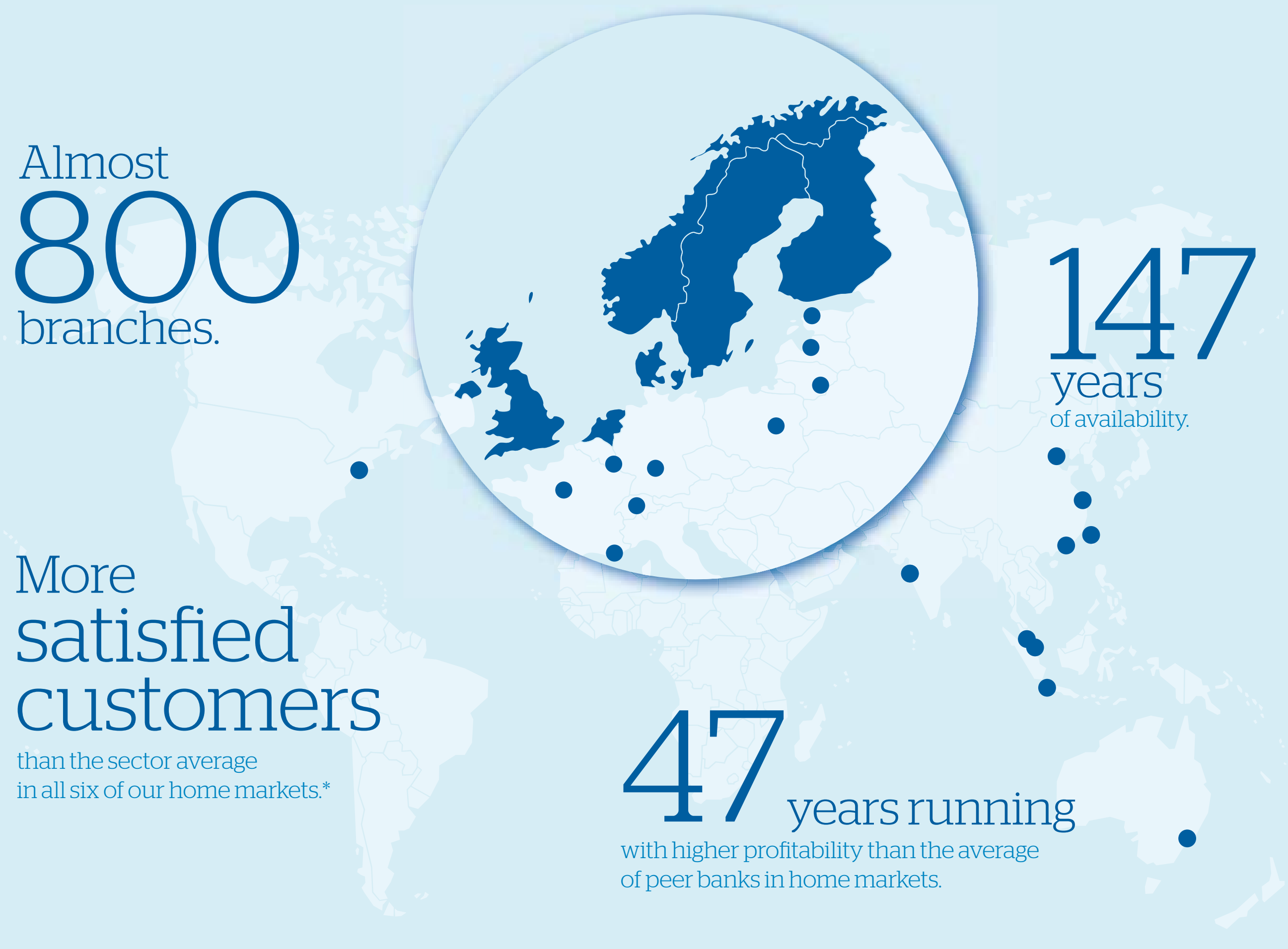
Annual Report 2018

Handelsbanken

This is Handelsbanken

Handelsbanken has a decentralised way of working and a strong local presence. The Bank has a nationwide branch network in Sweden, the UK, Denmark, Finland, Norway and the Netherlands. The Bank regards these countries as its home markets. Handelsbanken was founded in 1871 and has operations in more than 20 countries.



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 of the Bank's six home markets.

In addition, the survey shows that Handelsbanken's customers are significantly more loyal than the customers of other banks, 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. In recent years, the Bank has extended its lead over the other three major banks, and over the average of the sector as a whole, with additional gains made in 2018.

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

Business volumes increased during the year in all six home markets. Handelsbanken's loans to the public increased in all home markets, while deposits from the public grew in all home markets except Norway.

Handelsbanken was founded in Sweden in 1871, and 2018 was another year marked by growth and large inflows of new business volumes – in terms of both savings and lending. New savings in the Bank's mutual funds in Sweden amounted to SEK 13 billion, equivalent to a market share of 24 per cent, to be viewed in the light of the Bank's share of the Swedish mutual fund market of 11.1 per cent (11.0). The Bank's market share for deposits also increased. Official statistics showed that during the year, 19 per cent of the net increase in household deposits in Sweden went into accounts at Handelsbanken.

* 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

Growth in business volumes in all home markets.

Return on equity increased to 12.8 per cent (12.3).

Operating profit rose by 5 per cent to SEK 22,013 million (21,025). Adjusted for non-recurring items, operating profit went up by 3 per cent.

The period's profit after tax grew by 8 per cent to SEK 17,357 million (16,102).

Earnings per share increased to SEK 8.93 (8.28).

Income increased by 5 per cent to SEK 43,770 million (41,674). Adjusted for non-recurring items, income grew by 4 per cent.

Net interest income grew by 5 per cent to SEK 31,286 million (29,766).

Net fee and commission income increased by 5 per cent to SEK 10,247 million (9,718).

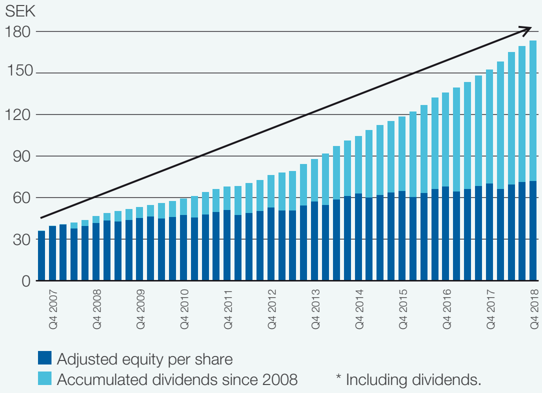
The C/I ratio rose to 47.7 per cent (45.5).

The credit loss ratio pursuant to IFRS 9 was 0.04 per cent (IAS 39: 0.08).

The common equity tier 1 ratio decreased to 16.8 per cent (22.7) after the proposed dividend. The Swedish FSA's decision to move the risk weight floor for Swedish mortgages to Pillar 1 decreased the common equity tier 1 ratio by 5.5 percentage points. The total capital ratio was 21.0 per cent (28.3).

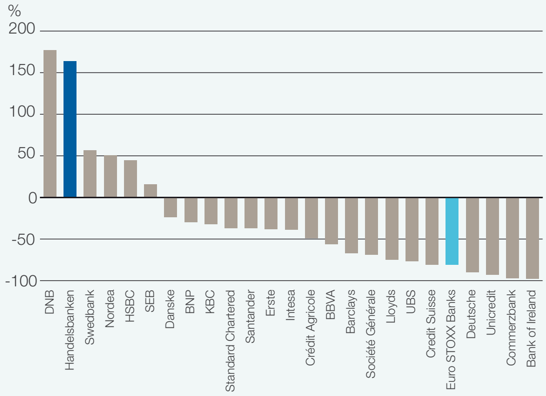
The Board proposes an ordinary dividend of SEK 5.50 per share, and that the existing mandate to repurchase shares is extended for a further year.

Average growth in equity 2007–2018*



* Including dividends.

Total return since the start of the financial crisis 30 June 2007–31 December 2018



Source: SNL, as at 31 December 2018 (dividends reinvested).

Brief information

Handelsbanken's Annual General Meeting 2019

Location: Grand Hôtel, Winter Garden, Royal entrance, Stallgatan 4, Stockholm.
Time: Wednesday, 27 March 2019 at 10.00 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, 21 March 2019 at the latest. Notice of attendance is to be made to handelsbanken.se/ireng, telephone +46 8 701 19 84 or to Handelsbanken Corporate Governance, SE-106 70 Stockholm, Sweden, by Thursday, 21 March 2019 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. Shareholders must notify the nominee of this well before Thursday, 21 March 2019, by which date this entry must have been effected.

Dividend

The Board proposes that the record day for the dividend be Friday, 29 March 2019, which means that Handelsbanken's shares will be traded ex-dividend on Thursday, 28 March 2019. If the meeting resolves in accordance with the proposal, Euroclear expects to distribute the dividend on Wednesday, 3 April 2019.

Financial calendar 2019

6 February	Annual accounts 2018
27 March	Annual General Meeting
17 April	Interim report January–March 2019
17 July	Interim report January–June 2019
23 October	Interim report January–September 2019

Financial information

The following reports can be downloaded or ordered from handelsbanken.se/ireng:

- annual reports
- interim reports
- risk 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.se/ireng. Handelsbanken's publication Risk and Capital – Information according to Pillar 3 and the other reports stated above are also available on the Bank's website.

Handelsbanken's Sustainability Report 2018

In addition to Handelsbanken's Annual Report 2018, Handelsbanken also publishes a separate Sustainability Report. The Sustainability Report is a separate publication covering activities and results in 2018. 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. For the companies in the Group subject to the requirement stipulated in the Swedish Annual Accounts Act regarding sustainability reporting, the separate Sustainability Report also constitutes this statutory sustainability report.

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

Information regarding Handelsbanken's sustainability activities is also published at handelsbanken.se/csreng.

THE GLOBAL COMPACT
WE SUPPORT

Contents

Svenska Handelsbanken AB (publ)
Corporate identity no.: 502007-7862
Registered office: Stockholm
handelsbanken.com

This report is also available in Swedish. Every care has been taken in this translation into English. In the event of discrepancies, the Swedish original will supersede the English version.

Long-term relationships – our success factor

For another year, Handelsbanken's combination of personal service, local presence and excellent digital services has proven to be widely appreciated. In survey after survey, customers rate Handelsbanken more highly than our competitors – a sure sign of the effectiveness of our business model.

New digital solutions allow us to make time for more customer meetings and provide more advisory services. In an age when personal service is increasingly scarce, this strengthens Handelsbanken's position in the competition for new customers and more good business.

In summarising 2018, I must say that it was a year of some turbulence in our business environment. Falling share prices, trade war, signs of a slowdown in the global economy, uncertainty surrounding the UK's exit from the EU and declining housing prices in several of our home markets were just a few of the factors that shaped developments in our environment. The Swedish stock market went down by 11 per cent during the year and the Stockholm stock exchange bank index declined by 13 per cent. Handelsbanken's class A share was 12 per cent down. Including dividends, the share decreased by 6 per cent. Since the turn of the millennium, Handelsbanken's share price has increased by 176 per cent, while the Stockholm stock exchange has risen by 18 per cent. In spite of the turbulent business environment, and in contrast to the negative share price performance, Handelsbanken has made steady progress – for the 47th year in a row, we achieved our corporate goal of a higher return on equity than the average of our competitors.

Handelsbanken's business model has been unchanged for almost 50 years, with decentralised decision-making, low risk tolerance and an unyielding focus on costs among its key principles. A long-term approach is another of our cornerstones. We believe in building long-term relationships with our customers, with our employees, and also with the communities and markets where we are active. We always want to be close to the communities we call home, so we believe in a decentralised business model where the local branch is the hub of the customer relationship, based on personal meetings combined with digital services and solutions.

> "Our market shares are growing, not only in our new home markets, but also in Sweden, where we have been active for almost 150 years."

LONG-TERM CUSTOMER RELATIONSHIPS

As I see it, to build long-term, positive customer relationships, we must be responsive to customers' needs and demands, and how these change over time. Nowadays, most of our contact with customers takes place in digital meeting places. We are constantly enhancing our digital services to ensure that customers can carry out their banking business whenever and wherever they want. These services are often greatly appreciated by our customers, according to independent assessments of customer satisfaction, which we pay careful attention to.

At the same time, we do not believe that even the best digital services can replace the need to meet with a real live representative of the Bank from time to time – whether at a branch, by phone or a remote meeting. In our experience, the digitalisation of our banking services has by no means eliminated the need for personal contact.

Our combination of personal service, local presence and high-quality digital services remains popular among customers. In its customer satisfaction surveys for the year, the independent research company EPSI Rating (which includes the Swedish quality index SKI) found that Handelsbanken's customers are distinctly more satisfied than the average banking customer in each of our six home markets. This applies to private customers and corporate customers alike. What's more, in the UK and the Netherlands, we lead our competitors by a wide margin. This is perhaps not too surprising: Handelsbanken is a relative newcomer in the UK and the Netherlands, markets where our business model is still perceived as totally new and different. But even in our oldest home market, Sweden, satisfaction among our customers rose sharply last year, and our lead over our competitors is bigger than it has been for a very long time. This pleases me greatly – I see it as further validation that our business model works in our established markets as well as in newer markets.

The winning combination of local, personal and digital has further strengthened Handelsbanken's position over the past year. Our customers genuinely like their bank, so they trust us with more of their business. Our market shares are growing, not only in our new home markets, but also in Sweden, where we have been active for almost 150 years.

In this context, it feels natural to invest more in IT development and in digitalisation, to reinforce our relevance to our customers in the future. At the same time, we are also making sure to safeguard customers' access to local and personal service by maintaining our comprehensive branch networks in our home markets. Without a doubt, this gives us a clear competitive edge, particularly at a time when many other banks are drastically reducing the number of physical meeting places they offer. Access to personal service is rapidly becoming scarce throughout the banking sector, putting us on a solid footing to compete for new, high-quality customers.

In other words, Handelsbanken's market position is unique. Our customers are satisfied with the care we show them and the services we offer. Digitalisation and the automation of internal administrative processes are enabling us to free up time for more customer meetings and to provide more advisory services. This gives us the right conditions for further growth.

One example is the correlation between advisory meetings and new savings in our mutual funds. In Sweden, 6 out of 10 customers choose to increase their mutual fund savings after an advisory meeting, and in 2018 the number of such meetings increased significantly compared with 2017. The digital advisory tool that facilitated this increase illustrates how we invest in technology to improve efficiency, creating time for us to provide better customer service and do more business. And we are continuing to enhance this tool, preparing to launch it in additional home markets. Other examples of such investment include harnessing artificial intelligence to review financial advice and digitalising the mortgage loan process.

LONG-TERM CONTRIBUTION TO THE COMMUNITY

A long-term approach is important not only in relationships with our customers, but also in terms of our role in society. According to the major rating agencies, Handelsbanken is one of the world's most stable and financially robust banks. Thanks to our ability to keep credit losses at a low

level over time, we have built up a financial strength that allows us to always be an asset to – rather than a burden on – the communities in which we operate. For example, Handelsbanken is one of the largest payers of corporate tax in Sweden.

The market research company Kantar Sifo conducts an annual survey in Sweden measuring public perception of the country's companies. In 2018, Handelsbanken was ranked as one of the most respected companies overall, and the clear leader among banks.

A long-term approach and sustainability go hand in hand. So it is entirely natural for us as a company to integrate sustainability into all aspects of our business operations. This applies to our day-to-day activities at our workplaces and to the development of the products and services that we offer to our customers.

During the year, we continued to develop our offerings in fund and asset management and in green financing. One example of this is the 'sustainable multi-asset strategies' we made available to our asset management customers in the UK. Another is the Nordic Swan Ecolabel earned by the XACT Sverige index fund, the first of its kind to receive this certification. Handelsbanken also issued its first green bond in 2018. The proceeds from the bond will be used to finance customer assets and projects that help counteract climate change or that mitigate its effects.

Handelsbanken's continued support for and work with international initiatives for corporate sustainability, such as the Sustainable Development Goals in the 2030 Agenda, the United Nations Global Compact and the Principles for Responsible Investment (PRI) are unwavering. They are also completely in line with Handelsbanken's way of working.

The UK is one of our largest home markets, with a nationwide network of more than 200 branches. Handelsbanken's volumes for lending, deposits and asset management in the UK have multiplied during the past decade. Handelsbanken is the most recommended bank among small and medium-sized companies, according to the UK's Competition and Markets Authority. However, our market share remains small, so the opportunities for continued growth are almost boundless. In 2018, we reorganised our operations in the UK, transitioning from an international branch to a subsidiary. We have thus laid the foundation for a long-term presence in the country, and consequently also for the possibility of generating more business with existing customers and of welcoming many new private and corporate customers to Handelsbanken.

LONG-TERM EMPLOYEE RELATIONSHIPS

One of Handelsbanken's fundamental values is a firm belief in each individual's capacity to make informed decisions, and in doing so, to contribute to the success of the Bank. Many of us have spent more or less our entire working lives at the Bank, which is something to be proud of. For us, every employee is important, so we are highly protective of our inclusive culture where responsibility is delegated.

Gender equality and diversity are two of our core values. By attracting, recruiting and developing employees with different experiences and backgrounds, we can become an even better bank and enhance our ability to adapt to a constantly changing society. That men and women are given the same opportunities to succeed and develop at Handelsbanken is non-negotiable, and we have worked systematically over a number of years to become a more gender-equal company. We are working hard to attain an even gender balance in the various professional roles, working groups and units at the Bank, and we have come a long way. In Sweden, for example, half of all managers are women.

> "But gender equality is not just about numbers. It is also a matter of values and how we treat each other."

But gender equality is not just about numbers. It is also a matter of values and how we treat each other. That's why we stressed the importance of working continuously on our core values relating to gender equality, diversity and an inclusive culture during the year. And we will continue with this work.

I would like to take this opportunity to thank all my colleagues throughout the Bank who have, yet again, this year, enabled the long-term, successful development of Handelsbanken.

And finally, I would like to thank all of Handelsbanken's customers for the trust and confidence you continue to place in us. We will continue to do our utmost to live up to – and hopefully exceed – your expectations over the coming years.

Stockholm, February 2019
Anders Bouvin, President and Group Chief Executive

Administration report

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Concept

Handelsbanken has a decentralised way of working and a strong local presence due to nationwide branch networks and a long-term approach to customer relations.

The Bank grows internationally by establishing its business model to selected markets.

Goal

Handelsbanken's goal is to have higher profitability than the average of peer banks 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.

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

High profitability is crucial, not only because it attracts shareholders to invest in the Bank, but also because it creates the conditions for growth, a high rating and low funding costs, and for the Bank's lending capacity.

The Bank's profitability also affects its ability to manage risks and to achieve efficient capital management.

Goal achievement

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

Goal achievement

Handelsbanken's return on equity was 12.8 per cent (12.3). Adjusted for non-recurring items, return on equity was 12.3 per cent (12.0). The corresponding figure for a weighted average of other major Nordic banks was 10.7 per cent (11.5). The corresponding figure for a weighted average of all peer banks in the home markets is estimated at approximately 10.6 per cent (10.6). This means that for the 47th consecutive year, Handelsbanken has met its corporate goal.

Return on equity 1973–2018

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

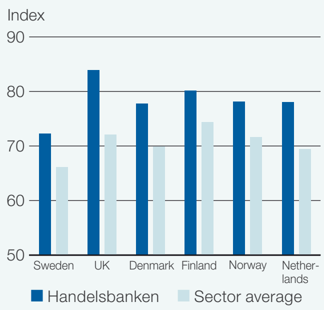
MOST SATISFIED CUSTOMERS

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.

