant events have occurred after the balance sheet date.

P44 Capital adequacy

The Handelsbanken Group's capital adequacy is described in note G49. Specific disclosures regarding capital adequacy for the parent company are presented below.
For definitions, please refer to page 254.
In 2019, the Bank reported on the capital requirement as at 31 December 2018 to the Swedish Financial Supervisory Authority as regards certain shares in subsidiaries. These are now reported according to the standardised approach, with a risk weight of 100%, compared to the previous risk weight of 370% under the IRB approach. The capital ratios as at 31 December 2018 have been updated to account for the effects of this change.

Presentation in accordance with the requirements of Commission Implementing Regulation (EU) No 1423/2013. Excluded rows are deemed not relevant for Handelsbanken at present.

Transitional own funds		2019			2018	
SEK m		Amount at disclosure date	Amounts subject to preregulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013	Regulation (EU) No 575/2013 article reference	Amount at disclosure date	Amounts subject to preregulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
	Common equity tier 1 capital: instruments and reserves					
1	Capital instruments and the related share premium accounts	11 827		26 (1), 27, 28, 29, EBA list 26 (3)	8 177	
	of which: share capital	*11 827*		*EBA list 26 (3)*	*8 177*	
	of which: convertible securities			*EBA list 26 (3)*		
2	Retained earnings	98 702		26 (1) (c)	95 457	
3	Accumulated other comprehensive income (and any other reserves, to include unrealised gains and losses according to the applicable accounting standards)	4 758		26 (1)	3 539	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	4 758		26 (2)	3 161	
6	**Common equity tier 1 (CET1) capital before regulatory adjustments**	**120 045**			**110 334**	
	Common equity tier 1 (CET1) capital: regulatory adjustments					
7	Additional value adjustments (negative amount)	-131		34, 105	-193	
8	Intangible assets (net of related tax liability) (negative amount)	-3 044		36 (1) (b), 37	-2 514	
11	Fair value reserves related to gains or losses on cash flow hedges	-1 940		33 (1) (a)	-564	
12	Negative amounts resulting from the calculation of expected loss amounts	-2 060		36 (1) (d), 40, 159	-2 453	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-		33 (1) (b)	-	
15	Defined-benefit pension fund assets (negative amount)	-		36 (1) (e), 41	-	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-527		36 (1) (f), 42	-508	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79	-	
20a	Exposure amount of the following items which qualify for a RW of 1,250%, where the institution opts for the deduction alternative	-20		36 (1) (k)		
20c	*of which: securitisation positions (negative amount)*	*-20*		*36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258*		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-		36 (1) (c), 38, 48 (1) (a)	-	
22	Amount exceeding the 15% threshold (negative amount)	-		48 (1)	-	
23	*of which: direct and indirect holdings by the institution of CET1 instruments of financial sector entities where the institution has significant investments in those entities*	-		*36 (1) (i), 48 (1) (b)*	-	
25	*of which: deferred tax assets arising from temporary differences*	-		*36 (1) (c), 38, 48 (1) (a)*	-	
25a	Losses for the current financial year (negative amount)	-		36 (1) (a)	-	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-		36 (1) (l)	-	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-		36 (1) (j)	-	
28	**Total regulatory adjustments to Common equity tier 1 (CET1)**	**-7 722**			**-6 232**	
29	**Common equity tier 1 (CET1) capital**	**112 323**			**104 102**	

P44 Cont.

Transitional own funds		2019			2018	
SEK m		Amount at disclosure date	Amounts subject to preregulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013	Regulation (EU) No 575/2013 article reference	Amount at disclosure date	Amounts subject to preregulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
	Additional tier 1 (AT1) capital: instruments					
30	Capital instruments and the related share premium accounts	15 819		51, 52	10 701	
32	*of which: classified as liabilities under applicable accounting standards*	*15 819*			*10 701*	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	-		486 (3)	2 352	2 352
36	**Additional tier 1 (AT1) capital before regulatory adjustments**	**15 819**			**13 053**	
	Additional tier 1 (AT1) capital: regulatory adjustments					
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-		52 (1) (b), 56 (a), 57	-400	-400
40	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-		56 (d), 59, 79	-	
42	Qualifying (T2) deductions that exceed the T2 capital of the institution (negative amount)	-		56 (e)	-	
43	**Total regulatory adjustments to Additional tier 1 (AT1) capital**	**0**			**-400**	
44	**Additional tier 1 (AT1) capital**	**15 819**			**12 653**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**128 142**			**116 755**	
	Tier 2 (T2) capital: instruments and provisions					
46	Capital instruments and the related share premium accounts	18 639		62, 63	33 704	
50	Credit risk adjustments	0			0	
51	**Tier 2 (T2) capital before regulatory adjustments**	**18 639**			**33 704**	
	Tier 2 (T2) capital: regulatory adjustments					
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0		63 (b) (i), 66 (a), 67	-15 379	
55	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-1 129		66 (d), 69, 79	-1 129	
57	**Total regulatory adjustments to tier 2 (T2) capital**	**-1 129**			**-16 508**	
58	**Tier 2 (T2) capital**	**17 510**			**17 196**	
59	**Total capital (TC = T1 + T2)**	**145 652**			**133 951**	
60	**Total risk weighted assets**	**556 251**			**555 731**	
	Capital ratios and buffers					
61	Common equity tier 1 capital (as a percentage of total risk exposure amount)	20.2		92 (2) (a)	18.7	
62	Tier 1 (as a percentage of total risk exposure amount)	23.0		92 (2) (b)	21.0	
63	Total capital (as a percentage of total risk exposure amount)	26.2		92 (2) (c)	24.1	
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer) expressed as a percentage of total risk exposure amount)	4.5		CRD 128, 129, 130	4.1	
65	*of which: capital conservation buffer requirement*	*2.5*			*2.5*	
66	*of which: countercyclical buffer requirement*	*2.0*			*1.6*	
67	*of which: systemic risk buffer requirement*	*0.0*			*0.0*	
67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	*0.0*		*CRD 131*	*0.0*	
68	Common equity tier 1 capital available to meet buffers (as a percentage of risk exposure amount)	15.7		CRD 128	14.2	

P44 Cont.

Transitional own funds		2019			2018	
SEK m		Amount at disclosure date	Amounts subject to preregulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013	Regulation (EU) No 575/2013 article reference	Amount at disclosure date	Amounts subject to preregulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
	Capital ratios and buffers					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0		36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70	0	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-		36 (1) (i), 45, 48	-	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0		36 (1) (c), 38, 48	-202	
	Applicable caps on the inclusion of provisions tier 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-		62	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	1 504		62	1 405	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-		62	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	2 226		62	2 314	
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)					
80	Current cap on CET1 instruments subject to phase out arrangements	-		484 (3), 486 (2) and (5)	58	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-		484 (3), 486 (2) and (5)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-		484 (4), 486 (3) and (5)	2 445	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-		484 (4), 486 (3) and (5)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-		484 (5), 486 (4) and (5)	1 481	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-		484 (5), 486 (4) and (5)	-	

P44 Cont.

EU OV1 – Overview of risk-weighted exposure amounts

SEK m			RWAs 2019	RWAs 2018[1]	Minimum capital requirements 2019
	1	Credit risk (excluding CCR)[1]	480 052	485 428	38 404
Article 438(c)(d)	2	Of which the standardised approach	120 172	112 108	9 614
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	41 395	46 138	3 312
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	161 468	171 461	12 917
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	157 017	155 721	12 561
Article 107 Article 438(c)(d)	6	CCR	11 371	12 603	910
Article 438(c)(d)	7	Of which mark to market	11 359	12 598	909
Article 438(c)(d)	8	Of which original exposure			
	9	Of which the standardised approach			
	10	Of which internal model method (IMM)			
Article 438(c)(d)	11	Of which risk exposure amount for contributions ot the default fund of a CCP	12	5	1
Article 438(c)(d)	12	CVA	4 114	5 218	329
Article 438 e	13	Settlement risk	9	0	1
Article 449(o)(i)	14	Securitisation exposures in the non-trading book (after the cap)	-	51	-
	15	Of which IRB approach		51	
	16	Of which IRB supervisory formula approach (SFA)			
	17	Of which internal assessment approach (IAA)			
	18	Of which standardised approach			
Article 438 e	19	Market risk	17 575	9 765	1 406
	20	Of which the standardised approach	17 575	9 765	1 406
	21	Of which IMA			
Article 438 e	22	Large exposures			
Article 438(f)	23	Operational risk	43 130	42 666	3 450
	24	Of which basic indicator approach			
	25	Of which standardised approach	43 130	42 666	3 450
	26	Of which advanced measurement approach			
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)			
Article 500	28	Floor adjustment			
	29	**Total**	**556 251**	**555 731**	**44 500**

[1] Non-credit-obligation assets are reported under the foundation IRB approach.
[2] The risk weight floor for Swedish mortgage loans is reported under the advanced IRB approach.
In 2019, the Bank reported on the capital requirement as at 31 December 2018 to the Swedish Financial Supervisory Authority as regards shares in subsidiaries. These are now reported according to the standardised approach, with a risk weight of 100%, compared to the previous risk weight of 370% under the IRB approach. The risk-weighted exposure amount is thus reduced by SEK 69,250m.

EU MR1 – Market risk under the standardised approach

	2019		2018	
	a	b	a	b
SEK m	REA	Capital requirements	REA	Capital requirements
Outright products				
Interest rate risk	8 130	651	9 552	764
of which general risk	*6 923*	*554*	*7 888*	*631*
of which specific risk	*1 207*	*97*	*1 664*	*133*
Equity risk	43	3	84	7
of which general risk	*12*	*1*	*27*	*2*
of which specific risk	*30*	*2*	*54*	*5*
of which CIUs	*1*	*0*	*3*	*0*
Foreign exchange risk	9 312	745	-	-
Commodity risk	54	4	85	7
Options				
Scenario approach	36	3	43	3
of which interest rate risk	*3*	*0*	*4*	*0*
of which equity risk	*33*	*3*	*39*	*3*
of which foreign exchange risk	-	-	-	-
of which commodity risk	-	-	*0*	*0*
Securitisation (specific risk)	-	-	-	-
Settlement risk	9	1	1	0
Total	**17 584**	**1 407**	**9 765**	**781**

P44 Cont.