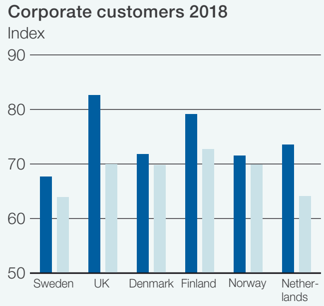
Outcome

Handelsbanken has more satisfied private and corporate customers than the average for the banking sector in all of the Bank's six 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 2018



Customer satisfaction Corporate customers 2018



Source: SKI/EPSI 2018.

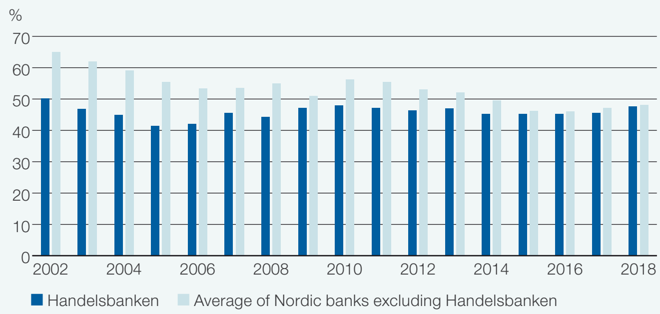
MOST COST-EFFECTIVE BANK

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

Outcome

Handelsbanken's expenses in relation to income for continuing operations were 47.7 per cent (45.5). The corresponding figure for an average of other major Nordic banks was 48.1 per cent (46.5).

Costs/Income, excluding credit losses, 2002–2018



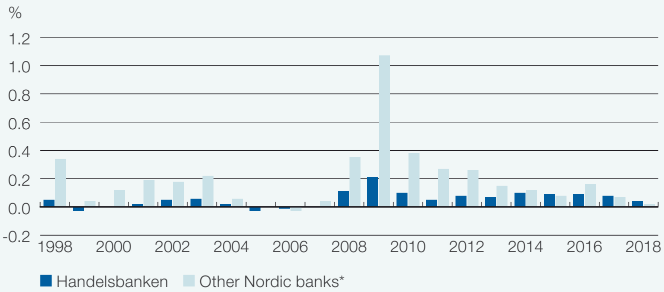
CREDIT QUALITY

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 -881 million (-1,683). Credit losses as a proportion of lending were 0.04 per cent (0.08). For the past 10 years – that is, since 2009 – the Bank's average credit loss ratio has been 0.09 per cent. This can be compared to the average for the other major Nordic banks during the same period: 0.24 per cent.

Credit losses as a percentage of lending, 1998–2018



* 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 2018	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	A+	A-1		
Danske Bank	baa1	A2	P-1	A	A-1	A	F1

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

Source: SNL.

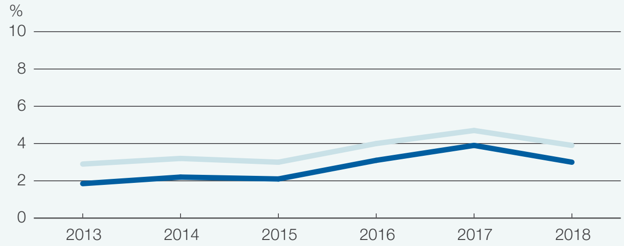
A LONG-TERM PERSPECTIVE

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

Outcome

External staff turnover continued to be low and was 3.9 per cent (4.7) in the Group and 3.0 per cent (3.9) in Sweden.

External staff turnover 2013–2018*



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

Sweden
Group

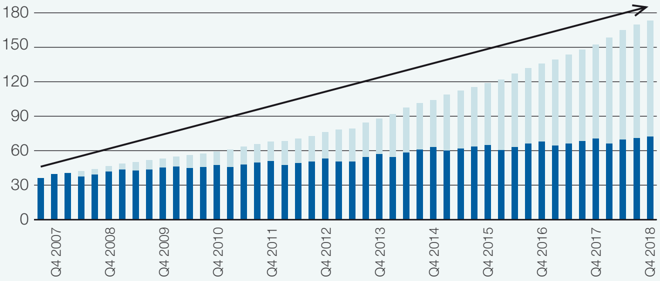
HIGH, STABLE VALUE GROWTH

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 nine 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, 2007–2018*



Adjusted equity per share   Accumulated dividends since 2008

* Including dividends.

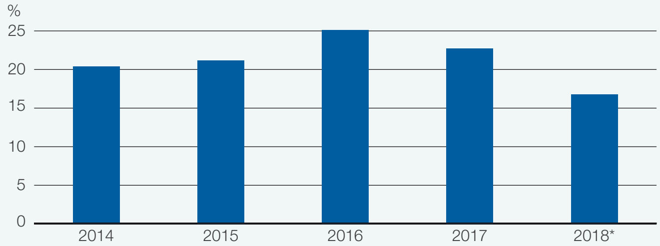
CAPITAL

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

Outcome

As of year-end 2018, there is a capital requirement in Pillar 1. This was previously a buffer requirement in Pillar 2 for Swedish mortgage loans. The risk exposure amount has thus risen, resulting in lower capital ratios. Expressed as a percentage, the requirement announced by the Financial Supervisory Authority has fallen to an equivalent extent. At year-end, the common equity tier 1 ratio was 16.8%. The Bank estimates that the Authority's common equity tier 1 capital requirement at that date was 15.1%, meaning that the Bank's capitalisation was in the target range.

Common equity tier 1 ratio, CRD IV 2014–2018



* 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.

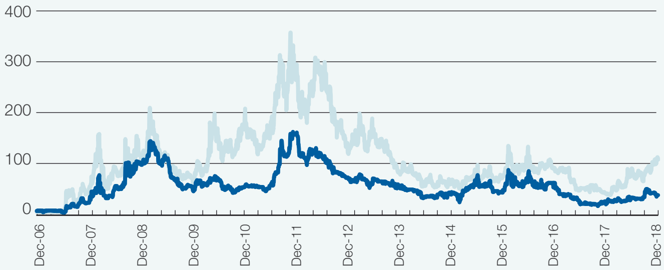
LIQUIDITY AND FUNDING

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

The volume of bonds issued during the year increased to SEK 247 billion (163), of which SEK 161 billion (138) was in covered bonds, SEK 70 billion (22) in senior bonds and SEK 16 billion (3) 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 351 billion (267), while the volume of liquid bonds and other liquid assets totalled SEK 176 billion (179).

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



ITRAXX Financials 5-year   SHB CDS 5-year   Source: Ecowin, Bloomberg.

Our concept and working methods

Our local presence and close relationships are key for Handelsbanken. For this reason, we have adopted a decentralised way of working with a strong local presence through nationwide branch networks.

The Bank is growing internationally by establishing its business model in selected markets – always with the focus on availability, long-term customer relationships and low risk tolerance.

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 higher profitability than the average of peer banks in our home markets. This is mainly to be achieved by having more satisfied customers and lower costs than those of competitors.

> “Our idea of how to run a bank is based on trust and respect for individuals.”

Our idea of how to run a bank is based on trust and respect for individuals. This means that we give our staff a high degree of responsibility and authority to make decisions in all kinds of matters relating to customers. This leads to better, quicker decisions closer to the customer and helps the Bank, in turn, to gain more satisfied customers.

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 factors.

SATISFIED CUSTOMERS

Important business decisions should be taken as close to the customer as possible. This results in better decisions and more satisfied customers – our customers are always able to meet the person who will make the decision, not a messenger. This gives a sound basis for successful customer meetings. The customer's trust is built up over the long term, but is won and nurtured at every meeting. Therefore, meetings with customers, whether physical or digital, 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 put a great deal of effort into being available for 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.

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 a digital channel.

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 markets.

> “The starting point for our customer relationships is most often the local branch, but from then on, meetings happen far more often in the digital sphere.”

Simplicity and attentiveness

The starting point for our customer relationships is most often the local branch, but from then on, meetings happen far more often in the digital sphere. We see it as a given that the customer should be able to do the same type of business with us, regardless of whether the meeting takes place at a branch or digitally. That is why

we are constantly developing and improving the Bank's technical solutions, so that the customer can move freely between meeting places and do their banking business when and where it suits them best.

The development of our meeting places is dictated by the desires and needs 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 individual customer, while finding effective solutions to everyday matters.

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

Decentralised decisions

In Handelsbanken's decentralised way of working, our staff have great responsibility and authority to make decisions in all kinds of matters that concern our customers. The local branches always assume the responsibility for customers, regardless of how, where and when the customer comes into contact with the Bank. Short decision paths make it possible to adapt more quickly to changes in local markets and create the conditions through which the Bank can make the most of new business opportunities.

Strong faith in employees

The Bank takes a long-term approach to relationships with both customers and employees. It sees each recruitment as an important undertaking. 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 Bank's 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 3.9 per cent.

Our best advice

Regardless of the meeting place, we always give 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, long-term relationships with every customer.

Products and services

Handelsbanken offers products and services to meet all the financial needs of our customers. Exactly what products or services are right for the circumstances is determined entirely by the customer's situation and preferences.

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.

Handelsbanken achieves higher profitability by running the Bank more efficiently, and thus at a lower cost, than the average of peer banks in its home markets.

"Handelsbanken's organic growth model enables us to achieve growth coupled with low risk and good cost control."

ORGANIC GROWTH

For Handelsbanken to retain high profitability in the long term, growth is necessary. Handelsbanken is growing mainly because our branches are doing more business – with new customers, but also with all the customers with whom we have had a relationship for many years. We also grow by opening new branches in locations where the Bank has not previously had operations. In this way, Handelsbanken grows customer by customer, branch by branch. Handelsbanken's organic growth model enables us to achieve growth coupled with low risk and good cost control. This method of working and of achieving growth has proved successful in an increasing number of locations and in an increasing number of countries.

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 higher profitability.

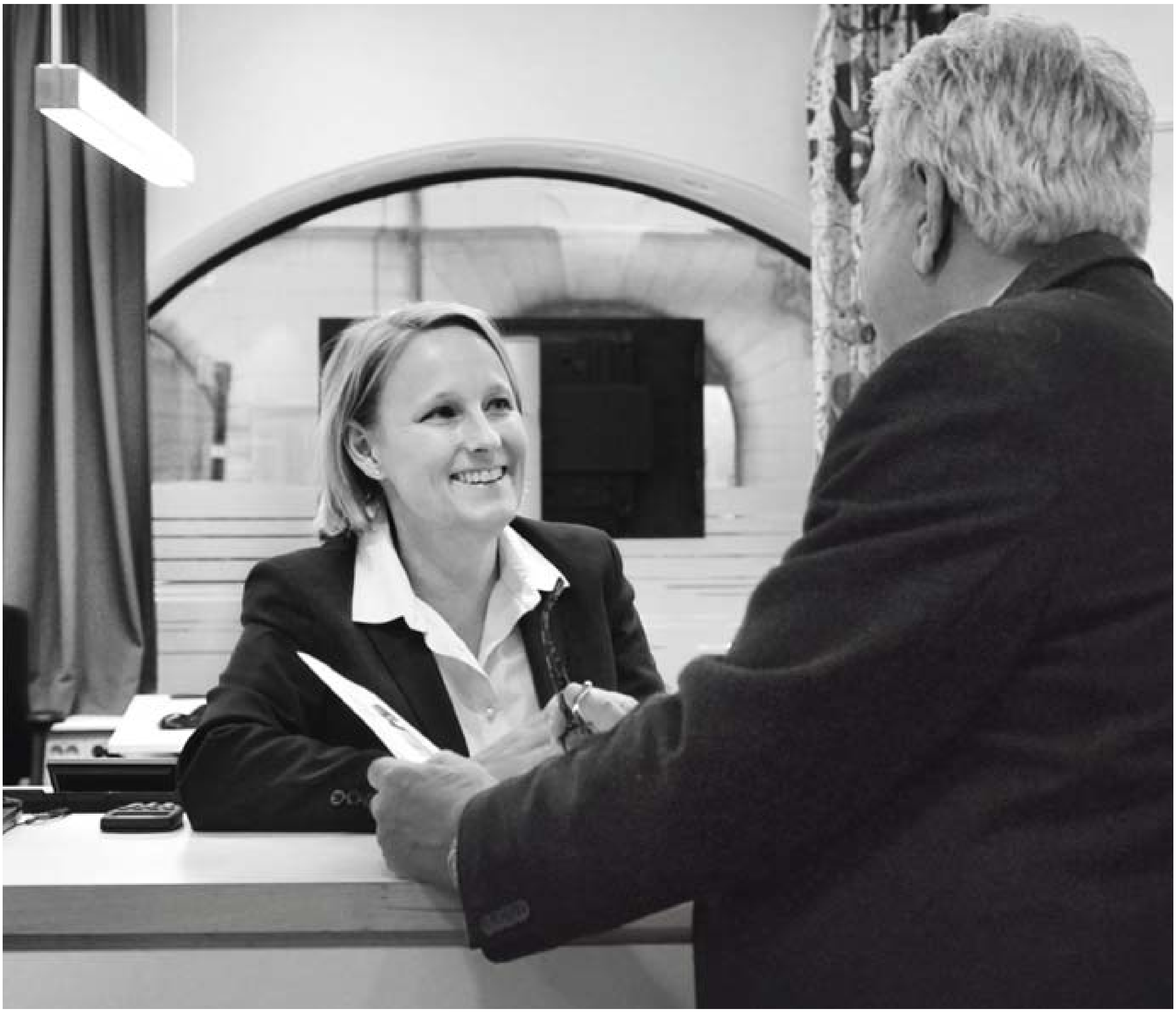
Handelsbanken builds its financial strength on entirely commercial terms, and is one of the few banks that has not sought financial support from the government, central banks or shareholders during periods of turbulence in the financial markets.

"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."

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.

The Bank considers it vital that lending is based on an assessment of the individual customer's repayment capacity.



Organisational structure

Where our customers want to meet, that is where we are: at the local branch, digitally or by phone. In order to create the best possible conditions for our good relationships with customers, we are organised geographically, with almost 800 branches around the world.

OUR HOME MARKETS

Handelsbanken's home markets are Sweden, the UK, Denmark, Finland, Norway and the Netherlands. In each of these countries, we have a nationwide branch network, organised into one or more regional banks. Each home market bears the responsibility for the profitability of the branch operations in that country.

Most branches are in our home markets, but we also have other branches and offices in over 20 countries around the world. Their main task is to support customers based in the Bank's home markets with their international business.

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's geographical structure means that it has a distinct local presence in all the markets where the Bank operates. Product specialists in the Bank's business areas are responsible for the products and services that local branches offer their customers. But the responsibility for a customer always belongs to a branch, which initiates 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 that creates loyal, satisfied customers and provides access to local information in the markets where we operate.

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

We have given our branch managers a very high degree of independence, as 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. This forms a sound basis for creating and maintaining strong customer relationships.

The branch and its branch manager are always deeply committed to the local community and have broad, extensive knowledge of the local market. 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 and also enhances the branch's knowledge of its customers and their situation. This also enables better customer service and a better basis for decisions that is adapted individually to our customers.

At the central level, Handelsbanken establishes policies and rules in a number of different areas, including lending, sustainability, ethical standards and HR matters. And it is within these central frameworks, as well as the Bank's corporate culture, that the branches take decisions that are based on local information. There are also a number of Group-wide functions for business support and business development of the Bank's products and services, as well as robust control functions which both support and verify compliance with rules and guidelines.

Handelsbanken'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.

In addition, local, decentralised decision-making reduces the Bank's need for central functions and managers at middle levels. But it also requires a well-defined business model, a strong corporate culture and a robust system for business control. Handelsbanken has applied this working method and these functions for a long time, and thus the Group has good cost-effectiveness.

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 Group head office functions with overarching responsibilities for various functions at the Bank.

Handelsbanken's employees

Handelsbanken's business opportunities and success depend upon the confidence that customers, investors, the public and public authorities have in us and our employees. A condition for this confidence is that the Bank's operations are subject to high ethical standards and responsible actions, and that employees of the Bank conduct themselves in a manner that upholds confidence. In 2018, Handelsbanken had over 12,300 employees, working in more than 20 countries, just over 40 per cent of whom were employed outside Sweden.

AN ATTRACTIVE, LONG-TERM EMPLOYER

Above all, working at Handelsbanken is about relationships with other people and sharing the Bank's core values. For us, it is very important that our employees are driven by putting the customer first, enjoy taking a large amount of individual responsibility, and want to take their own initiatives. The common Group guidelines for employees are based on the Bank's corporate culture, working methods and fundamental view of people.

CONSTANT DEVELOPMENT

Our strength is derived from the combined expertise of our employees. The most important source of increased professionalism is on-the-job learning, where all employees are responsible for constant development – both their own and that of the operations. Handelsbanken has a well-established and structured process for the development of the operations and its employees. One aspect of this is that all employees take part in their unit's business-planning process. After the plan is set, each manager carries out individual competency mapping, planning dialogues and performance reviews with their employees, resulting in personalised action plans with both long-term and short-term goals and activities, as a means of developing both the employee and the Bank.

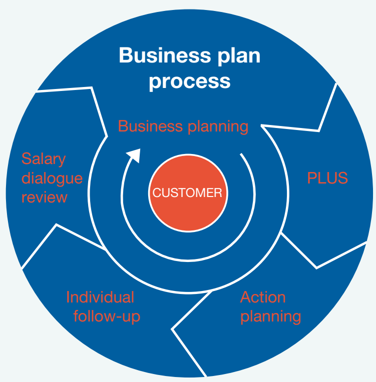
The action plan is followed up on a continuous basis and serves as the foundation for an annual salary dialogue review between the employee and manager.

LABOUR MARKET AND CULTURAL AMBASSADORS

Handelsbanken's strong corporate culture and values are vital to the Bank's success. Internal recruitment and long-term employment are important to us. While working at the Bank, employees have the opportunity to develop in different professional roles, to work in different areas of the Bank and also in different countries where we operate. The Handelsbanken Group continues to have low external staff turnover. The figure for the year was 3.9 per cent (4.7). A condition for this is that consideration is given to the phase of life in which employees find themselves.

Managers at Handelsbanken must be exemplary ambassadors for the Bank's corporate culture, which explains why most managers are recruited internally. Smoothly functioning management succession planning activities are critical to being able to meet the Bank's current and future needs for competency. In 2018, 99 per cent (97) of all managers in Sweden were recruited internally. For the Group as a whole, the corresponding figure was 96 per cent (92).

The Wheel – the relationship between the operations and the employees



The Wheel illustrates the relationship between the operations and the employee's development. Managers and employees work together to create their own unit's business plan each year. After the plan is set, planning dialogues and performance reviews (PLUS reviews) are carried out, linking the business plan with each employee's goals. As a result, every employee has an individual action plan that is followed up regularly during the year and forms the basis of the annual salary dialogue review between employee and manager.

EQUALITY, DIVERSITY AND AN INCLUSIVE CULTURE

Working with gender equality, diversity and an inclusive corporate culture is a fundamental part of Handelsbanken's values. It is about making the most of the employees' combined potential, and of broadening the recruitment base so that the employees, to an even greater extent, reflect the community in which the Bank operates.

The Bank has a transparent and explicit zero-tolerance approach to harassment, victimisation and discrimination. Our guidelines, procedures and instructions provide clear directions relating to responsibilities for investigations and the handling of reports, and initiatives are being taken in several parts of the Group to further increase knowledge and awareness of gender equality and diversity.

Handelsbanken's gender equality goal is to be a company where men and women have the same opportunities, chances and power to shape the Bank and their own career. In all countries where Handelsbanken operates, a gender equality plan to support the Group's equality goals must therefore be produced, with the aim of creating (among other things) an equal gender distribution in the various professional roles, working groups and units at the Bank. In the Group as a whole, 39 per cent (40) of managers were women; the corresponding figure for the total number of employees in the Group was 49 per cent (49). At the year-end, 46 per cent (47) of the Bank's managers in Sweden were women, with the corresponding figure for the total number of employees in Sweden being 52 per cent (52).

Handelsbanken is working to rectify unwarranted pay differentials between women and men. In Sweden, this work has advanced for several years in co-operation with the union organisations, such that it is now an integral part of ordinary business operations. The Bank and the union organisations closely monitor trends in gender-equal salaries within Handelsbanken, and managers at the Bank have a mandate and the tools to correct any differentials that are identified in the annual salary mapping.

WORK ENVIRONMENT AND HEALTH

Handelsbanken's guidelines for the health and work environment describe how we continu-

ously improve our work environment and the conditions for good health. Our overall goal for the work environment is that it should enable employees to feel good, develop and perform at optimal capacity. Our work is structured to factor in several health aspects intended to help us achieve that goal. All employees are responsible for their own health and for contributing to a positive work environment.

Each manager is responsible for performing regular work environment surveys, based on these health factors, with their employees and union representative or employee representative. These include topics relating to the physical and psychosocial work environment, security, gender equality, diversity and inclusiveness. Based on the results, managers and employees formulate a work environment plan containing activities to maintain and develop a positive, health-promoting work environment and to counteract health risks. The work environment plan is then integrated with the business plan and, in this way, becomes a natural part of how the operations develop.

Every country and department regularly monitors their work environment, sickness absence rate and reported incidents for all employees in a joint health and safety forum involving employee and employer representatives. As of 2017, every country and department is able to follow up the results of completed work environment surveys at an aggregate level, by health factor, by question and by gender identity.

RELATIONSHIPS WITH UNIONS

Handelsbanken's traditionally good relationships with unions are a valuable part 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 dialogue between union representatives and managers concerning operations – such as when changes and new services are to be launched – where valuable information is exchanged at the very early stages. As well as matters dealt with in a dialogue with the union organisations and other types of employee organisations 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.

OKTOGONEN – THE BANK'S PROFIT-SHARING SCHEME

One condition for achieving the Bank's corporate goal of higher profitability than the average of peer banks in its home markets is that the Bank's employees outperform their peers in the sector. In every year but three since 1973, Handelsbanken has allocated part of the Bank's profits to a profit-sharing scheme for its employees. The funds are managed by the Oktogonen Foundation.

One condition for an allocation to be made is that Handelsbanken meets 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. Now, 98 per cent (98) of the Group's employees are covered by Oktogonen.

Sustainability at Handelsbanken

Sustainability is completely integrated into Handelsbanken's corporate culture and working methods, permeating the Group's operations in all markets. For us, sustainability is about acting responsibly and with a long-term perspective where we as a Bank can make a difference, whether in our own operations or through our products, services and business operations. Sustainability is a broad concept with multiple perspectives: economic, social and environmental. By acting responsibly from all of these perspectives, we build long-term relationships with our customers, employees, owners, investors and the wider community.

AN IMPORTANT FOUNDATION

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 our business operations. Stable finances are fundamental to the Bank's sustainability efforts, and with our strict approach to risk, over time we have successfully kept our credit losses at a low level. Financial strength gives us a solid basis which allows us to refrain from burdening society in difficult times. Instead, we can provide positive contributions, by underpinning financial stability in the communities where we operate, and by being a responsible taxpayer.

Handelsbanken supports international initiatives and guidelines such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Environment Programme Finance Initiative, the recommendations of the Task Force on Climate-related Financial Disclosures, the UN Principles for Responsible Investment, the UN Guiding Principles on Business and Human Rights, the International Labour Organisation's core conventions and the Children's Rights and Business Principles. These guidelines and initiatives guide our sustainability work and are supplemented by internal documents such as policies and guidelines, issued by the Board and Group Chief Executive, including the Policy for sustainability, the Policy on ethical standards, and the Policy against corruption, which in turn are implemented in instructions for the Bank's various operating areas.

RESPONSIBLE BUSINESS CULTURE

Handelsbanken is a bank that is stable over the long term – a bank which, regardless of the situation in the world around us, is there for its customers. As a bank with stable finances and local presence, Handelsbanken fulfils its role as a responsible business in society. The Bank also takes responsibility in this role by managing risks so that as few customers as possible have payment difficulties, while also contributing to social development in general through its strong local presence. Through our local branches, we have a natural involvement in the local business community, but branches and staff also contribute their knowledge and commitment to other local community matters.

Business culture is also about a company's approach to taxes. Handelsbanken is one of Sweden's biggest payers of corporate tax, and our separate Sustainability Report specifies income generated, profits, and the taxes and government fees that the Bank has paid in the countries where we operate.

Our role as a responsible employer is founded on our fundamental belief in the willingness and ability of individuals to make the right decisions. Staff at all levels have a responsibility to see the possibilities in each other's differences and treat each other with respect. Therefore, gender equality, diversity and an inclusive corporate culture are part of Handelsbanken's core values.

COUNTERACTING FINANCIAL CRIME

Handelsbanken's decentralised working methods and strong local presence in the community facilitate the building of close, long-term customer relationships. This means that our staff get to know their customers and can understand their business and requirements. This is also the foundation for maintaining effective procedures, processes and systems, and for minimising the risk that the Bank will be exploited in the commission of a crime. As regards anti-corruption, Handelsbanken works with risk prevention. Also in the areas of money laundering and other financial crime, banks play an important role in their work preventing such crimes and investigating and reporting suspected cases. During the year, the Bank's employees completed mandatory training programmes on means of combating money laundering and terrorist financing, and also on ethical standards and sustainability, including a module on anti-corruption.

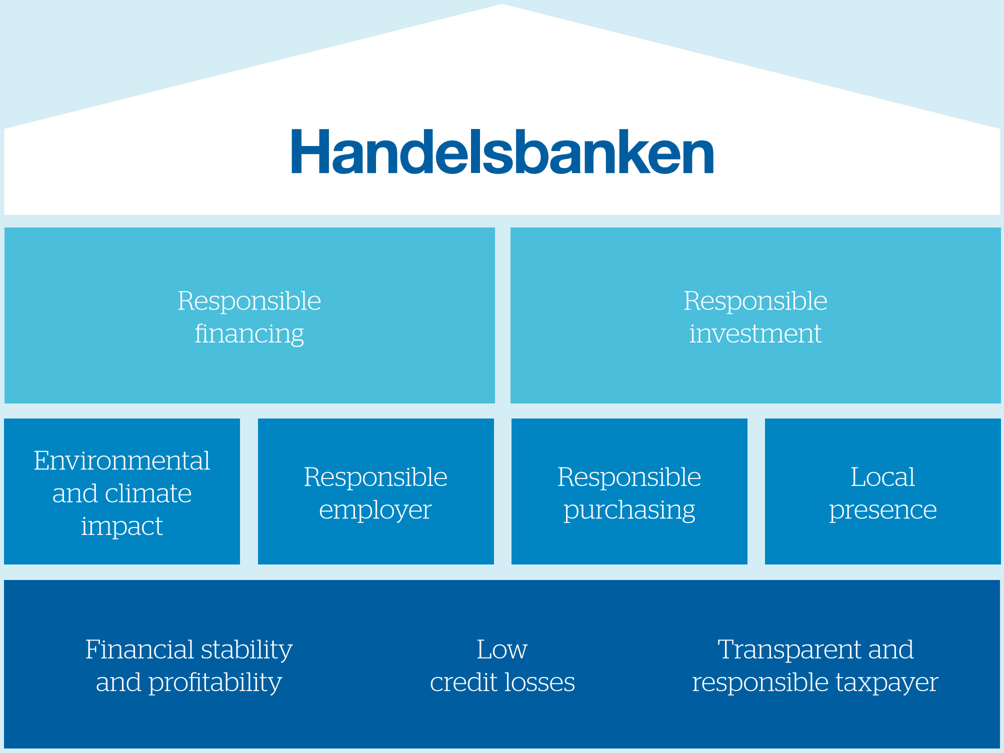
ENVIRONMENT AND CLIMATE

Together with our customers, Handelsbanken aims to do its part in the transition to a greenhouse-gas–neutral economy, in line with the Paris Agreement. Banking operations in themselves have a relatively minor impact on the environment and climate. Nonetheless, striving to constantly reduce our own impact is important – for both our employees and our customers. Reducing paper use, refraining from unnecessary air and car travel, and instead promoting remote meetings using technology are good ways to reduce our negative impact. Here, digital solutions are a means for us and our customers to reduce our impact. Handelsbanken works continuously to minimise emissions of greenhouse gases and its environmental impact in general. Our environmental impact derives mainly from energy consumption, business travel and transport, and use of resources such as paper.

RESPONSIBLE FINANCING AND RESPONSIBLE INVESTMENT

Handelsbanken's greatest opportunities to assist and influence sustainable development, while making a positive contribution to the environment and climate change, are in our business operations, when we finance our customers' projects and businesses and are entrusted to manage their assets. In both lending and investments, we carry out an integrated analysis and assessment of the challenges and opportunities faced by each company with regard to sustainability.

Our assignment to manage our customers' savings entails a great opportunity to contribute to sustainable development. In order to deliver the best possible long-term return to our customers, it is important that we invest in companies that have sustainable business models and avoid those that have a harmful impact on sustainable development.



HUMAN RIGHTS

Handelsbanken's work to safeguard and respect human rights is based on international norms and agreements and is essential for long-term value creation. This is true in our own operations, for us as an employer, and in operations that are associated with the Bank through products, services and business relationships.

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 risk spans areas such as human rights, the environment, climate, information security, corruption and financial crime. It is important to anticipate and manage sustainability risk, for both financial and legal reasons, as well as for the Bank's reputation.

Handelsbanken's activities for managing sustainability risk follow the Bank's decentralised model and are aligned with the Bank's low risk tolerance. The Bank's business operations are responsible for identifying and managing sustainability risk and doing so within the framework of the established processes for risk management. For example, when granting credit to a company, we consider the different types of risk that could affect the company's repayment capacity. These include sustainability risk, such as environmental and climate-related risk, and the company's stance on human rights.

MATERIAL SUSTAINABILITY TOPICS

It is important for us to be receptive and open, and to adapt to the expectations of our customers, our employees, investors and society in general. Through dialogue, we are constantly learning and can prioritise our sustainability efforts. Our stakeholders should be in no doubt about how we contribute to, and what role we play in, the community and society at large. The 2030 Agenda for Sustainable Development and the Sustainable Development Goals are central to the Bank's materiality analysis and its reporting of its sustainability work. A comprehensive materiality analysis was completed in 2018, with the aim of defining Handelsbanken's material sustainability topics. The Bank's influence through its products and services, chiefly investment and financing, has increased significantly in recent years.

Handelsbanken is also developing new products, such as green loans for financing projects which contribute to a greener and more sustainable society.

Handelsbanken's Sustainability Report

In addition to Handelsbanken's Annual Report 2018, Handelsbanken also publishes a complete Sustainability Report in which the Group's sustainability work is reported, including the business model, policies, risks and key figures. Handelsbanken reports the Group's sustainability activities annually, and the Sustainability Report provides information about the entire Group. For the companies in the Group subject to the requirement stipulated in the Swedish Annual Accounts Act regarding sustainability reporting, the separate Sustainability Report also constitutes this statutory sustainability report. The Sustainability Report is published at handelsbanken.se/ireng and handelsbanken.se/csreng.

Financial overview 2018

- Growth in business volumes in all home markets.
- Return on equity increased to 12.8 per cent (12.3).
- Operating profit rose by 5 per cent to SEK 22,013 million (21,025). Adjusted for non-recurring items, operating profit went up by 3 per cent.
- The period's profit after tax grew by 8 per cent to SEK 17,357 million (16,102).
- Earnings per share increased to SEK 8.93 (8.28).
- Income increased by 5 per cent to SEK 43,770 million (41,674). Adjusted for non-recurring items, income grew by 4 per cent.
- Net interest income grew by 5 per cent to SEK 31,286 million (29,766).
- Net fee and commission income increased by 5 per cent to SEK 10,247 million (9,718).
- The C/I ratio rose to 47.7 per cent (45.5).
- The credit loss ratio pursuant to IFRS 9 was 0.04 per cent (IAS 39: 0.08).
- The common equity tier 1 ratio decreased to 16.8 per cent (22.7) after the proposed dividend. The Swedish FSA's decision to move the risk weight floor for Swedish mortgages to Pillar 1 decreased the common equity tier 1 ratio by 5.5 percentage points. The total capital ratio was 21.0 per cent (28.3).
- The Board proposes an ordinary dividend of SEK 5.50 per share, and that the existing mandate to repurchase shares is extended for a further year.

Review of operations

The Group's operating profit increased by 5 per cent to SEK 22,013 million (21,025). Adjusted for non-recurring items, operating profit went up by 3 per cent. Exchange rate effects had a positive impact on operating profit of SEK 264 million. Return on equity increased to 12.8 per cent (12.3). The period's profit after tax grew by 8 per cent to SEK 17,357 million (16,102) and earnings per share increased to SEK 8.93 (8.28). The C/I ratio rose to 47.7 per cent (45.5).

The common equity tier 1 ratio was 16.8 per cent (22.7).

NON-RECURRING ITEMS AND SPECIAL ITEMS IN THE OPERATING PROFIT

SEK million	Full year 2018	Full year 2017	Change
Non-recurring items			
Dividend from VISA Sweden	198	576	-66%
Changed pension plan in UK operations	141	-	
Capital gain from sale of shares in UC AB	837	-	
Transition to defined contribution pension plan in Norwegian operations	26	239	-89%
Total non-recurring items	**1 202**	**815**	
Special items			
Benchmark effect in Stadshypotek	-20	-1	
Allocation to Oktogonen profit-sharing scheme	-859	-768	12%
Variable remuneration	-55	-73	-25%
Total special items	**-934**	**-842**	**11%**
Total	**268**	**-27**	

INCOME

The Group – Income SEK million	Full year 2018	Full year 2017	Change
Net interest income	31 286	29 766	5%
of which government fees	*-2 771*	*-2 024*	*37%*
Net fee and commission income	10 247	9 718	5%
Net gains/losses on financial transactions	908	1 271	-29%
Other	1 329	919	45%
Total income	**43 770**	**41 674**	**5%**

Income increased by 5 per cent to SEK 43,770 million (41,674). Adjusted for non-recurring items, income grew by 4 per cent.

Exchange rate effects had a positive impact on income amounting to SEK 797 million.

Net interest income rose by 5 per cent to SEK 31,286 million (29,766). The SEK 1,520 million improvement in net interest income was entirely attributable to an increase in business volumes, which actually contributed an even greater amount, SEK 1,616 million. Taken as a whole, the slightly higher margins reported in the branch operations resulted in a SEK 153 million increase in net interest income. Exchange rate effects had a positive impact of SEK 597 million. The benchmark effect in Stadshypotek amounted to SEK -20 million (-1). The rise in government fees burdened net interest income by SEK -747 million.

The fee to the Resolution Fund amounted to SEK -2,491 million (-1,730). The Resolution fee was 0.125 per cent of basis of calculation during 2018, but will revert to 0.09 per cent in 2019. Including fees for various deposit guarantees, government fees amounted to a total of SEK -2,771 million (-2,024).

The average volume of loans to the public grew by 7 per cent, or SEK 151 billion, to SEK 2,174 billion (2,023), of which SEK 37 billion was due to foreign exchange effects. Household lending increased by 7 per cent to SEK 1,139 billion (1,062), while corporate lending grew by 8 per cent to SEK 1,035 billion (960).

The average volume of deposits and borrowing rose by 5 per cent to SEK 1,083 billion (1,034). Exchange rate effects had a positive impact of SEK 19 billion on average volumes. The average volume of household deposits went up by 10 per cent to SEK 466 billion (423), while deposits from companies increased by 1 per cent to SEK 617 billion (611).

Net fee and commission income increased by 5 per cent to SEK 10,247 million (9,718). Fund management, custody account management and other asset management commissions rose by SEK 454 million, or 11 per cent, to SEK 4,735 million (4,281), while brokerage income decreased by 22 per cent to SEK 690 million (886). Following the introduction of MiFID 2 on 1 January 2018, brokerage is no longer payable in conjunction with discretionary management, which negatively affected brokerage income. Instead, the corresponding income is now recognised under advisory commissions. Lending and deposit commissions rose by 8 per cent to SEK 1,340 million (1,238), while net payment commissions increased by 6 per cent to SEK 1,975 million (1,868). Net fee and commission income from card operations grew by 5 per cent to SEK 1,247 million (1,193). Exchange rate effects positively affected net fee and commission income by SEK 152 million.

Net gains/losses on financial transactions went down to SEK 908 million (1,271), mainly as a result of unusually high income in the period of comparison, which was related to the market turbulence at year-end 2016.

Other income increased to SEK 1,329 million (919), due in part to capital gains on the sale of UC AB.

EXPENSES

The Group – Expenses SEK million	Full year 2018	Full year 2017	Change
Staff costs	-13 465	-12 472	8%
of which Oktogonen	*-859*	*-768*	*12%*
of which Norwegian pension plan	*26*	*239*	*-89%*
of which UK pension plan	*141*	*-*	
Other expenses	-6 712	-5 889	14%
Depreciation and amortisation	-713	-619	15%
Total expenses	**-20 890**	**-18 980**	**10%**

The Group – Expenses SEK million	Full year 2018	Full year 2017	Change
UK and Netherlands*	-3 945	-3 434	15%
Company formation in UK	-314	-104	202%
Changed pension plan, Norway and UK	167	239	-30%
Development costs	-2 016	-1 821	11%
Foreign exchange effect	-448		
Other recurring costs	-14 334	-13 860	3%
Total expenses	**-20 890**	**-18 980**	**10%**

* Adjusted for costs of company formation, currency and changed pension plan

DEVELOPMENT COSTS

The Group – Development costs SEK million	Full year 2018	Full year 2017	Change
Development investments	-2 526	-2 315	9%
of which staff	*-1 118*	*-970*	*15%*
of which other expenses	*-1 408*	*-1 345*	*5%*
Capitalised costs and accruals	786	694	13%
Investments in development after capitalised costs	**-1 740**	**-1 621**	**7%**
Depreciation and amortisation	-276	-200	38%
Development costs	**-2 016**	**-1 821**	**11%**

Total expenses rose by 10 per cent to SEK -20,890 million (-18,980). Exchange rate effects increased expenses by SEK -448 million. The rise in total expenses was mainly attributable to the previously communicated expansion of development and continued investments in growth in the UK and the Netherlands, together with the work to set up the subsidiary in the UK.

The Bank is of the opinion that the investments now being made in the UK will lay the foundation for the continued long-term, profitable development of the business operations, enabling a higher level of efficiency than was previously possible. In addition, the Bank has continued to strengthen its control functions. In 2018, the costs incurred by the Bank in its work to prevent money laundering increased by SEK 348 million.

Development costs including depreciation amounted to SEK -2,016 million (-1,821). For 2019, the Bank estimates that development costs will reach approximately SEK 2.1–2.2 billion. This estimate is based on an assumption that development investments will rise from their 2018 level as a consequence of a handful of large projects within the category of technological development, associated with data management, etc.

Total investments in the Bank's development amounted to SEK -2,526m (-2,315). Capitalised costs grew to SEK 786m (694).

Total investments in development can be divided into four main categories: regulatory compliance, business development, technical development, and development in the Bank's growth markets. The breakdown of investments is set out in the table below. During the year, development investments outside the UK and the Netherlands linked to regulatory compliance decreased by 11% compared with the previous year, whereas development investments for other purposes increased.

Staff costs rose by 8 per cent to SEK -13,465 million (-12,472). During the first quarter, the pension plan in the UK was changed, which resulted in a one-off reduction in staff costs amounting to SEK 141 million. Similarly, during the first quarter of 2017, changes were made to the pension plan in Norway, which resulted in a positive one-off effect of SEK 239 million, followed by an additional positive one-off effect of SEK 26 million during the fourth quarter of 2018. Adjusted for these effects, staff costs grew by 7 per cent. The provision to the Oktogonen profit-sharing foundation was SEK -859 million (-768). Variable remuneration, including social security costs and other payroll overheads, decreased to SEK -55 million (-72). Staff costs attributable to the Bank's development rose by 15 per cent to SEK -1,118 million (-970).