Credit risk exposures approved for IRB approach[1]	Exposure amount		Risk-weighted exposure amount		Capital requirement		Average risk weight, %	
SEK m	2019	2018	2019	2018	2019	2018	2019	2018
Sovereign exposures	**320 165**	**338 024**	**4 882**	**5 288**	**391**	**423**	**1.5**	**1.6**
Corporate exposures	**521 798**	**543 569**	**157 478**	**171 687**	**12 598**	**13 735**	**30.2**	**31.6**
Corporate lending	513 289	533 519	154 874	168 701	12 390	13 496	30.2	31.6
of which other lending, IRB approach without own estimates of LGD and CCF	*102 649*	*116 583*	*29 766*	*33 721*	*2 381*	*2 698*	*29.0*	*28.9*
of which other lending, IRB approach with own estimates of LGD and CCF	*410 640*	*416 936*	*125 108*	*134 980*	*10 009*	*10 798*	*30.5*	*32.4*
of which large corporates	*129 196*	*142 949*	*46 500*	*52 874*	*3 720*	*4 230*	*36.0*	*37.0*
of which medium-sized companies	*53 879*	*51 024*	*25 885*	*27 091*	*2 071*	*2 167*	*48.0*	*53.1*
of which property companies	*227 565*	*222 963*	*52 723*	*55 015*	*4 218*	*4 401*	*23.2*	*24.7*
Counterparty risk	8 509	10 050	2 604	2 986	208	239	30.6	29.7
Housing co-operative associations	**25 690**	**24 861**	**3 412**	**3 873**	**273**	**310**	**13.3**	**15.6**
Retail exposures	**159 205**	**159 262**	**27 275**	**28 252**	**2 182**	**2 260**	**17.1**	**17.7**
Private individuals	141 799	141 311	20 489	21 795	1 639	1 744	14.4	15.4
of which property loans	*110 561*	*96 137*	*15 653*	*13 353*	*1 252*	*1 068*	*14.2*	*13.9*
of which other	*31 238*	*45 174*	*4 837*	*8 442*	*387*	*676*	*15.5*	*18.7*
Small companies	17 406	17 951	6 786	6 457	543	516	39.0	36.0
Institutional exposures	**57 336**	**77 684**	**14 279**	**14 726**	**1 142**	**1 178**	**24.9**	**19.0**
Lending to institutions	16 227	17 123	5 763	5 508	461	441	35.5	32.2
Counterparty risk	41 109	60 561	8 516	9 218	681	737	20.7	15.2
Equity exposures	**42 591**	**42 205**	**157 017**	**155 721**	**12 561**	**12 458**	**368.7**	**369.0**
of which listed equities	*712*	*545*	*2 064*	*1 581*	*165*	*126*	*290.0*	*290.0*
of which other equities	*41 879*	*41 660*	*154 953*	*154 140*	*12 396*	*12 331*	*370.0*	*370.0*
Non-credit-obligation asset exposures	**760**	**741**	**760**	**741**	**61**	**59**	**100.0**	**100.0**
Securitisation positions	**-**	**22**	**-**	**51**	**-**	**4**	**-**	**229.2**
of which traditional securitisation	-	*22*	-	*51*	-	*4*	-	*229.2*
of which synthetic securitisation	-	-	-	-	-	-	-	-
Total IRB approach	**1 127 545**	**1 186 368**	**365 102**	**380 339**	**29 208**	**30 427**	**32.4**	**32.1**
Risk weight floor, Swedish mortgage loans[2]			**5 975**	**5 331**	**478**	**426**		
Total IRB approach with impact of risk weight floor, Swedish mortgage loans	**1 127 545**	**1 186 368**	**371 077**	**385 670**	**29 686**	**30 853**	**32.9**	**32.5**

[1] In 2019, the Bank reported on the capital requirement as at 31 December 2018 to the Swedish Financial Supervisory Authority as regards shares in subsidiaries. These are now reported according to the standardised approach, with a risk weight of 100%, compared to the previous risk weight of 370% under the IRB approach.
[2] The exposure amount which is affected by the rules for risk weight floor, Swedish mortgage loans is SEK 38,420m at 31 December 2019

Credit risk exposures according to standardised approach[1]	Exposure amount		Risk-weighted exposure amount		Capital requirement		Average risk weight, %	
SEK m	2019	2018	2019	2018	2019	2018	2019	2018
Sovereign and central banks	318	353	0	0	0	0	0	0
Municipalities	-	25	-	5	-	0	-	20.0
Multilateral development banks	274	183	0	0	0	0	0	0
International organisations	-	-	-	-	-	-	-	-
Institutions	827 920	749 317	17 049	13 811	1 364	1 105	2.1	1.8
Corporate	6 562	8 919	6 475	8 828	518	706	98.7	99.0
Retail	4 782	4 100	3 518	3 044	281	244	73.6	74.2
Property mortgages	63 134	51 383	23 254	18 459	1 860	1 477	36.8	35.9
Past due items	276	268	296	279	24	22	107.4	103.8
High risk items	9		13		1		150.0	
Equities	58 477	53 621	67 858	63 002	5 429	5 040	116.0	117.5
of which listed equities	-	-	-	-	-	-	-	-
of which other equities	*58 477*	*53 621*	*67 858*	*63 002*	*5 429*	*5 040*	*116.0*	*117.5*
Other items	2 212	5 300	1 882	4 984	151	399	85.1	94
Total standardised approach	**963 964**	**873 469**	**120 346**	**112 412**	**9 628**	**8 993**	**12.5**	**12.8**

[1] Details of capital requirements for exposure classes where there are exposures.
[2] In 2019, the Bank reported on the capital requirement as at 31 December 2018 to the Swedish Financial Supervisory Authority as regards shares in subsidiaries. These are now reported according to the standardised approach, with a risk weight of 100%, compared to the previous risk weight of 370% under the IRB approach.

P44 Cont.

Minimum requirement for eligible liabilites (MREL)

MREL requirement of total liabilities and own funds (SFS 2015:1016). The minimum requirement of eligible liabilities and own funds is concluded in the Bank's resolution plan according to the resolution authority, SNDO, in consultation with the SFSA. Total liabilities and own funds and MREL requirement are based on third quarter numbers.

SEK m	2019	2018
MREL requirement	105 233	124 589
Eligible liabilities and own funds	330 412	274 883
Total liabilities and own funds	2 170 329	2 268 389

%	2019	2018
MREL requirement as a percentage of total liabilities and own funds	4.8	5.5
Eligible liabilities and own funds as a percentage of total liabilities and own funds	15.2	12.1

LRCom: Leverage ratio common disclosure SEK m	2019	2018
On-balance sheet exposures (excluding derivatives and securities financing transactions)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets)	2 022 617	1 981 319
Asset amounts deducted in determining Tier 1 capital	-7 723	-6 232
Total on-balance sheet exposures (excluding derivatives, securities financing transactions and fiduciary assets)	**2 014 894**	**1 975 087**
Derivative exposures		
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	6 678	8 183
Add-on amounts for potential future exposure associated with all derivatives transactions (mark-to-market method)	29 977	33 835
Exposure determined under original exposure method	-	-
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
Deductions of receivables assets for cash variation margin provided in derivatives transactions	-8 466	-5 418
Exempted central counterparty leg of client-cleared trade exposures		
Adjusted effective notional amount of written credit derivatives	5 621	5 774
Adjusted effective notional offsets and add-on deductions for written credit derivatives	-116	-23
Total derivative exposures	**33 694**	**42 351**
Securities financing transaction exposures		
Gross securities financing transaction assets (with no recognition of netting), after adjusting for sales accounting transactions	16 010	12 679
Netted amounts of cash payables and cash receivables of gross securities financing transaction assets		-
Counterparty credit risk exposure for securities financing transaction assets	3 553	3 850
Derogation for securities financing transactions: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	-
Agent transaction exposures	-	-
Exempted central counterparty leg of client-cleared securities financing transaction exposures	-	-
Total securities financing transaction exposures	**19 563**	**16 529**
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	495 337	517 183
Adjustments for conversion to credit equivalent amounts	-306 790	-335 815
Other off-balance sheet exposures	**188 547**	**181 368**
Exempted exposures		
Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)	-736 853	-699 237
Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	-	-
Capital and total exposures		
Tier 1 capital	128 142	116 755
Total leverage ratio exposures	1 519 846	1 516 098
Leverage ratio		
Leverage ratio	8.43%	7.70%
Choice on transitional arrangements and amount of derecognised fiduciary items		
Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
Amount of derecognised fiduciary items in accordance with Article 429 (13) of Regulation (EU) No 575/2013		-

In 2019, the Bank reported on the capital requirement as at 31 December 2018 to the Swedish Financial Supervisory Authority as regards shares in subsidiaries. These are now reported according to the standardised approach, with a risk weight of 100%, compared to the previous risk weight of 370% under the IRB approach. A consequence of this is that own funds are affected, which impacts the leverage ratio.