The average number of employees increased by 475 compared with the previous year to 12,307 (11,832). This rise was due to continuing expansion in the UK and the Netherlands, and to the Bank's increasing focus on development, as well as the continuing build-up of control functions.

Other expenses rose by 14 per cent to SEK -6,712 million (-5,889), chiefly due to increased development, together with costs linked to the formation of the subsidiary in the UK and the Bank's continued strengthening of its control functions. Other costs attributable to the Bank's development amounted to SEK -1,408 million (-1,345).

The Bank's costs for the formation of the subsidiary in the UK were SEK -314 million (-104). In addition, the Bank is maintaining its investments in development and continuing growth in the UK. For 2019, the Bank expects the costs relating to the formation of the subsidiary in the UK to amount to a level just below the costs reported for 2018.

Depreciation and amortisation increased by 15 per cent to SEK -713 million (-619), of which SEK -276 million (-200) related to depreciation linked to development.

DEVELOPMENT INVESTMENTS – BY CATEGORY

The Group – Development investments SEK million	**Full year 2018**	**Full year 2017**	**Change**
Regulatory compliance	-881	-985	-11%
Technological development	-846	-784	8%
Business development	-543	-424	28%
UK and the Netherlands	-256	-119	115%
Other	-	-3	
Total development investments	**-2 526**	**-2 315**	**9%**

LOAN LOSSES

The Group – Credit losses SEK million	**Full year 2018**	**Full year 2017**	**Change**
Net credit losses	-881	-1 683	-802
Credit loss ratio as a % of loans (IFRS 9)	0,04		
Loan loss ratio as a % of loans (IAS 39)		0,08	

Credit losses fell to SEK -881 million (-1,683). The credit loss ratio pursuant to IFRS 9 was 0.04 per cent (IAS 39: 0.08).

HANDELSBANKEN'S UK SUBSIDIARY

Handelsbanken's business operations in the UK are conducted through the wholly owned subsidiary Handelsbanken plc as of 1 December 2018, when the branch's business activities were migrated to the new subsidiary. Handelsbanken received a banking licence for Handelsbanken plc in early November 2018.

Handelsbanken plc engages in business operations on behalf of the Bank's UK customers according to the same principles as apply in the rest of the Group.

Funding and liquidity

During the year, the international funding markets have gradually become affected by greater uncertainty. In the light of this development, the Bank has chosen to keep a high level of issue activity and has slightly extended the maturity period of its funding. The issued volume of bonds increased during the year to SEK 247 billion (163), of which SEK 161 billion (138) was covered bonds, SEK 70 billion (22) was senior bonds, and SEK 16 billion (3) was 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 ratio of non-encumbered assets to all un-secured market funding amounted to 216 per cent at year-end (224 at year-end 2017).

The Bank has a strong liquidity position. Cash funds and liquid assets deposited with central banks amounted to SEK 351 billion (267), while the volume of liquid bonds and other liquid assets totalled SEK 176 billion (179).

The Group's liquidity coverage ratio (LCR), calculated according to the European Commission's delegated act, amounted at year-end to 146 per cent (139 at year-end 2017). The net stable funding ratio (NSFR) increased and was 104 per cent at year-end (102 at year-end 2017).

Capital

Starting from 31 December 2018, there is a capital requirement in Pillar 1 which corresponds to a risk weight floor of 25 per cent for Swedish mortgage loan exposures. The equivalent risk weight floor was previously a buffer requirement in Pillar 2. As a result of the change, the Bank's risk exposure amount has increased by SEK 163 billion to SEK 708 billion, meaning that the various capital ratios have declined. The capital requirement announced by the Swedish Financial Supervisory Authority has, when expressed as a percentage, decreased to an equivalent extent. The nominal capital requirement from the Swedish Financial Supervisory Authority has been only marginally affected by the change.

The Bank's capital goal is also going forward that the Bank's common equity tier 1 ratio should, under normal circumstances, continue to exceed the common equity tier 1 capital requirement communicated to the Bank by the Swedish Financial Supervisory Authority by 1–3 percentage points. The target ratio range means that the floor has been raised by approximately SEK 1.6 billion compared with Q3, calculated according to the risk exposure amount at year-end. The goals as regards the tier 1 ratio and the total capital ratio are also unchanged, which is that they should exceed the requirements stipulated by the Swedish Financial Supervisory Authority by 1 percentage point.

The Bank's policy for dividend is linked to the capital target and its lower limit for the target range.

At the end of the fourth quarter, the common equity tier 1 ratio was 16.8 per cent. In the Bank's assessment, the Supervisory Authority's common equity tier 1 capital requirement at the same date was 15.1 per cent. The Bank's capitalisation was thus within the target range.

Capital situation 31 December 2018 compared with 31 December 2017

Capital-related matters SEK million	31 Dec 2018	31 Dec 2017	Change
Common equity tier 1 ratio, CRR	16,8%	22,7%	-5,9
Total capital ratio, CRR	21,0%	28,3%	-7,3
Risk exposure amount, CRR	707 579	509 032	39%
Common equity tier 1 capital	118 810	115 753	3%
Total own funds	148 659	144 115	3%
Capital requirement, Basel I floor		102 848	
Total own funds, Basel I floor		146 472	

Own funds were SEK 149 billion (144), and the Bank's total capital ratio amounted to 21.0 per cent (28.3).

The common equity tier 1 capital was SEK 119 billion (116), while the common equity tier 1 ratio was 16.8 per cent (22.7).

The effect of the risk weight floor for Swedish mortgage loans moving to Pillar 1 amounted to -5.5 percentage points, due to the risk exposure amount increasing to SEK 708 billion (509). The period's earnings raised the common equity tier 1 capital ratio by 1.2 percentage points, after a deduction for the proposed dividend. Higher lending volumes reduced the common equity tier 1 ratio by -0.3 percentage points. Customer migration in the loan portfolio had an impact of -0.4 percentage points. The net effect of various risk levels on inflows and outflows in the lending portfolio – 'volume migration' – caused the common equity tier 1 ratio to increase by 0.4 percentage points.

The implementation of a new risk weight floor in Pillar 1 for Special Property Lending in the UK during the first quarter reduced the common equity tier 1 ratio by -0.4 percentage points.

Exchange rate effects reduced the common equity tier 1 ratio by -0.1 percentage point. The change in net pensions had a negative impact of -0.8 percentage points as a result of a decrease in asset values and because the discount rate for Swedish pension obligations was lowered to 2.0 per cent (2.2). Other effects, net, were neutral.

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 the fourth quarter, EC for the Group totalled SEK 60.2 billion, while AFR was SEK 163.1 billion. Thus, the ratio between AFR and EC was 271 per cent. For the consolidated situation, EC totalled SEK 31.4 billion, and AFR was SEK 160.4 billion.

Rating

During the quarter, Handelsbanken's long-term and short-term senior ratings with the rating agencies which monitor the Bank were unchanged (see table below). Both Standard & Poor's and Fitch confirmed their ratings during the fourth quarter. The outlook for all ratings is stable.

Standard & Poor's and Fitch assigned a rating to Handelsbanken plc during the quarter, at the same level as the parent company, both with a stable outlook.

RATING

– 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)		

HANDELSBANKEN'S AGM ON 27 MARCH

The Board is proposing that the AGM resolve on a dividend of SEK 5.50 per share (7.50). The dividend for the previous year consisted of an ordinary dividend of SEK 5.50 per share and an extra dividend of SEK 2.00 per share.

In addition, the Board proposes that the current repurchase programme for a maximum of 120 million shares be extended for another year. The Board also 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. The Board proposes that the record day for the dividend be 29 March 2019, which means that the Handelsbanken share will be traded ex-dividend on 28 March 2019, and that the dividend is then expected to be disbursed on 3 April 2019.

Five-year overview Group

Consolidated income statement SEK m	2018	2017	2016	2015	2014
Net interest income	31 286	29 766	27 943	27 740	27 244
Net fee and commission income	10 247	9 718	9 156	9 320	8 556
Net gains/losses on financial transactions	908	1 271	3 066	2 608	1 777
Risk result – insurance	106	142	142	157	165
Other dividend income	218	591	228	281	251
Share of profit of associates	0	14	25	17	18
Other income	1 005	172	203	213	303
Total income	**43 770**	**41 674**	**40 763**	**40 336**	**38 314**
Staff costs	-13 465	-12 472	-12 542	-12 581	-11 766
Other expenses	-6 712	-5 889	-5 401	-5 203	-5 099
Depreciation, amortisation and impairment of property, equipment and intangible assets	-713	-619	-495	-487	-462
Total expenses	**-20 890**	**-18 980**	**-18 438**	**-18 271**	**-17 327**
Profit before credit losses	**22 880**	**22 694**	**22 325**	**22 065**	**20 987**
Net credit losses	-881	-1 683	-1 724	-1 597	-1 781
Gains/losses on disposal of property, equipment and intangible assets	14	14	32	7	6
Operating profit	**22 013**	**21 025**	**20 633**	**20 475**	**19 212**
Taxes	-4 656	-4 923	-4 401	-4 277	-4 069
Profit for the year from continuing operations	**17 357**	**16 102**	**16 232**	**16 198**	**15 143**
Profit for the year pertaining to discontinued operations, after tax	-	-	13	145	41
Profit for the year	**17 357**	**16 102**	**16 245**	**16 343**	**15 184**
attributable to					
Shareholders in Svenska Handelsbanken AB	17 354	16 099	16 244	16 342	15 183
Minority interest	3	3	1	1	1
Earnings per share, continuing operations, SEK	8.93	8.28	8.42	8.49	7.94
after dilution	8.84	8.20	8.30	8.32	7.82
Earnings per share, discontinued operations, SEK	-	-	0.01	0.08	0.02
after dilution	-	-	0.01	0.07	0.02
Earnings per share, total operations, SEK	8.93	8.28	8.43	8.57	7.96
after dilution	8.84	8.20	8.31	8.39	7.84

A five-year overview for the parent company is shown on page 186.

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 2013 – Handelsbanken has generated positive shareholder value of SEK 47 billion. Market capitalisation has decreased by SEK 10 billion, while the Bank has paid out SEK 57 billion in dividends to shareholders.

Lower risk

During the past five years, Handelsbanken's total credit losses amounted to SEK 7,666 million, which corresponds to an average annual credit loss ratio of 0.08 per cent. The corresponding figure for the other major Nordic banks was 0.09 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 been the bank of the four major banks with the most satisfied customers in Sweden. During the past five years, Handelsbanken has extended its lead over other banks in terms of customer satisfaction, among both private and corporate customers. The results of SKI's survey during the year showed that, for private customers, Handelsbanken's index value was 72.3, as compared with the other major banks, all of which recorded scores in the 58.5–65.7 range. Five years ago, in 2013, Handelsbanken had a customer satisfaction index value 9.0 over the average of the other three major Swedish banks. By autumn 2018, the lead had grown to 11.1.

In the Bank's other five home markets, Handelsbanken also had significantly more satisfied customers than the sector average. The same development as in Sweden has also been demonstrated by Handelsbanken in both Norway and the UK, where the Bank has, over the past five years, pulled further ahead of the sector average for customer satisfaction among both private and corporate customers. The same is true of the corporate market in Finland and among private customers in the Netherlands.

Organic growth

Satisfied customers result in more business. This is why Handelsbanken is a growing bank. The Bank is growing mainly because existing branches are doing more business – with many new customers who have chosen to move their banking business to Handelsbanken, but also with all the customers with whom we have had a relationship for many years. But Handelsbanken is also growing by opening new branches in locations where the Bank has not previously had operations.

Business volumes increased during the year in all our home markets. At Handelsbanken, loans to the public increased in all six home markets. Deposits from the public increased in all home markets except Norway.

But it is not just in our new home markets that Handelsbanken is growing. We have been

Consolidated statement of comprehensive income SEK m	2018	2017	2016	2015	2014
Profit for the year	17 357	16 102	16 245	16 343	15 184
Other comprehensive income					
Items that will not be reclassified to the income statement					
Defined benefit pension plans	-4 405	3 919	3 993	-3 152	-2 699
Equity instruments measured at fair value through other comprehensive income	-188				
Tax on items that will not be reclassified to the income statement	978	-864	-876	688	592
of which defined benefit pension plans	*977*	*-864*	*-876*	*688*	*592*
of which equity instruments measured at fair value through other comprehensive income	*1*				
Total items that will not be reclassified to the income statement	**-3 615**	**3 055**	**3 117**	**-2 464**	**-2 107**
Items that may subsequently be reclassified to the income statement					
Cash flow hedges	768	-2 350	-3 145	-501	8 772
Debt instruments measured at fair value through other comprehensive income	-12				
Available-for-sale instruments (IAS 39)		-470	-1 160	682	295
Translation difference for the year	-188	-2 241	1 183	-1 713	5 924
of which hedges of net investments in foreign operations	*-850*	*-1 509*	*-142*	*-394*	*2 558*
Tax on items that may subsequently be reclassified to the income statement	38	844	833	215	-2 501
of which cash flow hedges	*-159*	*517*	*692*	*110*	*-1 924*
of which debt instruments measured at fair value through other comprehensive income	*3*				
of which available-for-sale instruments (IAS 39)		*-5*	*110*	*18*	*-14*
of which hedges of net investments in foreign operations	*194*	*332*	*31*	*87*	*-563*
Total items that may subsequently be reclassified to the income statement	**606**	**-4 217**	**-2 289**	**-1 317**	**12 490**
Total other comprehensive income	**-3 009**	**-1 162**	**828**	**-3 781**	**10 383**
Total comprehensive income for the year	**14 348**	**14 940**	**17 073**	**12 562**	**25 567**
attributable to					
Shareholders in Svenska Handelsbanken AB	14 345	14 940	17 072	12 562	25 566
Minority interest	3	0	1	0	1

Consolidated balance sheet SEK m	2018	2017	2016	2015	2014
Assets					
Cash and central banks	350 774	265 234	224 889	236 748	505 579
Loans to the public	2 189 092	2 065 761	1 963 622	1 866 467	1 807 836
Loans to other credit institutions	22 137	20 250	31 347	49 656	70 339
Interest-bearing securities	172 989	178 607	161 114	119 290	141 944
Other assets	243 182	237 125	246 608	249 972	290 978
Total assets	**2 978 174**	**2 766 977**	**2 627 580**	**2 522 133**	**2 816 676**
Liabilities and equity					
Deposits and borrowing from the public	1 008 487	941 967	829 336	753 855	1 022 267
Due to credit institutions	194 082	174 820	178 781	163 770	200 074
Issued securities	1 394 647	1 276 595	1 261 765	1 245 367	1 212 613
Subordinated liabilities	51 085	32 896	33 400	34 216	30 289
Other liabilities	187 612	199 095	187 917	196 657	224 606
Equity	142 261	141 604	136 381	128 268	126 827
Total liabilities and equity	**2 978 174**	**2 766 977**	**2 627 580**	**2 522 133**	**2 816 676**

doing business in Sweden for almost 150 years, and 2018 was yet another year of organic growth. During the year, Handelsbanken continued to have major inflows of new business volumes in Sweden – in terms of both savings and lending. New savings in the Bank's mutual funds in Sweden amounted to SEK 13 billion, equivalent to a market share of 24 per cent. At the same time, deposits increased: Official statistics showed that during the year, 19 per cent of the net increase in household deposits in Sweden went into accounts at Handelsbanken.

Handelsbanken is a growing bank. But not because the Bank views growth for the sake of growth as something to aim for, but rather because growth is a natural consequence of Handelsbanken's business model, which results in more satisfied customers and generates stable value creation for our shareholders.

Key figures per year

Key figures for the Handelsbanken Group	2018	2017	2016	2015	2014
Profit before credit losses, continuing operations, SEK m	22 880	22 694	22 325	22 065	20 987
Net credit losses, SEK m	-881	-1 683	-1 724	-1 597	-1 781
Operating profit, continuing operations, SEK m	22 013	21 025	20 633	20 475	19 212
Profit for the year, continuing operations, SEK m	17 357	16 102	16 232	16 198	15 143
Profit for the year, discontinued operations, SEK m	-	-	13	145	41
Profit for the year, total operations, SEK m	17 357	16 102	16 245	16 343	15 184
Total assets, SEK m	2 978 174	2 766 977	2 627 580	2 522 133	2 816 676
Equity, SEK m	142 261	141 604	136 381	128 268	126 827
Return on equity, total operations, %	12.8	12.3	13.1	13.5	13.4
Return on equity, continuing operations, %	12.8	12.3	13.1	13.4	13.3
Return on capital employed, %	0.58	0.56	0.58	0.58	0.57
Cost/income ratio, continuing operations, %	47.7	45.5	45.2	45.3	45.2
Cost/income ratio, continuing operations, incl. credit losses, %	49.7	49.6	49.5	49.3	49.9
Credit loss ratio, %	0.04				
Credit loss ratio (IAS 39), %		0.08	0.09	0.09	0.10
Impaired loans reserve ratio, %		64.9	59.9	54.5	47.2
Proportion of impaired loans, %		0.13	0.16	0.21	0.25
Earnings per share, SEK	8.93	8.28	8.43	8.57	7.96
after dilution	8.84	8.20	8.31	8.39	7.84
Ordinary dividend per share, SEK	5.50[1]	5.50	5.00	4.50	4.17
Total dividend per share, SEK	5.50[1]	7.50	5.00	6.00	5.83
Adjusted equity per share, SEK	72.90	72.90	69.28	65.14	64.13
No. of shares as at 31 December, millions	1 944.2	1 944.2	1 944.2	1 907.0	1 907.0
of which outstanding	1 944.2	1 944.2	1 944.2	1 907.0	1 907.0
Average number of outstanding shares, millions	1 944.2	1 944.2	1 927.1	1 907.0	1 907.0
after dilution	1 974.5	1 974.3	1 972.7	1 971.9	1 959.0
Common equity tier 1 ratio, % according to CRR	16.8	22.7	25.1	21.2	20.4
Tier 1 ratio, % according to CRR	18.6	25.0	27.9	23.8	22.1
Total capital ratio, % according to CRR	21.0	28.3	31.4	27.2	25.6
Average number of employees	12 307	11 832	11 759	11 819	11 692
No. of branches in Sweden	390	420	435	474	478
No. of branches in the UK	208	208	207	198	179
No. of branches in Denmark	56	57	57	57	57
No. of branches in Finland	36	45	45	46	46
No. of branches in Norway	49	49	50	50	51
No. of branches in the Netherlands	29	28	25	23	20
No. of branches in other countries	11	12	13	13	17

For definitions of alternative key figures, see page 250 and for calculation of these key figures, see the Fact Book which is available at handelsbanken.se/ireng.

[1] Dividend as recommended by the Board.