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures SEK m	2019	2018
Total assets as per published financial statements	2 079 505	2 053 699
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation		-
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013		-
Adjustments for derivative financial instruments	-8 146	-16 735
Adjustments for securities financing transactions (SFTs)	3 553	3 850
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	188 547	181 368
Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013	-736 852	-699 237
Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013	-	-
Other adjustments	-6 761	-6 847
Total leverage ratio exposure	**1 519 846**	**1 516 098**

Signatures of the Board and the Group Chief Executive

We hereby declare that the consolidated accounts were prepared in accordance with international financial reporting standards as referred to in the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, that the parent company's annual accounts were prepared in accordance with sound accounting practices for stock market companies, that the annual accounts and consolidated accounts give a fair presentation of the Group's and the parent company's financial position and performance, and that the statutory administration report provides a fair view of the parent company's and Group's operations, financial position and performance and describes material risks and uncertainties to which the parent company and other companies in the Group are exposed.

STOCKHOLM, 4 FEBRUARY 2020

Pär Boman
Chairman of the Board

Fredrik Lundberg
Vice Chairman

Jon Fredrik Baksaas
Board Member

Hans Biörck
Board Member

Kerstin Hessius
Board Member

Jan-Erik Höög
styrelseledamot

Ole Johansson
Board Member

Lise Kaae
Board Member

Bente Rathe
Board Member

Charlotte Skog
Board Member

Carina Åkerström
President and Group Chief Executive

Auditor's report

To the general meeting of the shareholders of Svenska Handelsbanken AB (publ), corporate identity number 502007-7862

Report on the annual accounts and consolidated accounts

Opinions
We have audited the annual accounts and consolidated accounts of Svenska Handelsbanken AB (publ) for the year 2019 with the exception of the sustainability report on pages 43–61. The annual accounts and consolidated accounts of the company are included on pages 6– 237 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the parent company as of December 31, 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of December 31, 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for opinions
We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

KEY AUDIT MATTERS
Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Provision for expected credit losses
Detailed information and description of the area is presented in the annual accounts and consolidated accounts. Credit risk exposure and how it is handled is described in note G2 on page 99. The Group's reported expected credit losses are specified in note G10. Information concerning the parent company is presented in note P2 and P10. Regarding the area relevant accounting policies for the group, these can be found in note G1, section 10 on page 88. Note P1 shows that the accounting principles of the parent company concerning credit granting and provision for expected credit loss corresponds with the accounting principles of the group.

Description of audit matter
As of 31 December, 2019 lending to the public amounts to 2 292 603 (620 175) SEK m for the group (parent) which amount to 75 (30) % of total assets. The total credit risk exposure, including off-balance commitments, amounts to 3 380 472 (2 522 132) SEK m. Provision for expected credit losses on lending to the public amounts to 4 568 (3 731) SEK m for which 801 (406) SEK m is based on model based calculations (Stages 1 and 2) and 3 767 (3 325) SEK m is based on manual calculations (Stage 3). The Bank performs adjustments on the model based calculations in Stages 1 and 2 to take into consideration factors which is not accounted for in the model.

Expected credit losses shall be measured in a way that reflects an unbiased and probably weighted amount that is determined by evaluating a range of possible outcomes and is based on past events, current conditions and forecasts of economic conditions. To make the provision the Bank is required to make estimates and assumptions regarding for example criteria to identify a significant increase in credit risk and methods to calculate expected credit losses. Due to the complexity of the calculation and that it requires the Bank to make estimates and assumptions provisioning for expected credit losses is considered a key audit matter.

How this matter has been considered in the audit
We have assessed whether the Bank's assessment of probability of default, loss given default, exposure at default and expected credit loss as well as significant increase in credit risk is in accordance with IFRS 9.

We have tested the design and efficiency of key controls in both the credit process and credit decisions, credit review, rating classification as well as identifying and determining credits to be in default. We have also tested controls relating to input to model data and the general IT-controls including the handling of authorization regarding these systems. Our assessment is that we can rely on controls when performing in our audit.

Furthermore, we have on a sample basis challenged the Bank's initial and current credit rating. We have tested that data used from supporting systems used in the model is complete and accurate. We have reviewed and assessed the model including the assumptions and parameters as well as assessed the outcome of the model validations which has been performed and reviewed the reasonableness of the macroeconomic data used. We have reviewed the reasonableness in the manual adjustments performed by the Bank. In our audit we have used our internal model specialists to support us when performing the audit procedures.

We have also assessed the disclosures in the financial statements regarding credit risk are appropriate.

Fair value measurement of financial instrument with no market prices available

Detailed information and description of the key audit matter is provided in the annual accounts and consolidated accounts. Financial instruments measured at fair value are described in note G40 for the group and P35 for the parent company. Relevant accounting principles for the group are described in note G1, section 9 on page 88. Note P1 shows that the parent company's accounting principles for financial instruments measured at fair value is consistent with the group's accounting principles.

Description of audit matter

The Bank has financial instruments where market price is missing, thus fair value is determined using valuation models based on market data. These financial instruments are categorized as level 2 under IFRS fair value valuation hierarchy. Also, Svenska Handelsbanken has, to some extent, financial instruments whose valuation to fair value is determined using valuation models for which the value is affected by the input data that cannot be verified by external market data. These financial instruments are categorized as level 3 under IFRS fair value valuation hierarchy.

The group (parent company) has financial assets and financial liabilities in level 2 of 49 331 (70 137) SEK m and 24 308 (41 511) SEK m respectively. Financial assets and liabilities in level 3 amounts to 1 870 (1 814) SEK m and 563 (563) SEK m respectively.

The main part of the financial instruments in level 2 is made out of derivative contracts, among them interest rate swaps and various types of linear currency derivatives, and business bonds. Corporate bonds and derivative contracts in level 2 are valued by valuation models based on market rates and other market prices. Financial instruments in level 3 primarily consist of unlisted shares in joint ventures, investments in the insurance business as well as certain derivative contracts valued by non-observable data. Due to the complexity when calculating and as it requires the Bank to make assessments valuation of financial instruments with no market prices are deemed to be a key audit matter.

How this matter has been considered in the audit

We have assessed whether the Banks method for valuating financial instruments with no market prices available including the classification in the valuation hierarchy is in accordance with IFRS 13.

We have tested the key controls in the valuation process, including the bank's assessment and approving of assumptions and methods used in model-based calculation, control of data quality as well as handling of change regarding internal valuation models. We have also tested the general IT-controls including the handling of authorization regarding these systems. Our assessment is that these key controls are designed, implemented and operative effective and hence we have determined that we can rely on these key controls in our audit.

Further, we have evaluated the methods and assumptions made when valuating financial instruments with no market prices available. We have compared the valuation models with valuation guidelines and appropriate industry practice. We have compared assumptions and price sources and examined any significant deviations. We have also checked the accuracy of the estimations by conducted sample tests and performed our own independent valuations. We have engaged our internal valuation specialists to support us when performing our audit procedures.

We have also assessed the disclosures in the financial statements regarding valuation of financial instruments to fair value are appropriate.

Other information than annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-5 and 242-256. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or mistake.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or mistake, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or mistake and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions
In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Svenska Handelsbanken AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions
We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and Managing Director
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility
Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor´s opinion regarding the statutory sustainability report
The Board of Directors is responsible for the statutory sustainability report on pages 43–61, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor´s opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Ernst & Young AB, Jakobsbergsgatan 24, 111 24 Stockholm, was appointed auditor of Svenska Handelsbanken AB by the general meeting of the shareholders on the March 27, 2019 and has been the company's auditor since April 28, 1998.

PricewaterhouseCoopers AB, Torsgatan 21, 113 97 Stockhom, was appointed auditor of Svenska Handelsbanken AB by the general meeting of the shareholders on March 27, 2019 and has been the company's auditor since March, 29 2017.

Stockholm February 12, 2020

Ernst & Young AB	PricewaterhouseCoopers AB
Jesper Nilsson Auktoriserad revisor	Johan Rippe Auktoriserad revisor

Auditor's Limited Assurance Report on Svenska Handelsbanken AB (publ)'s Sustainability Report and the Statutory Sustainability Report

This is the translation of the auditor's report in Swedish.

To Svenska Handelsbanken AB (publ), corporate, identity number 502007-7862

INTRODUCTION

We have been engaged by the Board of Directors of Svenska Handelsbanken AB (publ) (Handelsbanken) to undertake a limited assurance engagement of Handelsbanken´s Sustainability Report for the year 2019 on pages 43–61 in Handelsbanken's annual report and the separate Sustainability Report on pages 4–72 for the year 2019. We refer to these publications collectively as the "Sustainability Report".

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE EXECUTIVE MANAGEMENT FOR THE SUSTAINABILITY REPORT

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, which are explained on page 70 in the separate Sustainability Report and are the parts of the Sustainability Reporting Guidelines published by GRI (The Global Reporting Initiative) that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or mistake.