Quarterly performance

Quarterly performance for the Handelsbanken Group

SEK m	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Interest income	12 914	12 798	12 353	11 106	10 853
Interest expense	-5 042	-4 936	-4 449	-3 458	-3 076
Net interest income	**7 872**	**7 862**	**7 904**	**7 648**	**7 777**
Fee and commission income	3 124	3 084	3 048	2 927	2 998
Fee and commission expense	-513	-460	-497	-466	-497
Net fee and commission income	**2 611**	**2 624**	**2 551**	**2 461**	**2 501**
Net gains/losses on financial transactions	303	186	290	129	164
Risk result – insurance	40	10	15	41	34
Other dividend income	201	3	12	2	576
Share of profit of associates	-3	10	2	-9	30
Other income	59	33	861	52	70
Total income	**11 083**	**10 728**	**11 635**	**10 324**	**11 152**
Staff costs	-3 464	-3 421	-3 363	-3 217	-3 178
Other expenses	-1 889	-1 554	-1 644	-1 625	-1 712
Depreciation, amortisation and impairment of property, equipment and intangible assets	-171	-181	-189	-172	-184
Total expenses	**-5 524**	**-5 156**	**-5 196**	**-5 014**	**-5 074**
Profit before credit losses	**5 559**	**5 572**	**6 439**	**5 310**	**6 078**
Net credit losses	-276	-230	-222	-153	-1 084
Gains/losses on disposal of property, equipment and intangible assets	5	2	3	4	3
Operating profit	**5 288**	**5 344**	**6 220**	**5 161**	**4 997**
Taxes	-1 272	-1 238	-989	-1 157	-1 235
Profit for the period	**4 016**	**4 106**	**5 231**	**4 004**	**3 762**
attributable to					
Shareholders in Svenska Handelsbanken AB	4 015	4 105	5 231	4 003	3 760
Minority interest	1	1	0	1	2
Earnings per share, total operations, SEK	2.07	2.11	2.69	2.06	1.93
after dilution	2.05	2.09	2.66	2.04	1.92

Business segments

Segment reporting 2018	Home markets									
SEK m	Sweden	UK	Denmark	Finland	Norway	The Netherlands	Capital Markets	Other	Adjustments and eliminations	Total
Net interest income	16 988	5 555	1 713	1 315	3 832	675	440	768		31 286
Net fee and commission income	3 995	704	478	502	413	160	3 971	24		10 247
Net gains/losses on financial transactions	626	210	103	45	88	21	805	-990		908
Risk result – insurance							106			106
Share of profit of associates								0		0
Other income	55	7	10	16	7	2	24	1 102		1 223
Total income	**21 664**	**6 476**	**2 304**	**1 878**	**4 340**	**858**	**5 346**	**904**		**43 770**
Staff costs	-3 512	-1 970	-782	-437	-824	-355	-2 278	-3 237	-70	-13 465
Other expenses	-1 104	-881	-214	-195	-250	-103	-1 027	-2 938		-6 712
Internal purchased and sold services	-3 473	-786	-364	-365	-460	-117	8	5 557		
Depreciation, amortisation and impairment of property, equipment and intangible assets	-65	-72	-8	-21	-17	-17	-127	-386		-713
Total expenses	**-8 154**	**-3 709**	**-1 368**	**-1 018**	**-1 551**	**-592**	**-3 424**	**-1 004**	**-70**	**-20 890**
Profit before credit losses	**13 510**	**2 767**	**936**	**860**	**2 789**	**266**	**1 922**	**-100**	**-70**	**22 880**
Net credit losses	-202	-125	5	-172	-413	14	10	2		-881
Gains/losses on disposal of property, equipment and intangible assets	5	-1	5	0	4	-	0	1		14
Operating profit	**13 313**	**2 641**	**946**	**688**	**2 380**	**280**	**1 932**	**-97**	**-70**	**22 013**
Profit allocation	1 883	32	70	183	127	2	-2 297			
Operating profit after profit allocation	**15 196**	**2 673**	**1 016**	**871**	**2 507**	**282**	**-365**	**-97**	**-70**	**22 013**
Internal income	-631	-1 086	-209	-157	-2 572	-296	-2 741	7 692		
C/I ratio, %	34.6	57.0	57.6	49.4	34.7	68.8	112.3			47.7
Credit loss ratio, %	0.02	0.06	-0.01	0.14	0.17	-0.03	-0.02	-0.23		0.04
Assets	1 833 177	384 417	122 915	193 618	262 164	54 684	279 656	2 157 293	-2 309 750	2 978 174
Liabilities	1 751 892	370 369	116 748	187 243	245 500	52 941	275 448	2 157 293	-2 321 522	2 835 912
Allocated capital	81 285	14 048	6 168	6 376	16 664	1 743	4 208		11 769	142 261
Return on allocated capital, %	15.1	15.5	13.3	10.9	12.3	13.5	-6.6			12.8
The year's investments in non-financial non-current assets	106	145	4	1	12	42	417	473		1 200
The year's investments in associated companies								-		-
Average number of employees	4 084	2 230	615	518	697	300	1 582	2 281		12 307

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 2017	Home markets									
SEK m	Sweden	UK	Denmark	Finland	Norway	The Netherlands	Capital Markets	Other	Adjustments and eliminations	Total
Net interest income	16 694	4 659	1 714	1 203	3 666	557	472	801		29 766
Net fee and commission income	4 434	602	433	462	410	155	3 174	48		9 718
Net gains/losses on financial transactions	663	127	95	52	90	20	979	-755		1 271
Risk result – insurance							142			142
Share of profit of associates						2		12		14
Other income	49	3	15	18	14	1	26	637		763
Total income	**21 840**	**5 391**	**2 257**	**1 735**	**4 180**	**735**	**4 793**	**743**		**41 674**
Staff costs	-3 465	-1 828	-669	-396	-570	-289	-2 241	-2 818	-196	-12 472
Other expenses	-1 180	-549	-159	-180	-223	-85	-922	-2 591		-5 889
Internal purchased and sold services	-3 168	-595	-335	-303	-424	-98	52	4 871		
Depreciation, amortisation and impairment of property, equipment and intangible assets	-79	-63	-13	-19	-14	-13	-83	-282	-53	-619
Total expenses	**-7 892**	**-3 035**	**-1 176**	**-898**	**-1 231**	**-485**	**-3 194**	**-820**	**-249**	**-18 980**
Profit before credit losses	**13 948**	**2 356**	**1 081**	**837**	**2 949**	**250**	**1 599**	**-77**	**-249**	**22 694**
Net credit losses	-210	-739	-466	-57	-157	2	-56			-1 683
Gains/losses on disposal of property, equipment and intangible assets	2	-1	13	0	1	-	-1	0		14
Operating profit	**13 740**	**1 616**	**628**	**780**	**2 793**	**252**	**1 542**	**-77**	**-249**	**21 025**
Profit allocation	1 257	35	94	150	90	3	-1 629			
Operating profit after profit allocation	**14 997**	**1 651**	**722**	**930**	**2 883**	**255**	**-87**	**-77**	**-249**	**21 025**
Internal income	601	-935	-237	-228	-2 196	-227	-2 735	5 957		
C/I ratio, %	34.2	55.9	50.0	47.6	28.8	65.7	100.9			45.5
Credit loss ratio (IAS 39), %	0.02	0.38	0.48	0.05	0.06	-0.01	0.12			0.08
Assets	1 716 334	366 440	114 495	188 330	247 576	47 478	284 454	1 943 297	-2 141 427	2 766 977
Liabilities	1 636 370	353 334	108 784	182 684	231 739	46 013	280 140	1 943 297	-2 156 988	2 625 373
Allocated capital	79 964	13 106	5 711	5 646	15 837	1 465	4 314		15 561	141 604
Return on allocated capital, %	15.3	10.2	9.7	12.8	14.1	14.3	-1.5			12.3
The year's investments in non-financial non-current assets	54	112	1	45	22	28	463	431		1 156
The year's investments in associated companies								76		76
Average number of employees	4 078	2 045	608	506	672	273	1 625	2 025		11 832

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 a full range of banking services at 390 branches and meeting places throughout Sweden. Handelsbanken Finans offers finance company services and works through the Bank's branches.

Quarterly performance Handelsbanken Sweden

SEK m	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Total 2018	Total 2017	Change %
Net interest income	4 239	4 232	4 276	4 241	16 988	16 694	2
Net fee and commission income	992	1 055	989	959	3 995	4 434	-10
Net gains/losses on financial transactions	123	164	190	149	626	663	-6
Other income	13	6	4	32	55	49	12
Total income	**5 367**	**5 457**	**5 459**	**5 381**	**21 664**	**21 840**	**-1**
Staff costs	-845	-887	-879	-901	-3 512	-3 465	1
Other expenses	-283	-260	-288	-273	-1 104	-1 180	-6
Internal purchased and sold services	-921	-819	-865	-868	-3 473	-3 168	10
Depreciation, amortisation and impairment of property, equipment and intangible assets	-15	-17	-16	-17	-65	-79	-18
Total expenses	**-2 064**	**-1 983**	**-2 048**	**-2 059**	**-8 154**	**-7 892**	**3**
Profit before credit losses	**3 303**	**3 474**	**3 411**	**3 322**	**13 510**	**13 948**	**-3**
Net credit losses	-61	5	-31	-115	-202	-210	-4
Gains/losses on disposal of property, equipment and intangible assets	1	1	2	1	5	2	150
Operating profit	**3 243**	**3 480**	**3 382**	**3 208**	**13 313**	**13 740**	**-3**
Profit allocation	462	491	487	443	1 883	1 257	50
Operating profit after profit allocation	**3 705**	**3 971**	**3 869**	**3 651**	**15 196**	**14 997**	**1**
Internal income	-235	-29	-305	-62	-631	601	-205
C/I ratio, %	35.4	33.3	34.4	35.4	34.6	34.2	
Credit loss ratio, %	0.03	0.00	0.01	0.04	0.02		
Credit loss ratio (IAS 39), %						0.02	
Assets	1 833 177	1 811 790	1 791 848	1 767 086	1 833 177	1 716 334	7
Liabilities	1 751 892	1 732 779	1 716 710	1 684 283	1 751 892	1 636 370	7
Allocated capital	81 285	79 011	75 137	82 804	81 285	79 964	2
Return on allocated capital, %	14.2	15.7	16.1	13.8	15.1	15.3	
Average number of employees	4 016	4 229	4 031	4 057	4 084	4 078	0
Number of branches	390	402	407	415	390	420	-7

Business volumes, Sweden

Average volumes SEK bn	2018	2017	Change %
Loans to the public[1]	**1 339**	**1 270**	**5**
of which households	*828*	*782*	*6*
of which mortgage loans	*780*	*732*	*7*
of which companies	*511*	*488*	*5*
of which mortgage loans	*301*	*283*	*6*
Deposits from the public	**592**	**550**	**8**
of which households	*346*	*321*	*8*
of which companies	*246*	*229*	*7*

[1] Excluding loans to the National Debt Office.

FINANCIAL PERFORMANCE

Operating profit decreased by 3 per cent to SEK 13,313 million (13,740) and the return on allocated capital was 15.1 per cent (15.3).

Net interest income rose by 2 per cent, or SEK 294 million, to SEK 16,988 million (16,694). Higher business volumes increased net interest income by SEK 907 million, while declining margins had a negative impact on net interest income of SEK -82 million. Government fees increased by SEK 325 million and amounted to SEK -1,362 million (-1,037), of which fees to the Swedish Resolution Fund rose to SEK -1,147 million (-812).

Net fee and commission income fell by 10 per cent or SEK 439 million to SEK 3,995 million (4,434), while mutual fund commissions decreased by SEK 376 million to SEK 840 million (1,216). As of 2018, commissions are reported in accordance with the new securities market regulations – MiFID 2. Consequently, the mutual fund commissions that the branches receive as distribution remuneration from the fund management company were SEK 508 million lower year-on-year. The corresponding commissions are instead recognised in the Capital Markets segment and in the Handelsbanken Sweden segment in the profit allocation line. Adjusted for the change in the model, mutual fund commissions went up by 11 per cent. Insurance commissions were also affected, decreasing by SEK 212 million as a result of the new MiFID 2 regulations. Brokerage income from discretionary management was also lower as a result of MiFID 2, and is now recognised as advisory commissions.

Total expenses rose by 3 per cent to SEK -8,154 million (-7,892). Staff costs increased by 1 per cent to SEK -3,512 million (-3,465). The average number of employees was essentially unchanged at 4,084 (4,078).

Expenses for services bought and sold internally increased by 10 per cent to SEK -3,473 million (-3,168), mainly due to higher costs connected to the ongoing work to improve efficiency and digitalise administration and routine work. One example of this work is the continued improvement of the digital support for investment advisory services.

The cost/income ratio was 34.6 per cent (34.2).

Credit losses were SEK -202 million (-210), and the credit loss ratio was 0.02 per cent pursuant to IFRS 9 (IAS 39: 0.02).

BUSINESS DEVELOPMENT

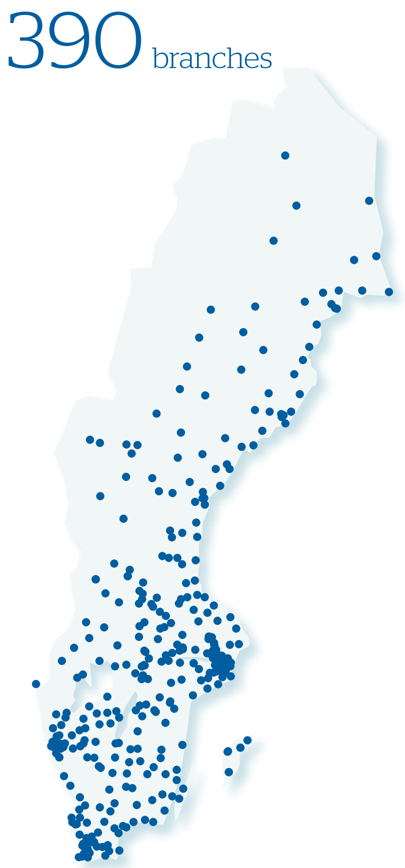
Just as in previous years, the Swedish Quality Index (SKI) survey found Handelsbanken to be "Best among the major banks". The survey asserts that "those businesses that succeed in combining a digital presence with a personal touch are rewarded with more satisfied customers". Among private customers, Handelsbanken scored 72.3, meaning that the Bank's lead over the sector average, as well as over the other three major banks, has grown since the previous year. The other major banks recorded scores in the 58.5 – 65.7 range. For corporate customers, Handelsbanken's index value was 67.7, as compared with the other major banks, all of which scored in the 56.6 – 61.9 range.

In Finansbarometern's annual survey, Handelsbanken has once again been voted Sweden's Small Enterprise Bank – for the seventh year running and Business Bank of the Year – for the eighth year running. The year's survey once again provided evidence that corporate customers appreciate Handelsbanken's unique business model.

Handelsbanken continues to have major inflows of new business volumes in Sweden – in terms of both savings and lending. New savings in the Bank's mutual funds in Sweden totalled SEK 13.0 billion (22.0), corresponding to a market share of 24 per cent (20), compared to the Bank's share of the Swedish mutual fund market of 11.1 per cent (11.0). The Bank's market share for deposits also increased. Official statistics showed that, during the year, 19 per cent of the net increase in household deposits in Sweden went into accounts at Handelsbanken, whereas the Bank's share of the market for household deposits was 18.1 per cent.

The average volume of mortgage loans to private individuals rose by 7 per cent to SEK 780 billion (732), while deposits from households grew by 8 per cent to SEK 346 billion (321). The average volume of corporate lending went up by 5 per cent to SEK 511 billion (488), while corporate deposits increased by 7 per cent to SEK 246 billion (229).

Two new branches were opened during the year, while the business operations of 33 branches were merged with nearby larger branches. Handelsbanken had a total of 390 (420) branches and meeting places in Sweden.



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 208 branches throughout the UK.

Quarterly performance Handelsbanken UK

SEK m	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Total 2018	Total 2017	Change %
Net interest income	1 466	1 419	1 388	1 282	5 555	4 659	19
Net fee and commission income	184	179	174	167	704	602	17
Net gains/losses on financial transactions	54	52	50	54	210	127	65
Other income	7	0	0	0	7	3	133
Total income	**1 711**	**1 650**	**1 612**	**1 503**	**6 476**	**5 391**	**20**
Staff costs	-546	-533	-528	-363	-1 970	-1 828	8
Other expenses	-256	-204	-213	-208	-881	-549	60
Internal purchased and sold services	-207	-204	-197	-178	-786	-595	32
Depreciation, amortisation and impairment of property, equipment and intangible assets	-18	-17	-19	-18	-72	-63	14
Total expenses	**-1 027**	**-958**	**-957**	**-767**	**-3 709**	**-3 035**	**22**
Profit before credit losses	**684**	**692**	**655**	**736**	**2 767**	**2 356**	**17**
Net credit losses	-30	-42	-28	-25	-125	-739	-83
Gains/losses on disposal of property, equipment and intangible assets	0	0	-1	0	-1	-1	0
Operating profit	**654**	**650**	**626**	**711**	**2 641**	**1 616**	**63**
Profit allocation	8	9	8	7	32	35	-9
Operating profit after profit allocation	**662**	**659**	**634**	**718**	**2 673**	**1 651**	**62**
Internal income	-133	-338	-331	-284	-1 086	-935	-16
C/I ratio, %	59.7	57.7	59.1	50.8	57.0	55.9	
Credit loss ratio, %	0.05	0.08	0.05	0.05	0.06		
Credit loss ratio (IAS 39), %						0.38	
Assets	384 417	401 664	403 838	389 595	384 417	366 440	5
Liabilities	370 369	388 195	390 553	376 701	370 369	353 334	5
Allocated capital	14 048	13 469	13 286	12 894	14 048	13 106	7
Return on allocated capital, %	14.7	15.3	14.9	17.4	15.5	10.2	
Average number of employees	2 265	2 274	2 228	2 155	2 230	2 045	9
Number of branches	208	208	208	208	208	208	0

Business volumes, UK

Average volumes, GBP m	2018	2017	Change %
Loans to the public	**20 284**	**18 391**	**10**
of which households	*6 544*	*6 127*	*7*
of which companies	*13 740*	*12 264*	*12*
Deposits from the public	**13 825**	**12 429**	**11**
of which households	*4 612*	*3 775*	*22*
of which companies	*9 213*	*8 654*	*6*

FINANCIAL PERFORMANCE

Operating profit rose by 63 per cent, or SEK 1,025 million, to SEK 2,641 million (1,616), partly due to a lower level of credit losses. Exchange rate effects increased operating profit by SEK 70 million. Expressed in local currency, profit before credit losses grew by 11 per cent. Return on allocated capital grew to 15.5 per cent (10.2).

Income climbed by 20 per cent to SEK 6,476 million (5,391). Expressed in local currency, income rose by 14 per cent.

Net interest income improved by 19 per cent, or SEK 896 million, to SEK 5,555 million (4,659). Exchange rate effects increased net interest income by SEK 241 million, and expressed in local currency, net interest income grew by 13 per cent.

An increase in business volumes made a positive contribution of SEK 407 million. The margin on lending to households declined by SEK 128 million, while the corporate lending margin improved by SEK 62 million. Deposit margins improved by SEK 327 million. Government fees rose by SEK 59 million and amounted to SEK -232 million (-173).

Net fee and commission income increased by 17 per cent to SEK 704 million (602), due in part to higher payment and lending commissions, but also due to a climb of 16 per cent in asset management and advisory commission at Heartwood Wealth Management, to SEK 319 million (276).

Staff costs went up by 8 per cent, or SEK 142 million. 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, staff costs rose by SEK 283 million, or 15 per cent. The weakening of the Swedish krona accounted for SEK 109 million of this increase. The average number of employees grew by 9 per cent to 2,230 (2,045).

Other expenses rose by SEK 532 million to SEK -1,739 million (-1,207). Exchange rate effects had an impact on other expenses in the amount of SEK -62 million. During the year, expenses of SEK -295 million (-86) were charged to profit in Handelsbanken UK for development and other preparatory work related to the formation of a subsidiary. The remainder of the increase to expenses was attributable to continued expansion.

Credit losses declined to SEK -125 million (-739) and the credit loss ratio (under IFRS 9) was 0.06 per cent, compared with 0.38 per cent (under IAS 39) during the previous year.

ESTABLISHMENT OF HANDELSBANKEN PLC

The process of migrating the business operations of Handelsbanken UK to the newly formed subsidiary Handelsbanken plc was completed, and operations have been conducted through the wholly owned subsidiary since 1 December 2018. In the new subsidiary, deposits from the public formerly covered by the Swedish deposit guarantee are now covered by the UK deposit guarantee (FSCS).