RESPONSIBILITIES OF THE AUDITOR

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed and provide an opinion on the statutory sustainability report.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial information, with the application of RevR 6 Assurance of Sustainability Reports issued by FAR. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in scope than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards. The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Handelsbanken´s in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

Consequently, the procedures performed as part of a limited review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our procedures performed in the limited assurance engagement are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

CONCLUSIONS

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

Stockholm, 12 February 2020

Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Marianne Förander
Expert Member of FAR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Jokkmokk **Johan Larsson**
Järpen **Jenny Strand**
Järvsö **Mikael Stridh**
Kalix **Maria Mörk**
Kiruna **Lisbeth Aidanpää**
Kramfors **Thomas Kassman**
Krokom **Henrik Lindqvist**
Kvissleby **Niclas Södergren**
Liden **Erik Martinsson**
Lit **Henrik Lindqvist**
Ljusdal **Mikael Stridh**
Luleå
  Gammelstad **Fredrik Karlsson**
  Storgatan **Jimmy Vikström**
Lycksele **Anna Karin Öhnerud**
Matfors **Per Pettersson**
Nordanstig **Rose-Marie Hildingsson**
Nordingrå **Thomas Kassman**
Nordmaling **Mats Hållberg,** Acting
Norsjö **Anna Karin Öhnerud**
Pajala **Maria Grym**
Piteå **Stefan Uddström**
Ramsele **Sofia Bodin**
Robertsfors **Gustav Hansson**
Råneå **Fredrik Karlsson**
Skellefteå **Ulrika Sehlstedt,** Acting
Skönsberg **Per Pettersson**
Sollefteå **Sofia Bodin**
Storuman **Anna-Karin Öhnerud**
Strömsund **Lars-Erik Olsén**
Sundsvall **Owe Sundin**
Sveg **Jörgen Andersson**
Svenstavik **Bengt Nilzén**
Sävar **Alexander Bagrov,** Acting
Timrå **Erik Martinsson**
Ullånger **Thomas Kassman**
Umeå
  City **Anders Sundström**
  Teg **Alexander Bagrov,** Acting
  Västra **Henrik Lundström**
Vilhelmina **Thomas Rönnberg**
Vindeln **Sofie Jakobsson**
Vännäs **Sofie Jakobsson**
Ånge **Per Stålhandske**
Åre **Jenny Strand**
Åsele **Thomas Rönnberg**
Älvsbyn **Katarina Rutberg**
Örnsköldsvik **Kari Pessa**
Östersund **Petter Dahlin**
Övertorneå **Maria Grym**

Meeting places
Arvidsjaur
  Malå **Therese Scott**
  Sorsele **Therese Scott**
Övertorneå
  Överkalix **Maria Grym**

HANDELSBANKEN CENTRAL SWEDEN

Board
Ulf Bergkvist Insjön, Chair
Torsten Engwall Gävle
Peter Larson Gävle
Monica Oldenstedt Västerås
Arne Skoglund Uppsala
Morgan Särnblad Orsa, (E)*
Pontus Åhlund Gävle

Head
Pontus Åhlund Gävle

Branch/branch manager
Alfta **Annika Wikström**
Arboga **Larry Andersson**
Avesta **Andreas Borgefors**
Bergby **Anna Ternstedt**
Bollnäs **Anna Ekström**
Borlänge **Henrik Bergenström**
Bålsta **Susanne Lund**
Edsbyn **Annika Wikström**
Enköping **Lars Olsson**
Eskilstuna **Johan Gustavsson**
Fagersta **Sara Runeberg**
Falun **Henrik Ragnarsson**
Fjugesta **Anders Hedvall**
Flen **Robert Dalhammer**
Frövi **Mikael Jansson**
Gagnef **Anders Rehn**
Grängesberg **Andreas Byrén**
Gävle City **Svante Larsson**
Hallsberg **Mats Kagerup**
Hallstavik **Catarina Lyshag**
Hedemora **Jonas Lund**
Hedesunda **Erik Mattsson**
Insjön **Jenny Åkerström**
Katrineholm **Robert Dalhammer**
Kilafors **Pernilla Flink Westh**
Knivsta **Agneta Sturesson**
Kolbäck **Niklas Johansson**
Kopparberg **Lena Ragnarsson Vöks**
Kumla **Michael Johnsson**
Kungsör **Marco Crantz**
Köping **Anette Holmsten**
Leksand **Anders Ekström**
Lima **Camilla Enqvist**
Lindesberg **Maria Ekdahl**
Ludvika **Andreas Abraham**
Malung **Fredrik Hallkvist**
Mora **Jürgen Smolle**
Norberg **Håkan Bjurling**
Norrtälje **Mats Sagström**
Ockelbo **Johan Björk**
Orsa **Anette Skoglund**
Pålsboda **Mats Kagerup**
Rimbo **Helena Kolström**
Rättvik **Magnus Johansson**
Sala-Heby **Helen Emnerud Wilhelmsson**
Sandviken **Fredrik Nordkvist**
Sigtuna **Jonas Wåhlstedt**
Skinnskatteberg **Petter Andersson,** Acting
Skultuna **Terese Ahl Lejderud**
Skutskär **Magnus Sjökvist**
Skärplinge **Susanne Kontturi**
Stora Tuna **Susanne Jansson**
Storvik **Jonas Thunman**
Strängnäs **Katharina Schramm Hellmark**
Säter **Patrik Nylén**
Söderhamn **Thomas Frykberg**
Tierp **Anders Estman**
Torsåker **Pernilla Strömberg**
Uppsala
  Boländerna **Magnus Ternstedt**
  City **Micael Lindström**
  Luthagen **Ann-Sofie Sivander**
  Rosendal **Kristina Carlsson**
Vansbro **Fredrik Hallqvist**
Västerås
  City **Therese Massaro**
  Emausgatan **Terese Ahl Lejderud**
  Köpingsvägen **Mats Söderlund**
  Östermälarstrand **Marie Strandberg,** Acting
Örebro
  Drottningparken **Anders Forsgren**
  Ekersgatan **Kristina Dahl**
  Stortorget **Kenneth Vallin**
Österbybruk **Ann Robertsson**
Östervåla **Thomas Forsgren**
Östhammar **Anna Lydell Bjälmén**

Meeting places
Hallsberg
  Askersund **Mats Kagerup**
Knivsta
  Alsike **Agneta Sturesson**
Lindesberg
  Nora **Maria Ekdahl**
Lima
  Sälen **Camilla Enqvist**
Mora
  Älvdalen **Jürgen Smolle**
Sala-Heby
  Heby **Helen Emnerud Wilhelmsson**
Strängnäs
  Mariefred **Katharina Schramm Hellmark**

(E)*= employee representative

HANDELSBANKEN STOCKHOLM

Board

Ulf Lundahl Lidingö, Chair
Johnny Alvarsson Hägersten
Ingalill Berglund Solna
Katarina Martinson Stockholm
Lena Renström Stockholm, (E)*
Michael Green Stockholm

Head

Michael Green Stockholm

Branch/branch manager

Alviks Torg **Malin Meijer**
Arbetargatan **Ulrika Staffas Nordqvist**
Brommaplan **Charlotta Hallqvist Lindström**
Dalarö **Anna Brannefalk**
Djursholm **Fredrik Enander**
Ekerö **Patrik Lönnstad**
Farsta **Camilla Sandgren Esgård**
Gamla Stan **Linda Unger**
Globen **Lena Stenmark**
Gnesta **Asta Beyerl**
Gustav Adolfs Torg **Anders Lindegren**
Gärdet **Petra Wahlberg**
Götgatsbacken **Anna Andersson**
Hammarby **Sara Hellström**
Haninge **Maria Sjöstedt**
Hemse **Helena Leoj**
Hornsberg **Marika Hedblom**
Hornsgatan **Tommie Jonsson**
Huddinge **Helene Ferlin,** Acting
Humlegården **AnneMarie Dahlstedt**
Hägersten **Sofia Eldebrink**
Hässelby Gård **Sofie Ehrström**
Högalid **Mårten Larsson**
Jakobsberg **Tobias Grundell**
Järna **Anna Zickert Söderström**
Karlaplan **Cecilia Carlberg**
Karlavägen **Eric Markne Lartén**
Kista **Hans Lundin**
Kungsholmstorg **Anders Friman**
Kungsträdgården **Johan Palm**
Kungsängen **Karin Åkerblom Lingois**
Kärrtorp **Jessica Nirvin**
Lidingö
  Centrum **Mikael Gustafson**
  Larsberg **Mikael Gustafson,** Acting
Marieberg **Lotta Adestam**
Marievik **Nahir Oussi**
Märsta **Johanna Estman Larsson**
Mörby Centrum **Daniel Spangenberg**
Nacka Forum **Anki Lenksjö**
Norrmalmstorg **Maria Wedholm**
Nyköping **Jens Fransson**
Nynäshamn **Åsa Wenngren**
Näsby Park **Cecilia Sonntag**
Odengatan **Catarina Thunstedt**
Odenplan **Tommie Jonsson**
Renstiernas Gata **Martin Nordfeldt**
S:t Eriksplan **Jesper Ringblom**
Salem **Malin Cederlund**
Saltsjö-Boo **Johanna Lagerbäck**
Skanstull **Johan Hilmersson**
Skärholmen **Marcus Axelsson**
Slite **Helena Leoj**
Sollentuna **Fredrik Andersson**
Solna
  Arenastaden **Lisa Spangenberg**
  Frösunda **Richard Sköllersten**
  Solna Centrum **Mats Liebgott**
  Solna Strand **Martin Björgell**
Spånga **Agneta Gustafsson**
Stockholm Sergel **Maria Hellberg**
Storgatan **Tommie Jonsson**
Strandvägen **Carl-Magnus Gustafsson**
Stureplan **Peter Sturesson**
Stuvsta **Kristin Elofsson**
Sundbyberg **Jan Larsson**
Sveavägen **Anna Karlsson**
Södertälje **Niclas Landbergsson**
Tessinparken **Lars Eberson**
Torsgatan **Torsten Johansson**
Trosa **Jens Fransson**
Trångsund **Mattias Lindmark**
Tullinge **Kristina Jansenberger**
Tyresö **Kjell Andersson**
Täby Centrum **Johan Grahn**
Upplands Väsby **Carl-Fredrik Boija**
Vallentuna **Stina Andersen**
Vanadisplan **Stina Marklund**
Vasagatan **Christer Örtegren**
Vaxholm **Jennie Widlund**
Visby
  Adelsgatan **Linda Ewald**
  Öster **Carl Oscar Sjöström**
Vällingby **Eric Nolerstedt**
Värmdö **Ulrika Kallur**
Västerhaninge **Mats Nordling**
Åkersberga **Per Karlsson**
Årsta **Linda Norman Monteil**
Älvsjö **Jesper Hellström**
Östermalmstorg **Jan Larsson**
Östra Station **Forrest Humphries**

Meeting places

Gärdet
  Norra Djurgårdsstaden **Petra Wahlberg**
Hemse
  Klintehamn **Helena Leoj**
Slite
  Fårösund **Helena Leoj**