The costs related to the formation of the subsidiary are expected to be slightly less in 2019 than in 2018.

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 83.9, compared to the sector average of 72.1. On the corporate side, the score was 82.6, compared to the sector average of 70.0.

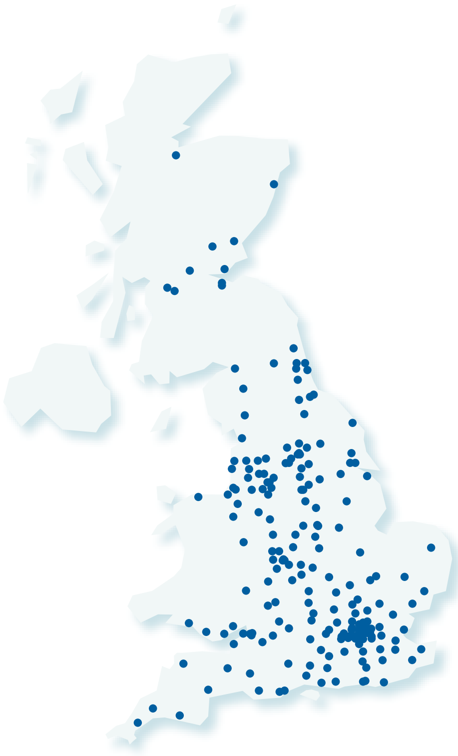
In August, the UK Competition and Markets Authority (CMA) published the results of its independent service quality survey for business banking in Great Britain. The survey looks at corporate customers' willingness to recommend their bank to other small and medium-sized enterprises. In four of the survey's five criteria, including for overall quality of service, Handelsbanken was the highest rated out of the 14 banks included in the survey.

Business volumes continued to grow. The average volume of deposits from households climbed by 22 per cent compared with the previous year, while lending to households grew by 7 per cent. Overall, the average volume of lending increased by 10 per cent to GBP 20.3 billion, while total deposits went up by 11 per cent to GBP 13.8 billion.

The volume of assets under management in Heartwood Wealth Management totalled GBP 3.5 billion (3.4). Net inflows for the year totalled GBP 229 million (315).

At the end of the year, Handelsbanken had a total of 208 (208) branches in the UK.

208 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 a full range of banking services at 56 branches throughout Denmark.

Quarterly performance Handelsbanken Denmark

SEK m	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Total 2018	Total 2017	Change %
Net interest income	423	437	438	415	1 713	1 714	0
Net fee and commission income	129	117	114	118	478	433	10
Net gains/losses on financial transactions	24	23	32	24	103	95	8
Other income	2	2	3	3	10	15	-33
Total income	**578**	**579**	**587**	**560**	**2 304**	**2 257**	**2**
Staff costs	-234	-188	-180	-180	-782	-669	17
Other expenses	-79	-44	-49	-42	-214	-159	35
Internal purchased and sold services	-95	-89	-91	-89	-364	-335	9
Depreciation, amortisation and impairment of property, equipment and intangible assets	-1	-2	-2	-3	-8	-13	-38
Total expenses	**-409**	**-323**	**-322**	**-314**	**-1 368**	**-1 176**	**16**
Profit before credit losses	**169**	**256**	**265**	**246**	**936**	**1 081**	**-13**
Net credit losses	-2	4	9	-6	5	-466	-101
Gains/losses on disposal of property, equipment and intangible assets	2	1	0	2	5	13	-62
Operating profit	**169**	**261**	**274**	**242**	**946**	**628**	**51**
Profit allocation	16	19	17	18	70	94	-26
Operating profit after profit allocation	**185**	**280**	**291**	**260**	**1 016**	**722**	**41**
Internal income	24	-81	-78	-74	-209	-237	12
C/I ratio, %	68.9	54.0	53.3	54.3	57.6	50.0	
Credit loss ratio, %	0.01	-0.02	-0.04	0.02	-0.01		
Credit loss ratio (IAS 39), %						0.48	
Assets	122 915	121 618	125 015	118 017	122 915	114 495	7
Liabilities	116 748	115 530	119 175	112 223	116 748	108 784	7
Allocated capital	6 168	6 088	5 841	5 794	6 168	5 711	8
Return on allocated capital, %	9.4	14.4	15.6	14.0	13.3	9.7	
Average number of employees	612	611	621	617	615	608	1
Number of branches	56	56	57	57	56	57	-2

Business volumes, Denmark

Average volumes, DKK bn	2018	2017	Change %
Loans to the public	**75.5**	**72.8**	**4**
of which households	*46.4*	*44.1*	*5*
of which companies	*29.1*	*28.7*	*1*
Deposits from the public	**34.0**	**31.9**	**7**
of which households	*13.9*	*12.8*	*9*
of which companies	*20.1*	*19.1*	*5*

FINANCIAL PERFORMANCE

Operating profit rose by 51 per cent to SEK 946 million (628), due to a lower level of credit losses and exchange rate movements. The weakening of the Swedish krona had a positive effect of SEK 32 million on operating profit.

Profit before credit losses, adjusted for exchange rate movements, declined by 19 per cent. Return on allocated capital was 13.3 per cent (9.7).

Net interest income remained largely unchanged at SEK 1,713 million (1,714), but was positively affected by exchange rate movements at an amount of SEK 100 million. In local currency, net interest income decreased by 6 per cent. Government fees increased by SEK 35 million, burdening net interest income by SEK 109 million (-74), of which fees for the Swedish Resolution Fund increased by SEK 36 million. Larger lending volumes improved net interest income by SEK 36 million, while lower lending margins had a negative impact of SEK -97 million. Deposit margins, primarily corporate, increased net interest income by SEK 31 million, while the impact of larger deposit volumes was SEK 4 million.

Net fee and commission income increased by 10 per cent, or SEK 45 million, to SEK 478 million (433), of which SEK 28 million was attributable to exchange rate movements. Expressed in local currency, net fee and commission income improved by 4 per cent, due in part to higher payment commissions.

Net gains/losses on financial transactions rose by 8 per cent to SEK 103 million (95). In local currency, the increase was 3 per cent.

Expenses increased by 16 per cent to SEK -1,368 million (-1,176). In local currency, expenses went up by 10 per cent. Staff costs grew by 17 per cent to SEK -782 million (-669) but, expressed in local currency, the increase was 10 per cent. The average number of employees grew by 1 per cent to 615 (608).

Credit losses consisted of net recoveries and amounted to SEK 5 million (-466), and the credit loss ratio was -0.01 per cent pursuant to IFRS 9 (IAS 39: 0.48).

BUSINESS DEVELOPMENT

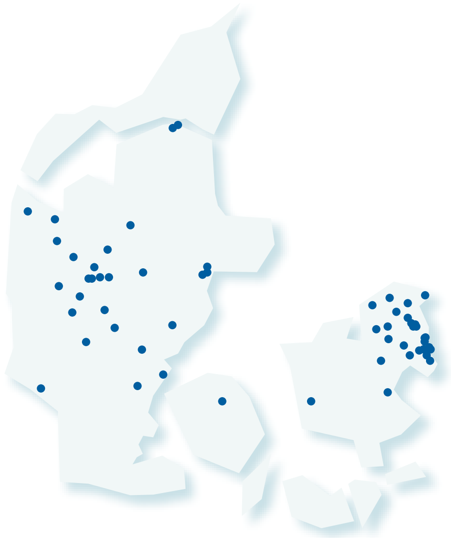
EPSI's annual customer satisfaction survey showed that Handelsbanken once again had the most satisfied private customers of all banks in Denmark. Private customers gave the Bank a score of 77.8, compared to the sector average of 69.9. On the corporate side, the score was 71.8, compared to the sector average of 69.8.

The Bank continued to have a stable inflow of new volumes and customers. The average volume of lending to households increased by 5 per cent, while deposits from households grew by 9 per cent. The average volume of corporate lending increased by 1 per cent, while corporate deposits were up by 5 per cent. Overall, the average volume of lending grew by 4 per cent to DKK 75.5 billion (72.8), and deposits increased by 7 per cent to DKK 34.0 billion (31.9).

New savings in the Bank's mutual funds in Denmark during the year totalled SEK 1.4 billion (2.3).

At the end of the year, Handelsbanken had a total of 56 (57) branches in Denmark.

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' 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 a full range of banking services at 36 branches throughout Finland. Handelsbanken Finans offers finance company services and works through the Bank's branches.

Quarterly performance Handelsbanken Finland

SEK m	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Total 2018	Total 2017	Change %
Net interest income	334	336	332	313	1 315	1 203	9
Net fee and commission income	132	124	124	122	502	462	9
Net gains/losses on financial transactions	6	9	17	13	45	52	-13
Other income	3	6	3	4	16	18	-11
Total income	**475**	**475**	**476**	**452**	**1 878**	**1 735**	**8**
Staff costs	-115	-110	-108	-104	-437	-396	10
Other expenses	-57	-41	-52	-45	-195	-180	8
Internal purchased and sold services	-97	-92	-87	-89	-365	-303	20
Depreciation, amortisation and impairment of property, equipment and intangible assets	-5	-6	-5	-5	-21	-19	11
Total expenses	**-274**	**-249**	**-252**	**-243**	**-1 018**	**-898**	**13**
Profit before credit losses	**201**	**226**	**224**	**209**	**860**	**837**	**3**
Net credit losses	-72	-25	-81	6	-172	-57	202
Gains/losses on disposal of property, equipment and intangible assets	0	0	0	0	0	0	
Operating profit	**129**	**201**	**143**	**215**	**688**	**780**	**-12**
Profit allocation	40	47	56	40	183	150	22
Operating profit after profit allocation	**169**	**248**	**199**	**255**	**871**	**930**	**-6**
Internal income	55	-72	-73	-67	-157	-228	31
C/I ratio, %	53.2	47.7	47.4	49.4	49.4	47.6	
Credit loss ratio, %	0.34	0.08	0.28	-0.12	0.14		
Credit loss ratio (IAS 39), %						0.05	
Assets	193 618	196 803	199 080	199 978	193 618	188 330	3
Liabilities	187 243	190 700	193 043	193 522	187 243	182 684	2
Allocated capital	6 376	6 104	6 036	6 456	6 376	5 646	13
Return on allocated capital, %	8.2	12.7	10.3	12.3	10.9	12.8	
Average number of employees	487	525	537	523	518	506	2
Number of branches	36	40	45	45	36	45	-20

Business volumes, Finland

Average volumes, EUR m	2018	2017	Change %
Loans to the public	**13 340**	**12 996**	**3**
of which households	*4 195*	*4 061*	*3*
of which companies	*9 145*	*8 935*	*2*
Deposits from the public	**4 395**	**4 267**	**3**
of which households	*1 579*	*1 596*	*-1*
of which companies	*2 816*	*2 671*	*5*

FINANCIAL PERFORMANCE

Operating profit decreased by 12 per cent to SEK 688 million (780) due to higher credit losses. Profit before credit losses grew by 3 per cent, or SEK 23 million, to SEK 860 million (837). Positive Exchange rate effects contributed SEK 48 million to the improvement. In local currency, profit before credit losses went down by 3 per cent. Return on allocated capital was 10.9 per cent (12.8).

Income increased by 8 per cent to SEK 1,878 million (1,735) and was positively affected by exchange rate movements in the amount of SEK 106 million. Expressed in local currency, income growth was 2 per cent.

Net interest income rose by 9 per cent, or SEK 112 million, to SEK 1,315 million (1,203). Exchange rate movements represented SEK 71 million of this increase and, expressed in local currency, net interest income grew by 3 per cent. Fees for the Swedish Resolution Fund increased by SEK 31 million and, together with the deposit guarantee, government fees burdened net interest income in the amount of SEK -132 million (-101). Larger business volumes made a positive contribution of SEK 30 million. Lower margins on lending to households could be offset entirely by higher margins on corporate lending. Improved deposit margins positively affected net interest income by SEK 6 million.

Net fee and commission income rose by 9 per cent to SEK 502 million (462) but, adjusted for exchange rate movements, net fee and commission income improved by 2 per cent. Mutual fund commissions were negatively affected by the new securities market regulations that are in effect in the EU as of 2018 under the MiFID 2 Directive. Consequently, the mutual fund commissions that the branches receive as distribution remuneration from the fund management company were SEK 15 million lower year-on-year. The corresponding commissions are instead recognised in the Capital Markets segment and in the Handelsbanken Finland segment in the profit allocation line.

Net gains/losses on financial transactions totalled SEK 45 million (52).

Total expenses rose by 13 per cent to SEK -1,018 million (-898). Adjusted for exchange rate movements, expenses increased by 6 per cent. Staff costs rose by 10 per cent to SEK -437 million (-396) but, expressed in local currency, the increase was 4 per cent. The average number of employees grew by 2 per cent to 518 (506) due to a greater focus on corporate business, but also to more rigorous compliance requirements.

A project to update the core banking system in Finland has been initiated. The new system is expected to bring about major improvements to both the customer offering and efficiency. The implementation of the new system will take place gradually over the coming years and will cause an increase to development costs in Finland during this period.

Credit losses were SEK -172 million (-57), and the credit loss ratio was 0.14 per cent pursuant to IFRS 9 (IAS 39: 0.05).

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. Private customers gave Handelsbanken a score of 80.1, compared to the sector average of 74.4. Corporate customers gave the Bank a score of 79.1, compared to the sector average of 72.7.

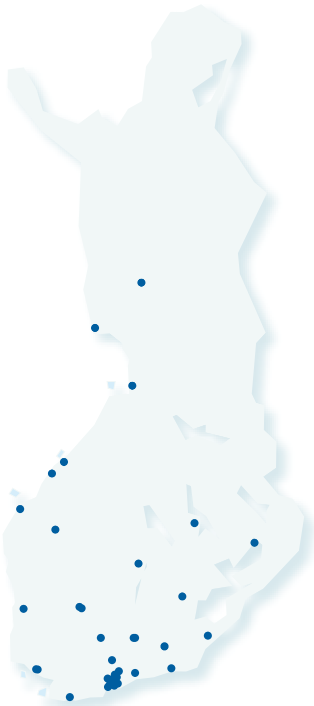
Both the average volume of lending and deposits, compared to the corresponding period of the previous year, increased by 3 per cent. Lending to households increased by 3 per cent, while deposits from households declined by 1 per cent.

The average volume of corporate deposits increased by 5 per cent, while corporate lending increased by 2 per cent compared with the corresponding period of the previous year.

New savings in the Bank’s mutual funds increased to SEK 5.4 billion (-0.2).

The business operations of nine branches were merged with nearby larger branches during the latter six months of the year. At the end of the year, Handelsbanken thus had a total of 36 (45) branches in Finland.

36 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 a full range of banking services at 49 branches throughout Norway.

Quarterly performance Handelsbanken Norway SEK m	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**	**Total 2018**	**Total 2017**	**Change %**
Net interest income	972	969	969	922	3 832	3 666	5
Net fee and commission income	106	109	103	95	413	410	1
Net gains/losses on financial transactions	14	26	25	23	88	90	-2
Other income	2	1	3	1	7	14	-50
Total income	**1 094**	**1 105**	**1 100**	**1 041**	**4 340**	**4 180**	**4**
Staff costs	-197	-221	-207	-199	-824	-570	45
Other expenses	-61	-74	-63	-52	-250	-223	12
Internal purchased and sold services	-121	-123	-102	-114	-460	-424	8
Depreciation, amortisation and impairment of property, equipment and intangible assets	-5	-4	-4	-4	-17	-14	21
Total expenses	**-384**	**-422**	**-376**	**-369**	**-1 551**	**-1 231**	**26**
Profit before credit losses	**710**	**683**	**724**	**672**	**2 789**	**2 949**	**-5**
Net credit losses	-112	-172	-88	-41	-413	-157	163
Gains/losses on disposal of property, equipment and intangible assets	1	0	2	1	4	1	
Operating profit	**599**	**511**	**638**	**632**	**2 380**	**2 793**	**-15**
Profit allocation	39	28	33	27	127	90	41
Operating profit after profit allocation	**638**	**539**	**671**	**659**	**2 507**	**2 883**	**-13**
Internal income	-484	-760	-727	-601	-2 572	-2 196	-17
C/I ratio, %	33.9	37.2	33.2	34.6	34.7	28.8	
Credit loss ratio, %	0.18	0.28	0.14	0.07	0.17		
Credit loss ratio (IAS 39), %						0.06	
Assets	262 164	275 687	277 804	267 441	262 164	247 576	6
Liabilities	245 500	259 275	262 756	251 761	245 500	231 739	6
Allocated capital	16 664	16 412	15 047	15 680	16 664	15 837	5
Return on allocated capital, %	11.9	10.3	13.9	13.1	12.3	14.1	
Average number of employees	697	719	689	683	697	672	4
Number of branches	49	49	49	49	49	49	0

Business volumes, Norway **Average volumes,** NOK bn	**2018**	**2017**	**Change %**
Loans to the public	**249.7**	**237.8**	**5**
of which households	*91.4*	*88.7*	*3*
of which companies	*158.3*	*149.1*	*6*
Deposits from the public	**64.0**	**69.3**	**-8**
of which households	*20.6*	*19.9*	*4*
of which companies	*43.4*	*49.4*	*-12*

FINANCIAL PERFORMANCE

Operating profit went down by 15 per cent to SEK 2,380 million (2,793). In the fourth quarter, staff costs declined by SEK 26 million as a result of the transition to a defined contribution pension plan in the Norwegian operations. For the same reason, the period of comparison was affected by a non-recurring item which reduced staff costs by SEK 206 million. Adjusted for this, operating profit fell by 9 per cent, which is attributable to higher credit losses. Exchange rate movements increased operating profit by SEK 79 million and, expressed in local currency, operating profit declined by 18 per cent.

Return on allocated capital was 12.3 per cent (14.1).

Income grew by 4 per cent to SEK 4,340 million (4,180), with the increase chiefly due to the weakening of the Swedish krona. Expressed in local currency, income rose marginally.

Net interest income increased by SEK 166 million, or 5 per cent, to SEK 3,832 million (3,666), of which SEK 111 million was attributable to exchange rate movements. Greater lending volumes improved net interest income by SEK 142 million, while higher lending margins contributed SEK 8 million. The net amount of the deposit margins contributed SEK 30 million. The change in the volume of household deposits contributed SEK 5 million, while the equivalent change in corporate deposits reduced net interest income by SEK 22 million. Fees for the Swedish Resolution Fund increased by SEK 94 million and, together with the deposit guarantee, government fees burdened net interest income in the amount of SEK -283 million (-192).

Net fee and commission income increased marginally to SEK 413 million (410), although expressed in local currency, net fee and commission income was 3 per cent lower. Net fee and commission income was negatively affected by lower mutual fund commissions and higher fee and commission expenses. Mutual fund commissions were negatively affected by the new securities market regulations that are in effect in the EU as well as Norway as of 2018 under the MiFID 2 Directive. Consequently, the mutual fund commissions that the branches receive as distribution remuneration from the fund management company were SEK 35 million lower year-on-year. The corresponding commissions are instead recognised in the Capital Markets segment and in the Handelsbanken Norway segment in the profit allocation line.

Net gains/losses on financial transactions totalled SEK 88 million (90).

Staff costs totalled SEK -824 million (-570). Adjusted for the aforementioned transition to a defined contribution pension plan, staff costs rose by 10 per cent, due in part to contractual salary increases. The average number of employees increased by 4 per cent to 697 (672), partly due to an organisational change whereby the regional bank took over an asset management unit from Handelsbanken Capital Markets.

Credit losses were SEK -413 million (-157), and the credit loss ratio was 0.17 per cent pursuant to IFRS 9 (IAS 39: 0.06).