HANDELSBANKEN WESTERN SWEDEN

Board

Claes Larsson Gothenburg, Chair
Peter Claesson Kullavik
Camilla Hansson Alingsås, (E)*
Carin Kindbom Västra Frölunda
Håkan Larsson Gothenburg
Mikael Romert Gothenburg
Vilhelm Schottenius Varberg
M Johan Widerberg Gothenburg
Kina Wileke Gothenburg

Head

Mikael Romert Gothenburg

Branch/branch manager

Ale **Anna-Lisa Jansson**
Alingsås **Jonas Sandberg**
Arvika **Peter Johansson**
Bollebygd **Anders Roos**
Borås
  Borås City **Joakim Antonsson**
  Viared **Caroline Fensby**
Falkenberg **Kristian Gårdenfelt**
Falköping **Andreas Blick**
Filipstad **Martin Olsson**
Gislaved **Per Risberg**
Gothenburg
  Almedal **Anna-Lena Ranhög**
  Avenyn **Veronica Wallin Johansson**
  City **Martin Henriksson**
  Eriksberg **Christian Pennert**
  Frölunda **Patrik Niklasson**
  Första Långgatan **Anders Olausson**
  Gårda **Marie Erlandson**
  Lilla Bommen **Anna Fägersten**
  Lindholmen **Jonas Almhöjd**
  Sisjön **Christian Sjöberg**
  Torslanda **Johan Zachrisson**
  Volvo **Emelie Tisell**
  Örgryte **Linda Hellsten**
  Övre Husargatan **Anna Ekstrand**
Halmstad **Magnus Landbring**
Herrljunga **Ulf Carrick**
Hjo **Niklas Standar**
Huskvarna **Cecilia Antonsson**
Jönköping **Jens Claesson**
Karlskoga **Kristin Pettersson**
Karlstad **Fredrik Ekenberg**
Kristinehamn **Torbjörn Läth**
Kungsbacka **Anders Blomqvist**
Kungälv **Lena Gillholm**
Laholm **Magnus Jurvin**
Landvetter **Anna Lundgren**
Lerum **Annika Eriksson**
Lidköping **Magnus Kvarnmarker**
Lilla Edet **Ann Bengtsson**
Ljungby **Maria Larsson**
Markaryd **Maria Larsson**
Mariestad **Katarina Lindholm**
Mölndal **Johan Martinsson**
Mölnlycke **Lena Uhrlander**
Partille **Sara Larsson**
Skara **Anna-Lena Andersson**
Skövde **Niklas Standar**
Stenungsund **Maria Lager**
Strömstad **Johan Rosengren**
Sunne **Dennis Göransson**
Svenljunga **Therese Ekelund**
Säffle **Stefan Ejnesjö**
Tidaholm **Andreas Blick**
Torsby **Anna Bengtsson**
Tranemo **Therese Ekelund**
Trollhättan **Ingela Karlsson**
Uddevalla **Marie Kaptein**
Ulricehamn **Martin Ekman**
Vaggeryd **Inger Ågren**
Vara **Maj Rudell**
Varberg **Alexander Turesson**
Vårgårda **David Wiklund,** Acting
Vänersborg **Magdalena Gunnarsson**
Värnamo **Jonas Flink**
Åmål **Stefan Ejnesjö**
Årjäng **Peter Johansson**
Älvsborg **Allison Åsblom**

Meeting places

Kungsbacka
  Kungsporten **Anders Blomqvist**

(E)*= employee representative

HANDELSBANKEN SOUTH EAST SWEDEN

Board
Charlotta Falvin Genarp, Chair
Santhe Dahl Växjö
Anders Fagerdahl Malmö
Pia Håkansson Ystad, (E)*
Bengt Kjell Helsingborg
Johan Mattsson Tomelilla
Anders Ohlner Malmö
Sten Peterson Katrineholm
Mikael Roos Malmö

Head
Anders Fagerdahl Malmö

Branch/branch manager
Alvesta **Patrick Carlsson**
Borensberg **Henrik Thörnblad**
Borgholm **Thomas Svensson**
Båstad **Lars-Olof Ottosson**
Eksjö **Anna Gyllenhammar**
Emmaboda **Beatrice Granlöf**
Eslöv **David Möller**
Finspång **Håkan Samuelsson**
Färjestaden **Christin Abrahamsson**
Helsingborg
- Norr **Erik de la Motte**
- Stortorget **Erik de la Motte**

Hultsfred **Marie-Louise Mobelius**
Hässleholm **Jonas Bondesson**
Höganäs **Gunilla Voss**
Högsby **Jonas Petersson**
Höllviken **Cecilia Wahlberg**
Höör **David Möller**
Kalmar **Johan Lorentzon**
Karlshamn **Maria Önell**
Karlskrona **Peter Andersson**
Klippan **Alexandra Paulsson**
Kristianstad **Rebecca Thörnqvist**
Kävlinge **Dag Olsson**
Lammhult **Maj-Lis Pettersson**
Landskrona **Per-Ove Kamlund**
Linköping
- City **Michael Sterne**
- Tornby **Anders Spång**

Lomma **Erik Hultgren**
Lund
- City **Peter Andersson**
- Ideon **Cecilia Leijgård**

Malmö
- City **Erik Bredberg**
- Fosie **Anders Persson**
- Fridhem **Göran Camitz**
- Hyllie **Anders Persson**
- Limhamn **Roger Håkansson**
- Stortorget **Pernilla Hanserup**
- Triangeln **Jonas Darte**
- Öster **Magnus Björk**

Mjölby **Karl Gustafsson**
Motala **Henrik Thörnblad**
Mönsterås **Jonas Petersson**
Norrköping
- Drottninggatan **Cicki Törnell**
- Fjärilsgatan **Marika Ronnerheim**

Nybro **Beatrice Granlöf**
Nässjö **Malin Häggström**
Osby **Fredrik Roghner**
Oskarshamn **Jonas Petersson**
Ronneby **Kati Gidlöf**
Simrishamn **Pontus Hansson Cederberg**
Sjöbo **Thomas Hansson**
Skanör **Maria Hägerström**
Staffanstorp **Mårten Edlund**
Svedala **Isabel Almqvist**
Sävsjö **Jörgen Asp**
Söderköping **Caroline Bragner**
Sölvesborg **Anita Svensson Barba**
Tingsryd **Annelie Johansson**
Tomelilla **Mia Kristell**
Torsås **Johan Lorentzon**
Tranås **Fredrik Lundgren**
Trelleborg **Katerina Bosevska**
Vadstena **Henrik Thörnblad**
Veberöd **Hans-Åke Mårtensson**
Vellinge **Cecilia Wahlberg**
Vetlanda **Jörgen Asp**
Vimmerby **Marie-Louise Mobelius**
Virserum **Malin Zeilon**
Vollsjö **Thomas Hansson**
Västervik **Thomas Rörstrand**
Växjö **Maj-Lis Pettersson**
Ystad **Mia Kristell**
Åhus **Matz Nilsson**
Åseda **Malin Zeilon**
Åtvidaberg **Michael Sterne**
Älmhult **Fredrik Roghner**
Ängelholm **Irene Andersson**

HANDELSBANKEN NORTH WEST UK

The operations are part of Handelsbanken plc.

Board
Mikael Sørensen London,
CEO Handelsbanken UK, Chair
Ingela Forsberg Manchester
Mikael Hallåker Sundbyberg

Head
Ingela Forsberg Manchester

Branch/branch manager
Aberdeen **Neil Clark**
Altrincham **John Burke**
Blackburn **Philip Skupski**
Bolton **Sean Greenhalgh**
Burnley **Phil Skupski**
Bury **Rachel Farnan**
Carlisle **Jason Smith**
Chester **David Barker**
Dundee **Ben Honeyman**
Dunfermline **Jim Donnelly**
Edinburgh
- Charlotte Square **Lesley Dunlop**
- West End **Iain Henderson**

Glasgow
- Finnieston **Gillian Baxter**
- City **David Waddell**

Heswall **Liz Cotton**
Inverness **Hamish Boag**
Kendal **Mike Fell**
Lancaster **Alison Norfolk**
Liverpool
- Duke Street **Stephen Jones**
- Exchange Station **John Williams**

Lytham **Kevin Sanderson**
Manchester
- Barbirolli **Philip Basten**
- Spinningfields **Adam Short**
- Trafford Neil **McLoughlin**
- Trinity Way **Anthony Flynn**

Oldham **Scott Parkinson**
Penrith **Jason Smith**
Preston **Keith Lowe**
Southport **Andrew Pearson**
Stirling **Jim Donnelly**
Stockport **Lisa Dobson**
Warrington **James Barron**
Wigan **Cath Joynt**
Wilmslow **Sarah Hunter**

(E)*= employee representative

HANDELSBANKEN YORKSHIRE & NORTH EAST UK

The operations are part of Handelsbanken plc.

Board

Mikael Sørensen London,
CEO Handelsbanken UK, Chair
Mikael Hallåker Sundbyberg
Suzanne Minifie Leeds

Head

Suzanne Minifie Leeds

Branch/branch manager

Barnsley **Peter Gray**
Beverley **Anna Adcock**
Bradford **Andy Cook**
Castleford **Amy Walker**
Chesterfield **Phil Walker**
Darlington **Sarah Martinson**
Doncaster **Sarah Smith**
Durham **David Allenson**
Gateshead **Brian Foreman**
Grimsby **Di Jones**
Halifax **Andy Cook**
Harrogate **James Cornell**
Hexham **David Wilson**
Huddersfield **Tony Jones**
Hull
  Hesslewood **Tim Kitching**
  Marina Court **Tim Kitching**
Ilkley **Andrew Shakeshaft**
Leeds
  The Embankment **David Brady**
  Lawnswood **Andrew Lowther**
  Wellington Street **Ian Noke**
Middlesbrough **Tom Ramshaw**
Morpeth **David Elliot**
Newcastle upon Tyne **Brian Foreman**
Northallerton **David Thompson**
Rotherham **Claire Ibbotson**
Scarborough **Steve Halliday**
Sheffield
  Barker's Pool **Stephen Tweedle**
  St Paul's **Oliver Dean**
Stockton-on-Tees **John Martinson**
Sunderland **Nicola Boardman**
Tynemouth **Mark Humphreys**
Wakefield **Paul Drysdale**
Wetherby **Sue Toulson**
York **Christopher Ibbotson**

Meeting places

Scunthorpe **Sarah Smith**

HANDELSBANKEN CENTRAL UK

The operations are part of Handelsbanken plc.

Board

Mikael Sørensen London,
CEO Handelsbanken UK, Chair
Mikael Hallåker Sundbyberg
Graham Turner Birmingham

Head

Graham Turner Birmingham

Branch/branch manager

Banbury **Paul Graham**
Bedford **Mick Valerio**
Birmingham
  Newhall St **David Hastings**
  Temple Row **Stephen Ellis**
Bromsgrove **Mark Turner**
Burton-on-Trent **Paul Thacker**
Bury St Edmunds **Martin Fish**
Cambridge
  Milton Road **Paul Smith**
  Hills Road **David Rundle**
Colwyn Bay **Gareth Jones**
Coventry **Andy McCabe**
Crewe **Sharon Wooliscroft**
Derby **Ian Morris**
Edgbaston **Michael Alldread**
Hitchin **Graham Pigott**
Ipswich **Andrew Pike**
Leamington Spa **Dani Coe**
Leicester **John Clay**
Lincoln **John Gell**
Loughborough **Emma Donson**
Luton **Philip Bidwell**
Mansfield **Darryn Evans**
Milton Keynes **Derek Bell**
Northampton **Mark Charteress**
Norwich **Ian Hall**
Nottingham
  Ropewalk **Larick Walker**
  West Bridgford **Ian Davys**
Peterborough **Julian Turner**
Rugby **Brett Salisbury**
Shrewsbury **Lindsay Pearson**
Solihull **Martin Randall**
Stafford **Helen Yates**
Stourbridge **Adam Pearson**
Stratford-upon-Avon **Richard Blount**
Stoke-on-Trent **Steve Cox**
Tamworth **Andrew Mair**
Walsall **Stephen Breen**
Wolverhampton **Paul Jones**
Worcester **Andrew Smith**
Wrexham **Vicky Varley**

HANDELSBANKEN SOUTH WEST UK

The operations are part of Handelsbanken plc.

Board

Mikael Sørensen London,
CEO Handelsbanken UK, Chair
Mikael Hallåker Sundbyberg
Chris Teasdale Bristol

Head

Chris Teasdale Bristol

Branch/branch manager

Abingdon **David Cook**
Ascot **Richard Payton**
Aylesbury **Faisal Khan**
Barnstaple **Barry Lessiter**
Basingstoke **Julie Hurst**
Bath **Simon Cropper**
Bodmin **Leon Sargeant**
Bournemouth **Jeremy Tollworthy**
Bridgend **Illtyd Francis**
Bristol
- Bristol Aztec West **Steve Howell**
- Clifton **Jo Norton**
- Queen Square **Martin Bidgood**

Cardiff **Neil Humphreys**
Cheltenham **Stephanie Hughston**
Chichester **Jonathan Hughes**
Chippenham **Shaun Bradshaw**
Cirencester **Shaun Bradshaw**
Dorchester **Andrew Denning**
Exeter **Jim Durrant**
Farnham **Kevin Heppell**
Frimley **Kenny McColl**
Gloucester **Emma Gray**
Guildford **Richard James**
Henley-on-Thames **Kerry Martin**
Hereford **David Cleaves**
High Wycombe **Sarah Dean**
Newbury **Geoff Dann**
Newport **Craig Wyer**
Oxford
- West Way **Graham Beith**
- Parkway **Bob Wood**

Petersfield **John Gornall**
Plymouth **Darren Edwards**
Poole **Mark Robertson**
Portishead **Steve Carter**
Portsmouth **Phil Dedman**
Reading **Jack Miller**
Salisbury **Graham Renshaw**
Southampton **Andy Taylor**
Swansea **Martin Griffiths**
Swindon **Jon Hemming**
Taunton **Peter Kirby**
Truro **Elizabeth Stansfield**
Wells **Martin Williams**
Winchester **John Gornall**
Windsor **Mark Bradbury**
Yeovil **Andrew Denning**

HANDELSBANKEN LONDON & SOUTH EAST UK

The operations are part of Handelsbanken plc.

Board

Mikael Sørensen London,
CEO Handelsbanken UK, Chair
Mikael Hallåker Sundbyberg
John Hodson London

Head

John Hodson London

Branch/branch manager

Ashford **Andy Davies**
Bishop's Stortford **Stephen Hills**
Brighton **Simon Nicholson**
Bromley **Chris Pye**
Canterbury **Andy Davies**
Chatham **Gavin Coleman**
Chelmsford **Tim Paddon**
Colchester **Russell Felstead**
Crawley **Simon Briggs**
Croydon **Mike O'Neill**
Dartford **Trevor Adams**
Ealing **Chris Ttouli**
Eastbourne **Neil Hooper**
Enfield **Adrian Bennett**
Epsom **Phil Hunt**
Harrow **Anthony Fogden**
Haywards Heath **David Barden**
Hertford **Debbie Chilton**
Hove **Niky Hunt**
Islington **Paul Cooledge**
Kingston **Mark Lobo**
London
- Blackheath **Raff Gallo**
- Chelsea **Steven MacDonald**
- Chiswick **Dermot Jordan**
- Clapham **Jason May**
- Finchley **Steve Smith**
- Hampstead **Matthew Ireland,** Acting
- Holborn **Jonathan Croney**
- Kensington **Steven MacDonald**
- Large Corporates **Toni Virtanen**
- Liverpool Street **Mark Earlam**
- London Bridge **Mark Lilliott**
- Marylebone **Andrew Rowlands**
- Mayfair **Andrew Rowlands**
- Moorgate **Ross Simmons**
- Queen's Park **Chris Ttouli**
- Stratford **Kirti Mistry**
- West End **Roy Budgett**

Maidstone **Jeremy Brett**
Redhill **Clive Martin**
Richmond **Neil Higgs**
Romford **Andy Walker**
Sevenoaks **Nick Brooker**
Southend-on-Sea **Phil Clark**
Staines-upon-Thames **Carol Albert**
St Albans **Bill Whittemore**
Tunbridge Wells **Nick Green**
Watford **Andrew Samarasinghe**
Weybridge **Geoff Harrison**
Wimbledon **Michelle Groome**

Meeting places

London
- Belgravia **Steven MacDonald**

London Blackheath
- Canary Wharf **Raff Gallo**

HANDELSBANKEN NORWAY

The operations are part of Svenska Handelsbanken, Oslo branch.

Board

Bjørn Flatgård Kolbotn, Chair
Linda Bernander Silseth Nesøya
Christer Enersen Slemmestad, (E)*
Ivar Rusdal Egersund
Dag Tangevald-Jensen Oslo
Dag Tjernsmo Oslo

Head

Dag Tjernsmo Oslo

Branch/branch manager

Arendal **Vidar Akselsen**
Asker **Kirsti Jensås**
Bergen
- Fana **Kristian H. Knudsen**
- Fyllingsdalen **Gottlieb Gullaksen**
- Kokstad **Jarle Hundven**
- Minde **Margunn Kolle**
- Sentrum **Geir Flaa**
- Vest **Tore Svein Nese**
- Åsane **Mette Skauge**

Bodø **Tore Halvorsen**
Drammen **Hege Kristiansen**
Fredrikstad **Tove Anita R Torp**
Halden **Espen Lerkerød**
Hamar **Lars Erik Jevanord**
Haugesund **Paal Tollefsen,** Acting
Jessheim **Inger Kyhen**
Kolbotn **Hanne Bjørnå Berntsen**
Kongsberg **Håvard Røed Langerud**
Kristiansand **Vidar Akselsen**
Larvik **Bodil Hansen**
Lillehammer **Thomas Næstad Moe**
Lillestrøm **Helene Molund,** Acting
Lysaker **Glenn Steinbø**
Mo i Rana **Svenn Harald Johannesen**
Molde **Jørund Alme**
Moss **Willy Fossum**
Oslo
- Grev Wedels plass **Thomas B. Tresselt**
- Large Corporates **Harald Søreide**
- Majorstuen **Jannike Johansen**
- Nydalen **Marius Bretteville**
- Olav Vs gate **Eirik Arnesen**
- Bryn **Ole Hellevik**
- Skøyen **Thomas Stousland**
- Økern **Ronny Myreng**

Sandefjord **Hans Jørgen Ormar**
Sandnes **Sindre Bergsagel**
Sandvika **Cecilie Tvedt**
Sarpsborg **Tormod Sørum**
Ski **Geir Anders Sundnes**
Skien **Mårten Jacobsson**
Stavanger
- Sentrum **Rolf Inge Knudsen**
- Straen **Ole Henry Slette**

Tromsø **Raymond Brendeløkken**
Trondheim
- Leangen **Ole-Martin Smedseng**
- Søndregate **Ola Grøtte**

Tønsberg **Arild Gjørvad,** Acting
Ålesund **Steinar Krøvel**

HANDELSBANKEN DENMARK

The operations are part of Svenska Handelsbanken, Copenhagen branch.