BUSINESS DEVELOPMENT

EPSI's annual customer satisfaction survey showed that Handelsbanken had customers that were more satisfied than the average for banks in Norway. Private customers gave Handelsbanken a score of 78.1, compared to the sector average of 71.6. Corporate customers gave the Bank a score of 71.5, compared to the sector average of 69.9.

The Bank continued to have a stable inflow of new volumes and customers. The average volume of lending to households increased by 3 per cent, while deposits from households grew by 4 per cent. The average volume of corporate lending grew by 6 per cent, while corporate deposits fell by 12 per cent. In total, the average volume of lending rose by 5 per cent to NOK 249.7 billion (237.8), while total deposits decreased by 8 per cent to NOK 64.0 billion (69.3).

New savings in the Bank's mutual funds in Norway during the year totalled SEK 2.0 billion (4.3).

At the end of the year, Handelsbanken had a total of 49 (49) branches in Norway.

49 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

SEK m	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Total 2018	Total 2017	Change %
Net interest income	176	174	168	157	675	557	21
Net fee and commission income	39	39	43	39	160	155	3
Net gains/losses on financial transactions	9	6	5	1	21	20	5
Share of profit of associates						2	-100
Other income	1	0	1	0	2	1	
Total income	**225**	**219**	**217**	**197**	**858**	**735**	**17**
Staff costs	-91	-90	-90	-84	-355	-289	23
Other expenses	-35	-23	-24	-21	-103	-85	21
Internal purchased and sold services	-31	-28	-26	-32	-117	-98	19
Depreciation, amortisation and impairment of property, equipment and intangible assets	-5	-4	-5	-3	-17	-13	31
Total expenses	**-162**	**-145**	**-145**	**-140**	**-592**	**-485**	**22**
Profit before credit losses	**63**	**74**	**72**	**57**	**266**	**250**	**6**
Net credit losses	1	1	0	12	14	2	
Gains/losses on disposal of property, equipment and intangible assets	-	-	-	-	-	-	
Operating profit	**64**	**75**	**72**	**69**	**280**	**252**	**11**
Profit allocation	0	1	1	0	2	3	-33
Operating profit after profit allocation	**64**	**76**	**73**	**69**	**282**	**255**	**11**
Internal income	-51	-87	-81	-77	-296	-227	-30
C/I ratio, %	72.0	65.9	66.5	71.1	68.8	65.7	
Credit loss ratio, %	-0.01	-0.01	0.00	-0.12	-0.03		
Credit loss ratio (IAS 39), %						-0.01	
Assets	54 684	57 636	58 430	57 747	54 684	47 478	15
Liabilities	52 941	55 978	56 849	56 189	52 941	46 013	15
Allocated capital	1 743	1 659	1 581	1 558	1 743	1 465	19
Return on allocated capital, %	11.6	14.2	14.4	13.9	13.5	14.3	
Average number of employees	307	305	298	291	300	273	10
Number of branches	29	29	29	28	29	28	4

Business volumes, The Netherlands

Average volumes, EUR m	2018	2017	Change %
Loans to the public	**4 419**	**3 687**	**20**
of which households	*2 403*	*1 959*	*23*
of which companies	*2 016*	*1 728*	*17*
Deposits from the public	**1 140**	**830**	**37**
of which households	*132*	*91*	*45*
of which companies	*1 008*	*739*	*36*

FINANCIAL PERFORMANCE

Operating profit improved by 11 per cent to SEK 280 million (252), mainly due to growth in business volumes. Exchange rate effects increased operating profit by SEK 14 million. Expressed in local currency, operating profit improved by 4 per cent. Return on allocated capital was 13.5 per cent (14.3).

Net interest income increased by 21 per cent to SEK 675 million (557). Of the SEK 118 million increase, greater lending volumes accounted for SEK 105 million. Fees for the Swedish Resolution Fund increased by SEK 18 million and, together with the deposit guarantee, government fees burdened net interest income in the amount of SEK -36 million (-18). Exchange rate movements made a positive contribution of SEK 34 million.

Net fee and commission income increased by 3 per cent to SEK 160 million (155), which was primarily attributable to higher brokerage income and higher income from custody accounts and other asset management. The asset management company Optimix contributed SEK 141 million (136).

Expenses grew by 22 per cent to SEK -592 million (-485), as a result of the continuing expansion. The average number of employees went up by 10 per cent to 300 (273), as a consequence of the expansion of the business. The Bank's activities during the past two years include the opening of four new branches in the Netherlands.

Credit losses consisted of net recoveries and totalled SEK 14 million (2). The credit loss ratio was -0.03 per cent pursuant to IFRS 9 (IAS 39: -0.01).

BUSINESS DEVELOPMENT

EPSI's annual customer satisfaction survey showed that Handelsbanken had the most satisfied private customers of all banks in the Netherlands. Private customers gave the Bank a score of 78.0, compared to the sector average of 69.4. Corporate customers gave Handelsbanken a score of 73.5, compared to the sector average of 64.1.

Business volumes continued to grow. The average volume of lending to the public increased by 20 per cent compared to the previous year, while deposits grew by 37 per cent. The average volume of lending to households rose by 23 per cent to EUR 2,403 million (1,959), while deposits from households increased by 45 per cent to EUR 132 million (91). Corporate lending climbed 17 per cent to EUR 2,016 million (1,728). The average volume of corporate deposits was up by 36 per cent to EUR 1,008 million (739).

Assets under management at Optimix totalled EUR 1.6 billion (1.7) at the end of the year, including the company's own funds.

During the year, the Bank opened one new branch, bringing the total of Handelsbanken branches in the Netherlands to 29 at year-end (28).

29 branches

Handelsbanken Capital Markets

Handelsbanken Capital Markets consists of Markets & Asset Management, Pension & Life, Handelsbanken International and Business Support. It has employees in 21 countries.

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** SEK m	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**	**Total 2018**	**Total 2017**	**Change %**
Net interest income	99	112	119	110	440	472	-7
Net fee and commission income	1 030	992	997	952	3 971	3 174	25
Net gains/losses on financial transactions	201	130	253	221	805	979	-18
Risk result – insurance	40	10	15	41	106	142	-25
Other income	10	12	-2	4	24	26	-8
Total income	**1 380**	**1 256**	**1 382**	**1 328**	**5 346**	**4 793**	**12**
Staff costs	-570	-559	-579	-570	-2 278	-2 241	2
Other expenses	-313	-236	-249	-229	-1 027	-922	11
Internal purchased and sold services	-35	25	6	12	8	52	-85
Depreciation, amortisation and impairment of property, equipment and intangible assets	-34	-35	-30	-28	-127	-83	53
Total expenses	**-952**	**-805**	**-852**	**-815**	**-3 424**	**-3 194**	**7**
Profit before credit losses	**428**	**451**	**530**	**513**	**1 922**	**1 599**	**20**
Net credit losses	-2	-1	-3	16	10	-56	-118
Gains/losses on disposal of property, equipment and intangible assets	0	0	0	0	0	-1	-100
Operating profit	**426**	**450**	**527**	**529**	**1 932**	**1 542**	**25**
Profit allocation	-565	-595	-602	-535	-2 297	-1 629	41
Operating profit after profit allocation	**-139**	**-145**	**-75**	**-6**	**-365**	**-87**	**320**
Internal income	-594	-712	-763	-672	-2 741	-2 735	0
C/I ratio, %	116.8	121.8	109.2	102.8	112.3	100.9	
Credit loss ratio, %	-0.01	0.01	0.02	-0.09	-0.02		
Credit loss ratio (IAS 39), %						0.12	
Assets	279 656	336 690	329 002	325 922	279 656	284 454	-2
Liabilities	275 448	332 208	324 833	321 580	275 448	280 140	-2
Allocated capital	4 208	4 482	4 170	4 342	4 208	4 314	-2
Return on allocated capital, %	-10.3	-10.2	-5.6	-0.4	-6.6	-1.5	
Average number of employees	1 564	1 601	1 585	1 577	1 582	1 625	-3

Assets under management SEK bn	**2018**	**2017**
Mutual funds, excl. PPM and unit-linked insurance	365	362
PPM	33	32
Unit-linked insurance	107	107
of which external funds	*-2*	*-3*
Total mutual funds	**503**	**498**
Structured products	9	13
Portfolio bond insurance	25	24
of which in Handelsbanken mutual funds and structured products	*-10*	*-10*
Traditional insurance	8	8
of which in Handelsbanken mutual funds and structured products	*-1*	*-1*
Discretionary and Institutional assets, excl. insurance[1]	233	224
of which in Handelsbanken mutual funds and structured products	*-148*	*-144*
Total assets under management, excl. securities in custody	**619**	**612**
Securities in custody, excl. mutual funds	333	344
Securities in custody, excl. mutual funds, for foundations associated with Handelsbanken	47	53

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

FINANCIAL PERFORMANCE

Operating profit rose by 25 per cent to SEK 1,932 million (1,542), due to improved net fee and commission income, and lower credit losses. Total income rose by 12 per cent to SEK 5,346 million (4,793), while expenses increased by 7 per cent to SEK -3,424 million (-3,194). Profit before credit losses grew by 20 per cent to SEK 1,922 million (1,599).

Net fee and commission income increased by 25 per cent, to SEK 3,971 million (3,174), which was due to larger fund volumes and to new securities market regulations that are in effect in the EU, as of 2018, under the MiFID 2 Directive. As a consequence of this the fund management company is retaining SEK 558 million of the distribution compensation that was previously reported directly in the branch operations. Insurance commissions were also positively affected by MiFID 2, rising by SEK 212 million. This will instead be paid to the branch operations by means of profit allocation.

Net gains/losses on financial transactions decreased to SEK 805 million (979). The decrease in profit was attributable to unusually high income in the comparison period due to market turbulence at the end of last year.

Staff costs increased by 2 per cent to SEK -2,278 million (-2,241), mainly due to a non-recurring item in the comparison period that reduced staff costs in Norway in conjunction with the transition to a defined contribution pension plan. The average number of employees fell by 3 per cent to 1,582 (1,625).

Other expenses increased by 11 per cent to SEK 1,027 million (922), due in part to the cost of analysts being charged to the fund management company since December 2017, having previously been paid by the fund unit holders.

Credit losses consisted of net recoveries, which amounted to SEK 10 million (-56), and the credit loss ratio was -0.02 per cent pursuant to IFRS 9 (IAS 39: 0.12).

BUSINESS DEVELOPMENT

Asset management operations continued to show a strong performance, and net savings in Sweden in Handelsbanken's mutual funds totalled SEK 13.0 billion (22.0) during the year, corresponding to a market share of 24 per cent. The Bank was thus the largest in new savings among all fund market players in Sweden in 2018.

Net savings in the Bank's mutual funds elsewhere in the Nordic region also showed strong growth, amounting to SEK 8.9 billion during the year.

Total net savings in the Group's funds amounted to SEK 21.2 billion (28.2). Xact Kapitalförvaltning remained the largest player as regards Nordic exchange-traded funds. Total fund volume, including exchange-traded funds, increased during the year by 1 per cent to SEK 503 billion (498). Total assets under management in the Group rose during the year by 1 per cent to SEK 619 billion (612). Morningstar, a mutual fund research company, ranked Handelsbanken Fonder highest of the Nordic banks when it evaluated the 30 largest fund managers on the Swedish market.

In Thomson Reuters' annual evaluation of recommendation and forecast outcomes, the Bank's equity analysis was ranked number one in the Nordic region.

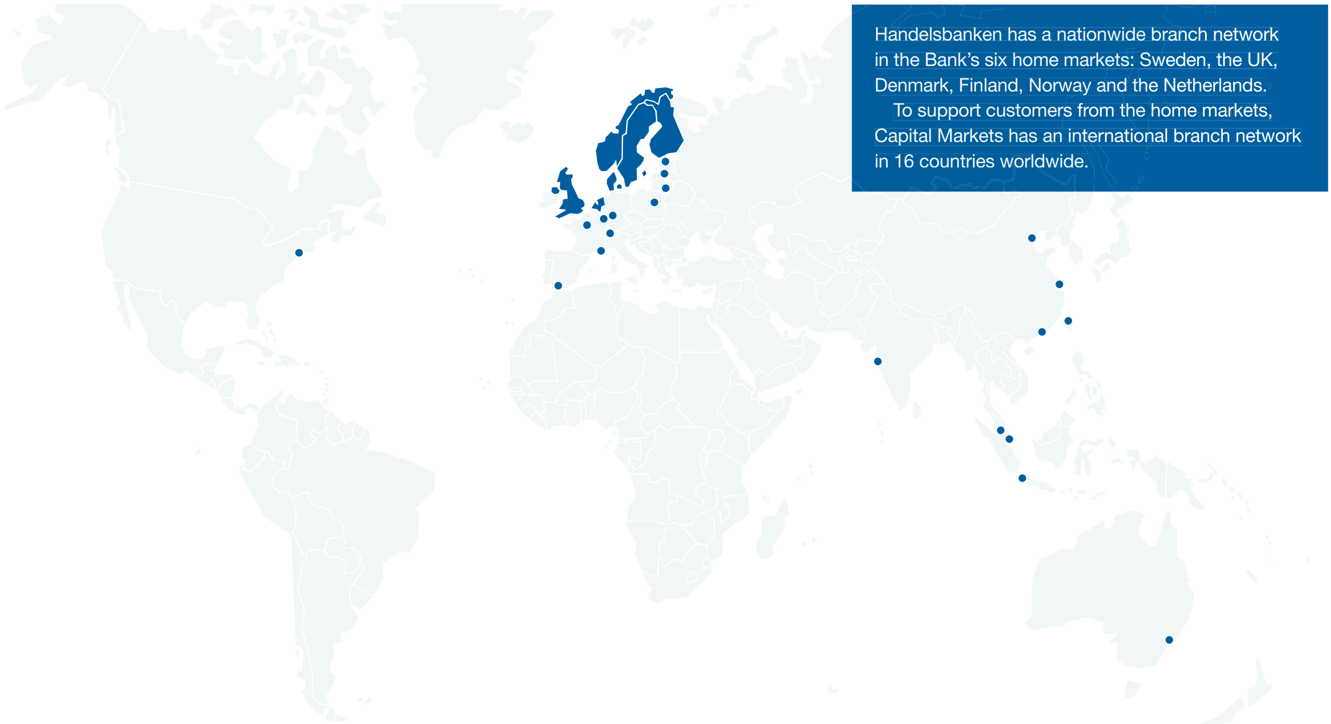
All the Bank's global index funds track new, more sustainable indices. The change of indices means, among other things, that a number of companies that do not meet the criteria are excluded as investment alternatives for the funds.

The Pension & Life business area performed well and in the area of occupational pensions in Sweden, premiums paid in increased by 16 per cent compared with the previous year. The total net flow also performed strongly and rose by 38 per cent during the year to SEK 6.2 billion (4.5).

The volume of assets under management by Handelsbanken Liv during the year was unchanged at SEK 139 billion (139).

The Bank's business volumes in the market for Capital Market funding performed well with continued major interest in green bonds, where the Bank arranged 20 transactions during the year, with a total value of SEK 20.0 billion. In total, the Bank arranged 115 bond issues during the year for a value of EUR 12.6 billion.

The average volume of deposits in Handelsbanken International, i.e. the operations outside the Bank's home markets, decreased by 2 per cent to SEK 60.1 billion (61.5). During the same period, lending decreased by 2 per cent to SEK 31.7 billion (32.2).



Handelsbanken has a nationwide branch network in the Bank's six home markets: Sweden, the UK, Denmark, Finland, Norway and the Netherlands.

To support customers from the home markets, Capital Markets has an international branch network in 16 countries worldwide.

Markets & Asset Management offers a full range of products and services linked to risk management, securities, derivatives, mutual funds, research, debt capital markets and corporate finance, as well as co-ordinating the Bank's offering in the savings area.

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

Handelsbanken International encompasses the Bank's branches and representative offices in 16 countries outside the Bank's home markets, as well as the units for Financial Institutions (global banking collaborations) and Transaction Banking (cash management, trade finance and export finance).

The Handelsbanken share and shareholders

Handelsbanken's share was first listed on the Stockholm stock exchange in 1873, 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. The share capital was SEK 3,013 million, divided among 1,944,175,160 shares. Each share thus represented SEK 1.55 of the share capital.

STOCK EXCHANGE TRADING

Handelsbanken's shares are traded on several different market places. Turnover is largest on Nasdaq Stockholm, but for the past couple of years, the shares have also been traded on other venues. In 2018, an average of 4.0 million class A shares in Handelsbanken (3.3) 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 listed on the Stockholm stock exchange in 1873, making it the oldest listed share on the exchange.

DIVIDEND

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 2019 AGM resolve on an ordinary dividend of SEK 5.50 per share (5.50). The complete proposal on share dividends is presented on page 177.

CREATING SHAREHOLDER VALUE

During the past five-year period, Handelsbanken has generated a positive shareholder value of SEK 47 billion. Market capitalisation has decreased by SEK 10 billion, while the Bank has paid out SEK 57 billion in dividends.

SHARE PRICE PERFORMANCE

As at 31 December 2018, Handelsbanken's market capitalisation was SEK 191 billion (218). The Swedish stock market fell by 11 per cent during the year. The Stockholm stock exchange's bank index fell by 13 per cent. Handelsbanken's class A shares closed at SEK 98.30, a decline of 12 per cent, but including the dividends paid, amounting to SEK 7.50, the total return was -6 per cent. Since 1 January 2000, Handelsbanken's share price has increased by 176 per cent, excluding dividends, while the Stockholm stock exchange has risen by 18 per cent.

Handelsbanken's shares	2018	2017	2016	2015	2014
Earnings per share, total operations, SEK	8.93	8.28	8.43	8.57	7.96
after dilution	8.84	8.20	8.31	8.39	7.84
Ordinary dividend per share, SEK	5.50[1]	5.50	5.00	4.50	4.17
Total dividend per share, SEK	5.50[1]	7.50	5.00	6.00	5.83
Dividend growth, ordinary dividend, %	0[1]	10	11	8	9
Price of class A share, 31 December, SEK	98.30	112.20	126.60	112.90	122.20
Price of class B share, 31 December, SEK	101.20	113.00	123.40	116.30	117.67
Highest share price during year, SEK	118.30	135.70	134.60	142.00	124.27
Lowest share price during year, SEK	95.28	109.10	92.00	108.40	101.70
Share price performance, %	-12	-11	12	-8	16
Total return, %	-6	-7	17	-3	21
Dividend yield, %	5.6 [1]	4.9	3.9	4.0	3.4
Adjusted equity per share, SEK	72,90	72.90	69.28	65.14	64.13
Stock exchange price/equity, %	135	154	183	173	191
Average daily turnover on Nasdaq OMX (no. of shares)					
Class A	3 950 419	3 320 334	3 856 880	3 425 715	3 250 808
Class B	45 415	41 655	37 222	60 342	58 700
P/E ratio	11.0	13.5	15.0	13.2	15.3
Market capitalisation, SEK bn	191	218	246	215	233
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 shares as at 31 December, millions	1 944.2	1 944.2	1 944.2	1 907.0	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	1 944.2	1 944.2	1 944.2	1 907.0	1 907.0
Dilution effect, end of period, millions	32.7	30.3	30.1	65.7	64.9
Number of outstanding shares after dilution, millions	1 976.9	1 974.5	1 974.3	1 972.7	1 971.9
Average number of outstanding shares, millions	1 944.2	1 944.2	1 927.1	1 907.0	1 907.0
after dilution	1 974.5	1 974.3	1 972.7	1 971.9	1 959.0

[1] Dividend as recommended by the Board.

REPURCHASE OF SHARES

At the AGM in March 2018, the Board received a mandate to repurchase a maximum of 120 million shares during the period until the AGM in March 2019. This mandate was not used in 2018.