Board

CFO **John Vestergaard** Ikast, Chair
Lars Moesgaard Hellerup
Helle Rank Aalborg, (E)*
Sanne Weidner Aarhus
Lise Westphal Copenhagen
Carsten Gørtz Petersen
Højbjerg (Aarhus)

Head

Lars Moesgaard Hellerup

Branch/branch manager

Aalborg
- City **Ole Dahl Nielsen**
- Syd **Kristian Mark Pedersen**

Aarhus
- Aarhus City **Morten Andersen**
- Aarhus Nord **Lars Graugaard**
- Aarhus Syd **Jacob Balling**

Allerød **Jens Karlsson**
Amager **Jakob Pilegaard Hansen**
Aulum **Gerda Kviesgaard**
Ballerup **Flemming Rumler**
Birkerød **Steen Hirschsprung**
Brande **Henrik Overgaard**
Charlottenlund **Michael Petersen**
Copenhagen
- City **Gorm Ejmefors-Bjørkmann**
- Large Corporates **Knud Jacobsen**
- Vest **Jan Arup**
- Østerbro **Martin Wibskov**

Esbjerg **Jan Plantener**
Fredensborg **Kjeld Aunstrup**
Fredericia **Brian Sørensen**
Frederiksberg
- Frederiksberg **Jan Rasmussen**
- Frederiksberg Vest **Carina Falck Hansen**

Frederikssund **Michael Tøgersen**
Frederiksværk **Alan Nielsen**
Furesø **Jeanett Schultz Brix**
Give **Kathrine Vesterager Andersen**
Grindsted **Kathrine Vesterager Andersen**
Hammerum **Vibeke Hestbek**
Helsinge **Mimi Boed**
Helsingør **Michael Hartoft**
Herlev **Morten Rotvit**
Herning
- City **Arnth Stougaard**
- Fredhøj **Bruno Hansen**

Hillerød **Dennis Grouleff**
Holstebro **Helle Bjerre**
Horsens **Martin Skovgaard Larsen**
Hørsholm **Allan Kandrup**
Ikast **Kenneth Kristiansen**
Karup **Kenneth Kristiansen**
Kgs. Lyngby **Preben Bjerrekær**
Kibæk **Nadja Schack Fucke**
Kolding **Carsten Johansen**
Køge **Kasper Bæk**
Lemvig **Poul Bakkegaard**
Lynge **Hatice Bakke**
Odense **Klaus Rydal**
Roskilde **Steen Hansen**
Sdr. Felding **Frank Jensen**
Silkeborg **Stefan Brochmann**
Slagelse **Mette Lund Raagart**
Slangerup **Ida Riisberg Mikkelsen**
Stenløse **Mie Jarman**
Struer **Poul Bakkegaard**
Sunds **Lars Christian Lauth Hansen**
Vejle **Lars Hoffmann**
Viborg **Henrik Toft Mathiasen**
Videbæk **Michael Frisk Sørensen**

(E)*= employee representative

HANDELSBANKEN FINLAND

The operations are part of Svenska Handelsbanken, Helsinki branch.

Board
Tapio Hakakari Hyvinkää, Chair
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Esa Korvenmaa Helsinki
Pirjo Repo Helsinki
Leena Saarinen Helsinki
Pekka Vasankari Vantaa, (E)*

Acting Head
Hanne Katrama Helsinki

Branch/branch manager
Espoo
- Tapiola **Harri Tuohimaa**
- Matinkylä **Juha-Lassi Laisi**

Etelä-Karjala **Arto Valjakka**
Helsinki
- Aleksi **Risto Vihula**
- Pasila **Risto Mäkeläinen**
- Ruoholahti **Outi Vesanto**
- Herttoniemi **Hanna Kuvaja**
- Kamppi **Sami Hoffrén**
- Large Corporates **Riitta Hallila**
- Munkkiniemi **Jarkko Pöysti**

Hyvinkää **Henri Uronen**
Hämeenlinna **Auli Lehtomäki**
Joensuu **Mauri Kujanen**
Jyväskylä **Jesse Järvinen**
Keski-Uusimaa **Ilkka Arenius**
Kokkola **Mikael Wiklund**
Kuopio **Jesse Järvinen,** Acting
Kymenlaakso **Joonas Heinonen**
Lahti **Jaana Repo-Kemppinen**
Mikkeli **Jussi Myllymäki**
Oulu **Jari Itkonen**
Pietarsaari **Jörgen Blomqvist**
Porvoo **Pasi Sirola**
Rovaniemi **Sami Hiltunen**
Satakunta **Lauri Leinonen**
Seinäjoki **Jaana Meritähti**
Tammisaari **Anders Sandbacka**
Tampere
- Kuninkaankatu **Tarja Suvisalmi**
- Kyttälä **Ilari Tyrkkö**

Tornio **Matti Tapio**
Turku
- Kauppatori **Teemu Alanko**
- Kupittaa **Teemu Alanko**

Vaasa **Frej Björses**
Vantaa
- Aviapolis **Mari Govenius**
- Tikkurila **Pauli Ranta**

Meeting places
Kymenlaakso
- Kouvola **Joonas Heinonen**

HANDELSBANKEN THE NETHERLANDS

The operations are part of Svenska Handelsbanken AB, The Netherlands branch.

Board
Göran Stille Stockholm, Chair
Per Jansson Stockholm
Roland van Pooij Driebruggen

Acting Head
Roland van Pooij Driebruggen

Branch/branch manager
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Alphen aan den Rijn **Rens Ramakers**
Amersfoort **Jeroen Ammerdorffer**
Amsterdam
- Amstel **Lars Vissers**
- Centrum **Jasper Klok**
- Zuid **Daniël van Til**

Apeldoorn **Jeroen Altena**
Arnhem **Patricia Schwalbach**
Bergen op Zoom **Jeroen Wiertz**
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Drenthe **Norbert van de Lande**
Eindhoven **Pieter van de Koolwijk**
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Haarlem **Nicole Broersma**
Het Gooi **Laurens de Jong**
Laren **Sharon Peeters**
Leeuwarden **Tammo Oosterhof**
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Rijnmond Zuid **Wim Tieleman**
Roermond **Luc Geisen**
Rotterdam **Riewing van Eerden,** Acting
Schiphol **Caroline Mesters**
's-Hertogenbosch **Nicole van Rijmenam**
Tilburg **Erik de Beer**
Twente **Martijn Peters**
Utrecht **Robert van der Kolk**
Zwolle **Peter Hulsbergen**

Meeting places
Schiphol
- Amstelveen **Sebastiaan van den Berkmortel**

(E)*= employee representative

OUTSIDE THE NORDIC COUNTRIES, THE UK AND THE NETHERLANDS

Operations are conducted in Svenska Handelsbanken with branches in each country.

Estonia
General Manager **Annika Nordström**
Tallinn **Jan Nurminen**

France
General Manager **Peggy Paul**
Nice **Anna Jansson-Clauzier**

China
General Manager **Mikael Westerback**
Hong Kong **David Haqvinsson**
Shanghai **Mikael Westerback**

Latvia
General Manager **Annika Nordström**
Riga **Martins Freibergs**

Lithuania
General Manager **Annika Nordström**
Vilnius **Paulius Zagurskis**

Luxembourg
General Manager **Peggy Paul**

Poland
General Manager **Marzena Zahlin**

Singapore
General Manager **Robert Radway**

Germany
General Manager **Annika Brunnéd**

USA
General Manager **Martin Blåvarg**

REPRESENTATIVE OFFICES

Beijing
Representative **Joakim Hedhill**

Kuala Lumpur
Representative **Abhinash Murukesvan**

Marbella
Representative **Vibeke Toustrup Bonne**

Mumbai
Representative **Ashish Gupta**

Taipei
Representative **Amy Chen**

Zürich
Representative **Andreas Wedar**

BOARDS OF SUBSIDIARIES

ECSTER**
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Eva Eldebrink Strängnäs, (E)*
Benny Johansson Stockholm
Agneta Lilja Drottningholm

Chief Executive Ecster
Yonnie Bergqvist

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Ann Öberg Vaxholm
Ulf Köping-Höggård Lidingö

Chief Executive EFN
Mikaela Strand

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Marie Järvås Hägersten, (E)*
Erik de la Motte Helsingborg

Chief Executive Handelsbanken Finans
Magnus Sternbrink

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Helen Fasth Gillstedt Djursholm
Malin Hedman Björkmo Lidingö
Robert Lundin Stockholm, (E)*
Lars Seiz Antibes, France
Göran Stille Stockholm

Chief Executive Handelsbanken Fonder
Magdalena Wahlqvist Alveskog

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Katarina Berner Frösdal Stockholm
Viveca Classon Stockholm
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Tobias Lindhe Uppsala
Anders Ohlner Malmö

Chief Executive Handelsbanken Liv
Louise Sander

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CFO **Martin Björnberg** London
Non-executive Director **Tanya Castell** Inverness-shire
Non-executive Director **John Ellacott** West Yorkshire
Non-executive Director **Maureen Laurie** East Sussex
Non-executive Director **Agneta Lilja** Drottningholm
CEO **Mikael Sørensen** London

Chief Executive Handelsbanken plc
Mikael Sørensen

OPTIMIX**
Board
Edwin van Essen Almere, Acting Chair
Gert van Wakeren Soest

STADSHYPOTEK**
Board
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Michael Bertorp Stockholm
Mikael Hallåker Sundbyberg
Helena Håkansson Färjestaden, (E)*
Jörgen Nilsson Nacka
Helena Öström Nimander Enebyberg

Chief Executive Stadshypotek
Göran Stille

XACT KAPITALFÖRVALTNING**
Board
Per Beckman Lidingö, Chair
Michael Bertorp Stockholm
Gunnar Båtelsson Sandviken
Maria Lönnqvist Bromma, (E)*
Åsa Magnusson Stockholm
Lena Munkhammar Solna

Chief Executive XACT Kapitalförvaltning
Pär Nürnberg

(E)* = employee representative
** For the complete name of the company, see note P16.

Definitions and explanations

ALTERNATIVE PERFORMANCE MEASURES

The Bank's financial reports contain alternative performance measures which Handelsbanken considers to provide valuable information to the reader, since they are used by executive management for internal financial control and follow-up of performance and also for comparison between reporting periods.

Alternative Performance Measures (APMs) are financial measures of performance, financial position or cash flow that are neither defined in IFRS nor the capital requirement regulations. These need not be comparable with similar key figures (performance measures) presented by other companies. Calculations of certain performance measures are reported in the Fact Book which is available at handelsbanken.com.

ADJUSTED EQUITY PER SHARE

Equity at the end of the year reduced by the equity effect of cash flow hedges and the minority share of equity. Adjusted equity is then divided by the number of ordinary shares at the year-end reduced by buybacks. Where applicable, the dilution effect is taken into account.

C/I RATIO

Total expenses in relation to total income. In segment reporting, profit allocation is included in total income.

CREDIT LOSS RATIO

Credit losses on loans to the public in relation to loans to the public at the beginning of the year.

EARNINGS PER SHARE

The profit for the year attributable to holders of ordinary shares divided by the average number of outstanding shares. Where applicable, the dilution effect is taken into account.

ECONOMIC CAPITAL

Economic capital is a model for calculating economic capital which, in one measurement, identifies the Group's overall risks and indicates the capital which, with very high probability, will cover unexpected losses or decreases in value.

INTEREST RATE MARGIN

Net interest income for the period calculated for the full year, in relation to average total assets.

P/E RATIO

The share price at year-end divided by earnings per share.

PROPORTION OF LOANS IN STAGE 3

Net loans to the public in Stage 3 in relation to gross loans to the public.

RESERVE RATIO STAGE 1

Provisions in Stage 1 for loans to the public in relation to gross loans to the public in Stage 1.

RESERVE RATIO STAGE 2

Provisions in Stage 2 for loans to the public in relation to gross loans to the public in Stage 2.

RESERVE RATIO STAGE 3

Provisions in Stage 3 for loans to the public in relation to gross loans to the public in Stage 3.

RETURN ON ALLOCATED CAPITAL

The segment's operating profit after profit allocation, calculated using a tax rate of 22 per cent, in relation to the average capital allocated quarterly during the year.

RETURN ON EQUITY

The year's profit in relation to average equity. Average equity for the last four quarters is adjusted for value changes on financial assets classified as available for sale, derivatives in cash flow hedges, revaluation effects from defined benefit pension plans and a weighted average of new share issues, dividends, and repurchases of own shares.

RETURN ON TOTAL ASSETS

The year's profit in relation to the average of total assets for the past five quarters.

TOTAL RESERVE RATIO

Total provisions for loans to the public in relation to gross loans to the public.

TOTAL RETURN

The total of the year's change in share price and paid dividend per share divided by the share price at the end of the previous year.

KEY FIGURES DEFINED IN THE CAPITAL REQUIREMENTS REGULATION

ADDITIONAL TIER 1 CAPITAL
Additional tier 1 capital comprises perpetual subordinated loans which meet the requirements stated in Regulation (EU) No 575/2013 and can therefore be included in the tier 1 capital.

CAPITAL REQUIREMENT
The statutory capital requirement means that an institution which is subject to CRR must have a common equity tier 1 ratio of at least 4.5 per cent, a tier 1 ratio of at least 6 per cent and a total capital ratio of at least 8 per cent. This means that own funds for the respective ratio must be at least the stated percentage of the risk exposure amount. For definitions of the respective own funds amounts, see Common equity tier 1 capital, Tier 1 capital and Total capital. In addition to the general requirements, the supervisory authority may add institution-specific requirements in accordance with Pillar 2 of the regulations.

COMMON EQUITY TIER 1 CAPITAL
Common equity tier 1 capital is one of the components of own funds and mainly comprises equity. Deductions are made for dividends generated, goodwill and other intangible assets etc. and also for the difference between an expected loss and provisions made for probable credit losses.

COMMON EQUITY TIER 1 RATIO
Common equity tier 1 capital in relation to total risk exposure amount.

COMMON EQUITY TIER 1 RATIO AVAILABLE FOR USE AS A BUFFER
The common equity tier 1 ratio after a deduction for the part of common equity tier 1 capital required to comply with all formal capital requirements.

CREDIT CONVERSION FACTOR (CCF)
The factor that is used when calculating the exposure amount for unutilised overdraft facilities, committed loan offers, guarantees and other off-balance-sheet commitments.

CREDIT VALUATION ADJUSTMENT RISK (CVA)
Credit valuation adjustment risk (CVA) measures the risk that the market value of a derivative will decrease as a result of the creditworthiness of the counterparty weakening. The credit valuation adjustment is a component in the regulations for valuation of derivatives. The adjustment of the value is based on the counterparty's creditworthiness. An exposure to a counterparty with weaker creditworthiness must have a lower carrying amount than the equivalent exposure to a counterparty with better creditworthiness. In this context, credit risk means that if a given counterparty's creditworthiness weakens, the balance sheet values of all derivative transactions with this counterparty with a positive market value decrease – and thus the Bank's equity decreases. To factor in this risk in the capital adequacy, the credit valuation adjustment risk has been introduced as part of the capital adequacy regulations.

EXPOSURE AMOUNT
The exposure amount (exposure at default) is the amount which is subject to capital adequacy requirements. It is calculated inclusive of interest and fees. Amounts for off-balance-sheet items are recalculated with the credit conversion factor (CCF). For derivatives, the exposure amount is calculated as positive MTM (mark-to-market) plus value change risk, i.e. the nominal amount multiplied by the upward adjustment factor.

EXPOSURE VALUE
Exposure value is the same as exposure amount. The exposure value concept is used in the standardised approach for credit risk.

LEVERAGE RATIO
Tier 1 capital in relation to total assets, including certain off-balance sheet items recalculated with conversion factors defined in the standardised approach and regulatory adjustments from own funds.

LIQUIDITY COVERAGE RATIO (LCR)
High-quality liquid assets in relation to an estimated net outflow of liquidity over a period of 30 days.

OWN FUNDS/TOTAL ASSETS
Own funds are the sum of tier 1 and tier 2 capital.

RISK EXPOSURE AMOUNT
The capital requirement in accordance with CRR, multiplied by 12.5. The risk exposure amount is used in conjunction with market risk and operational risk.

RISK WEIGHT
A measure to describe the level of risk an exposure is expected to have according to the capital adequacy regulations.

RISK-WEIGHTED EXPOSURE AMOUNT
Exposure amount multiplied by risk weight. Risk-weighted exposure amount is used in conjunction with credit risk and counterparty risk.

TIER 1 CAPITAL
Common equity tier 1 capital including additional tier 1 capital.

TIER 1 RATIO
Tier 1 capital in relation to total risk exposure amount.

TIER 2 CAPITAL
Tier 2 capital is a sub-component of own funds and mainly comprises subordinated loans which meet the requirements stated in Regulation (EU) No 575/2013 and can therefore be included in tier 2 capital.

TOTAL CAPITAL RATIO
Total capital in relation to total risk exposure amount.

TOTAL RISK-WEIGHTED EXPOSURE AMOUNT
Total risk exposure amount is the sum of risk exposure amount and risk-weighted exposure amount.

EXPLANATIONS

BENCHMARK EFFECT
The benchmark effect refers to differences between the interest-fixing periods of lending and funding that result when Stadshypotek's issues mature at nine-month intervals while new lending to customers occurs daily. The effect varies from quarter to quarter but approaches zero over the long term.

CRR
CRR is the EU capital requirements regulation for credit institutions and investment firms: Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

ELIGIBLE LIABILITIES AND OWN FUNDS
The sum total of qualifying eligible senior liabilities according to the Swedish Resolution Act (SFS 2015:1016) and own funds.

ITRAXX
ITRAXX Financials is an index of CDS spreads (credit default swaps) for the 25 largest bond issuers in the European bank and insurance sector. It describes the average premium that an investor requires in order to accept credit risk on the companies.

MREL SPECIFICATIONS
Minimum requirement regarding eligible liabilities and own funds. The requirement is determined annually by the Swedish National Debt Office, the resolution authority pursuant to the Swedish Resolution Act (SFS 2015:1016).

NON-RECURRING ITEMS
Non-recurring items are items which Handelsbanken deems to be of a one-off nature. These are specified in Handelsbanken's Fact Book, which is available at handelsbanken.com/ir.

OTC DERIVATIVES
Over-the-counter derivatives are uncleared tailor-made derivatives.

PREMIUMS WRITTEN
A concept used within the Bank's insurance operations denoting mainly the total of insurance premiums paid in during the year.

RISK RESULT
A concept used in the Bank's insurance operations. The year's risk result is the difference between the fees the company charges to cover the insurance risks (mortality, life expectancy, disability and accident) and the actual cost of the insurance events.

SOCIAL SECURITY COSTS
Fees for financing social security systems. This comprises employers' contributions and special payroll tax in Sweden and equivalent taxes and charges elsewhere.

SOLVENCY RATIO
A concept used in insurance operations. The solvency ratio equals own funds divided by the solvency capital requirement and is a measure of the margin the company has to meet its commitments. The ratio for a demutualised, profit-distributing life insurance company cannot be compared with the ratio for a mutual life insurance company.

SPECIAL ITEMS
Special items are items which tend to vary between financial reporting periods, such as provisions to the Oktogonen profit-sharing foundation, and which Handelsbanken has specified in detail to facilitate comparison of financial performance.

TOTAL LIABILITIES AND OWN FUNDS
The sum total of the Bank's total liabilities and capital base.

YIELD SPLIT
When the total yield exceeds the guaranteed return for insurance with a guaranteed return, the insurance company will receive 10 per cent of the total yield as its share in the yield split.

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