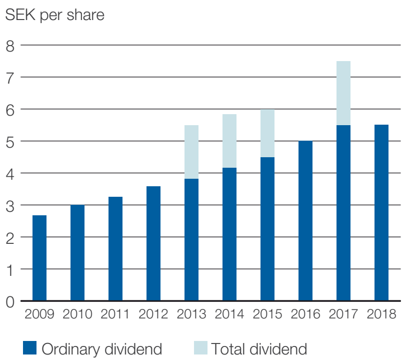
CONVERTIBLE LOAN

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 can convert to class A shares in Handelsbanken between 1 May 2019 and 30 November 2019. The convertible is fully dividend-protected which means that the ordinary conversion price is adjusted downwards by an amount corresponding in percentage terms to the dividend paid on a class A share. The conversion price has been recalculated at SEK 102.19 after the dividend paid in spring 2018. The Bank can also demand conversion.

OWNERSHIP STRUCTURE

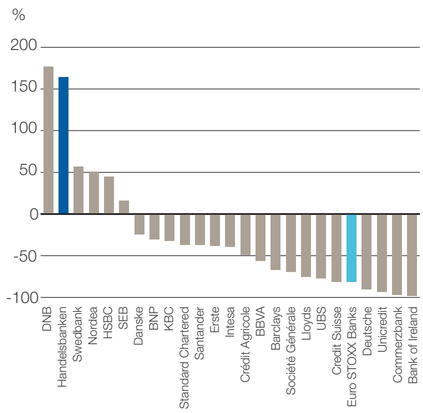
In recent years, the proportion of non-Swedish shareholders has increased, from 30 per cent at the end of 2008 to 46 per cent (49) at year-end. Handelsbanken has more than 120,000 shareholders. Two thirds of these owned fewer than 1,001 shares. Just over 2 per cent of the shareholders owned more than 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



2018 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 2008–31 December 2018



Source: SNL, as at 31 December 2018 (dividends reinvested).

The largest Swedish shareholders 31 December 2018	Number of shares	% of capital	% of votes
Industrivärden	202 900 000	10.6	10.4
Oktogonen Foundation	201 072 046	10.5	10.3
Lundberg-gruppen	66 575 000	3.5	3.4
Swedbank Robur funds	57 022 924	3.0	2.9
Alecta	50 769 000	2.7	2.6
Handelsbanken funds	42 194 504	2.2	2.2
Didner & Gerge funds	27 400 773	1.4	1.4
SEB funds	20 150 688	1.1	1.0
3rd National Swedish Pension Fund	13 396 134	0.7	0.7
J. Wallanders & T. Hedelius Stiftelse,T. Browaldhs Stiftelse	13 000 000	0.7	0.7
SPP funds	12 516 488	0.7	0.6
Folksam	11 462 664	0.6	0.6
Avanza funds	8 593 082	0.4	0.4
Nordea funds	6 999 414	0.4	0.4
Kåpan Pensioner Försäkringsförening	5 590 537	0.3	0.3

Shareholdings per shareholder 31 December 2018			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	63 266	7 185 988	2 965 780	0.5	0.4
501–1,000	shares	17 827	10 685 501	2 993 007	0.7	0.6
1,001–5,000	shares	28 762	58 152 453	9 381 120	3.5	3.1
5,001–20,000	shares	8 816	73 688 363	8 283 199	4.2	3.9
20,001–	shares	2 187	1 759 211 526	11 628 223	91.1	92.0
Total		**120 858**	**1 908 923 831**	**35 251 329**	**100.0**	**100.0**

Shares divided into share classes 31 December 2018 Share class	Number	% of capital	% of votes	Average prices/ repurchased amount	Share capital
Class A	1 908 923 831	98.19	99.82		2 958 831 938
Class B	35 251 329	1.81	0.18		54 639 560
Total	**1 944 175 160**	**100.00**	**100.00**		**3 013 471 498**


Handelsbanken

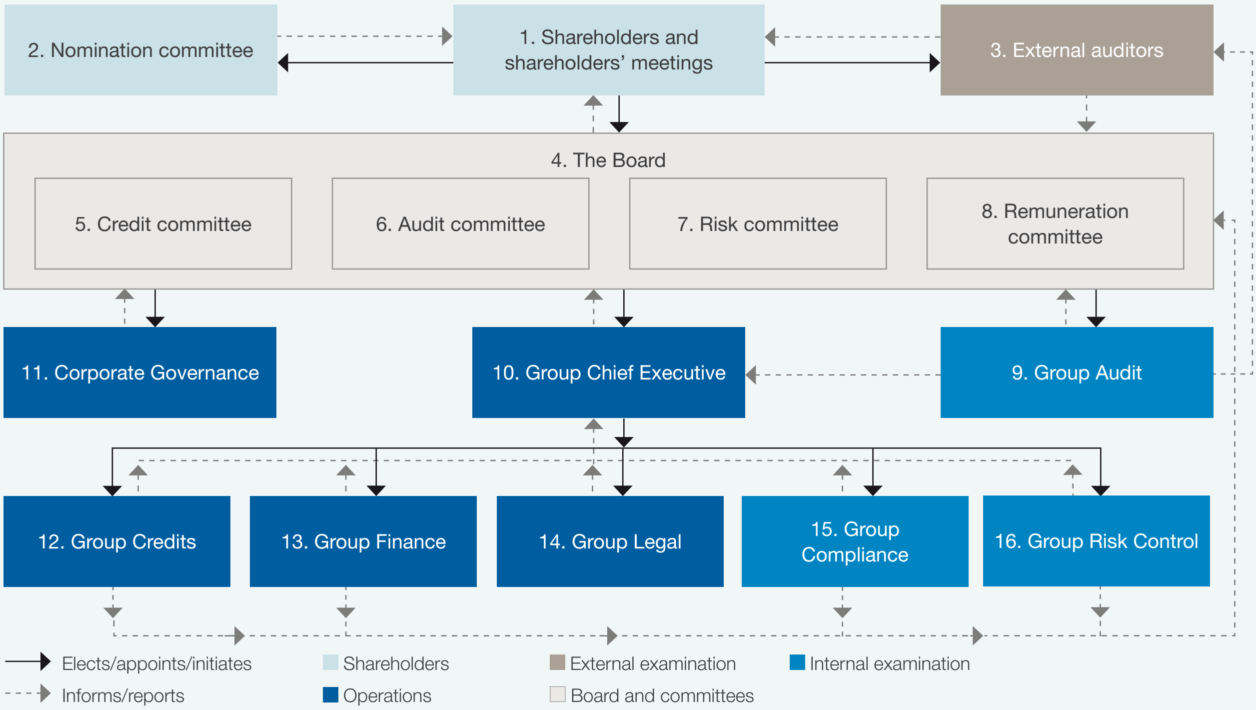
Corporate Governance Report

Handelsbanken is a Swedish public limited company, whose shares are listed on Nasdaq Stockholm. Here the Board submits its Corporate Governance Report for 2018. Handelsbanken applies the Swedish Corporate Governance Code with no deviations.

CONTENTS

Corporate Governance structure

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 at Handelsbanken as the Central Board) organises itself into various committees and has a corporate governance unit at its disposal. To support the work of governing the Bank, the CEO has Group Finance, Group Credits and Group Legal. 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. It can also decide how the nomination committee is to be appointed. See also page 49.

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, Deputy CEOs and the Head of Group Audit and stipulates the employment terms for these persons and for the Heads of Group Compliance and Group Risk Control. The Chairman is responsible for evaluating the Board's work and informs the nomination committee of the results of the 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 Heads of Group Compliance, Group Audit and Group Risk Control. The committee also makes an independent 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 Handelsbanken 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. 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. CORPORATE GOVERNANCE

The Corporate Governance unit ensures that decisions made at shareholders' meetings and by the Board, as well as changes in legislation, regulations and the Corporate Governance Code, are implemented in policy documents from the Board, with the aim of stipulating general responsibilities and powers of authority. These are then passed on within the organisation, chiefly through guidelines and instructions from the CEO.

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 Board's credit committee. 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, please refer to note G2 on pages 85–119. 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. Group Legal is responsible for operational governance, so it works to ensure decisions taken by the CEO – as well as changes in legislation, public authorities' regulations and guidelines relating to internal governance, risk management and control – are implemented in internal guidelines and instructions, with the aim of establishing responsibilities and powers of authority within the Bank.

15. GROUP COMPLIANCE

The primary responsibilities of the compliance function are to work actively to ensure a high level of compliance within the Handelsbanken 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. The function provides advice and support about compliance to the employees, CEO and Board of the Handelsbanken Group, and continually informs the units concerned about the risks which may arise in the operations due to inadequate compliance. The function also informs and trains employees affected by new or changed rules. The Compliance function also identifies the risks that the Handelsbanken Group will not meet its obligations under regulations, laws and other rules for operations that are subject to a licence, and checks and monitors that these risks are being managed by the units concerned. It also submits reports in accordance with established procedures. The Handelsbanken 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 must be 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 Handelsbanken Group.

More information

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

- previous corporate governance reports from 2008 onwards
- Articles of Association
- information about the nomination committee
- minutes from shareholders' meetings from 2008 on.

CORPORATE GOVERNANCE AT HANDELSBANKEN

Corporate governance concerns how rights and obligations are allocated among the Bank's entities, 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 53–55), 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 85–119, 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 higher profitability than the average of peer banks in its home markets. This is mainly to be achieved by having more satisfied customers and lower costs than those of competitors. 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. Allocations to the Oktogonen scheme are made if Handelsbanken's profitability is higher than the average of peer banks on Handelsbanken's home markets.

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. This enables the Bank to build 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.

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. Equivalent authorities in other countries exercise limited supervision over the branches' operations, but have full supervision over the Bank's subsidiaries outside Sweden. The supervisory work is co-ordinated in a supervisory group for Handelsbanken, led by the Swedish Financial Supervisory Authority.

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 2018, 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 2018. 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 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.se/ireng. Minutes of previous meetings are also available there in English at handelsbanken.se/ireng.

Major shareholders

At the end of 2018, 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 43.

Annual general meeting 2018 (AGM)

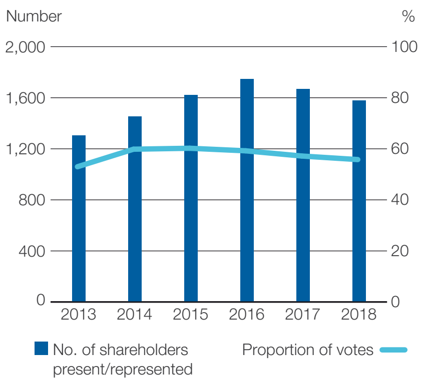
The AGM took place on 21 March 2018.

A total of 1,580 shareholders were represented at the meeting. They represented almost 54.6 per cent of all votes in the Bank. All board members 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 and an extra dividend of SEK 2.00 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.
- Authorisation for the Board to decide on issuance of convertibles with conditions for tier 1 capital instruments. The convertibles entail mandatory conversion in certain cases, but no right of conversion for the holders or the Bank. Conversion may result in a maximum of 180 million shares.
- The Board is to consist of 11 members.
- The re-election of 10 Board members and the election of one new Board member, Hans Biörck, for the period until the next AGM.
- The election of Pär Boman as Chairman of the Board.
- Fees to be paid to the Board members: SEK 3,300,000 to the Chairman of the Board, SEK 940,000 to the Vice Chairman, and SEK 670,000 to the other Board members. Fees for committee work for each member of the respective committee: SEK 390,000 for the credit committee, SEK 135,000 for the remuneration committee, SEK 390,000 for the risk committee and SEK 390,000 for the audit committee. It was decided that the fee to the chairperson of the audit committee would be SEK 470,000. 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 2019.

Attendance at AGMs 2013–2018



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.
- 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 contract later than five years after the person's appointment as one of the Bank's executive officers, the maximum period of notice is 24 months. No other termination benefits are paid. Other time periods may apply due to collective agreements and 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 CEO, other Executive Directors, 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 principal auditor 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 principal auditor 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 2019 nomination committee comprises:

Representative	Shareholders	Voting power in % as at 31 Aug 2018
Christian Dahl	Oktogonen Foundation	10.5
Helena Stjernholm, Chair	Industrivärden	10.4
Mats Guldbrand	Lundberg ownership group	3.4
Bo Selling	Alecta	2.7
Pär Boman, Chairman of the Board		

Information on the composition of the nomination committee has been available on the Bank's website since 21 September 2018.

The nomination committee's task in preparation for the AGM on 27 March 2019 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 on 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 36 per cent, and the proportion of members of a nationality other than the country 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 2018 AGM had appointed Pär Boman to be Chairman of the Board, Fredrik Lundberg was appointed as Vice Chairman 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 58–59.

Composition of the Board

The Board consists of 11 members. When the Board is to be elected, the nomination committee proposes members. The nomination committee includes the Oktogonen Foundation, which also proposes two of the members in the nomination committee's proposal.

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 58–59. 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.se/ireng.

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 2018 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. As chairman of the Bank's pension foundation, pension fund and staff foundation, he has overall responsibility for ownership issues associated with shareholdings of these three entities.

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

The Board's work in 2018

During the year, the Board had 11 meetings, including a lengthy strategy meeting.

The figure on page 51 gives an overview of the Board's work in 2018 relating to 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 Vice Chairman (Fredrik Lundberg), the chair of the audit committee (Bente Rathe), the CEO (Anders Bouvin), 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 2018 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 2018, 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 has been appointed as Chair of 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
- regular contact with the external auditors. These auditors report to the committee on significant matters that have emerged from the statutory audit, especially regarding shortcomings in the internal control of the financial reporting
- 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 annual highlights 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.

In 2018, the audit committee had five 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 has been appointed as Chair of 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 and Chief Credit Officer also attend meetings of the risk committee.

In 2018, the Board's risk committee had five 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.se/ireng prior to the AGM.

In 2018, the remuneration committee had seven meetings.

THE BANK'S MANAGEMENT

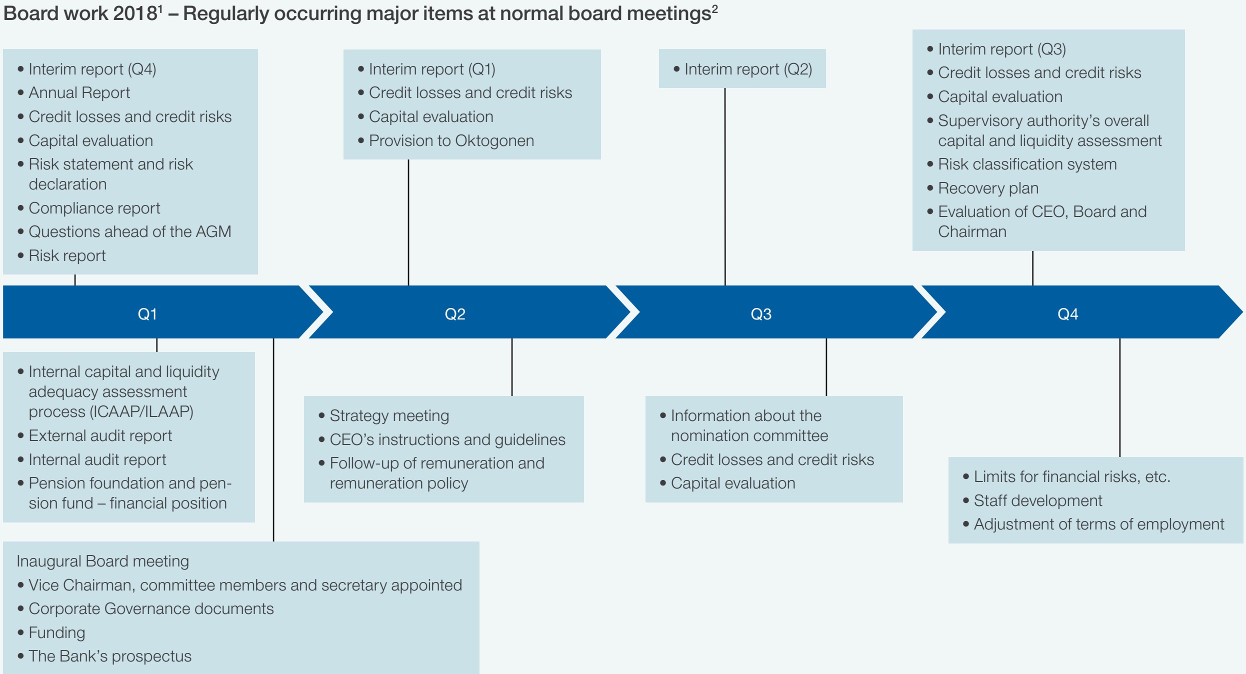
Group Chief Executive (CEO)

The CEO, Anders Bouvin, was born in 1958, has a BA degree (filosofie kandidat) in Business and Economics, and also an honorary doctorate from the London Institute of Banking & Finance. He has worked at Handelsbanken since 1985. In 2002, Anders Bouvin became a member of what was then called the Group management as Executive Vice President and Head of Handelsbanken Denmark. Since then, Anders Bouvin has been Head of Regional Bank Northern Great Britain and Head of Handelsbanken UK. With the exception of his position as Vice Chair of the Swedish Bankers' Association, Anders Bouvin has no significant assignments outside Handelsbanken. His shareholdings in the Bank and those of close relatives are 15,000 shares, as well as 49,571 shares held indirectly via the Oktogonen profit-sharing scheme. In addition, Anders Bouvin has a holding of staff convertible notes in Handelsbanken, issued on market terms to the Bank's employees in 2014. His holding in the 2014 convertible totals SEK 5,869,254 which, at a conversion price of SEK 102.19, corresponds to 57,434 shares. Neither the CEO nor his close relatives have any material shareholdings or other ownership interests in companies with which the Bank has significant business relations.

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.

Board work 2018[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.

Officers with responsibility for certain business areas or functions, and general managers outside Sweden are designated Executive Directors in Handelsbanken. These persons comprise the group of executive officers according to the definition in the Swedish Companies Act. The group is also covered by the concept of senior management used by the Swedish Financial Supervisory Authority in its regulations FFFS 2011:1. These persons are subject to the remuneration guidelines applied by the annual general meeting. For more information about Executive Directors, see page 60.

The CEO regularly meets representatives of the business-operating units, staff functions and control functions for the purpose of consultation and information. This group is referred to as Senior Management. See also pages 60–61.

Risk Forum

Handelsbanken has a Risk Forum, the purpose of which is to address the Bank's overall risk situation ahead of Board meetings, and to ensure that sufficient risk assessments are carried out prior to all decisions of a material nature. In addition to the CEO, the Risk Forum includes the CFO and the Heads of Group Risk Control, Group Compliance and Group Legal, as well as others.

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. In Sweden, business support functions have been pooled centrally under a Chief Operating Officer.

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.

Business areas

There are five business areas within Handelsbanken. Three of these business areas are part of the Handelsbanken Capital Markets segment: Pension & Life, Markets & Asset Management and Handelsbanken International. The joint functions of these three business areas, such as back-office operations, IT development, finance, HR, communications, risk control and compliance, are co-ordinated under a joint head. The remaining two business areas are Stadshypotek and Retail & E-services. Each business area has Group-wide responsibility for its products and services.

The Pension & Life business area includes the Bank's entire pensions-related offering, as well as the Handelsbanken Liv subsidiary. The Markets & Asset Management business area includes trading in financial instruments, corporate finance and asset management, with the Handelsbanken Fonder and Xact Kapitalförvaltning subsidiaries. The Handelsbanken International business area includes all the Bank's international operations outside its home markets. For every country outside the home markets in which Handelsbanken pursues operations there is a general manager who reports to the Head of Handelsbanken International.

The Stadshypotek business area comprises the Stadshypotek AB subsidiary, which pursues mortgage loan operations and other property financing. The Retail & E-services business area develops services for e-commerce and traditional retailing under its own brand. This business area includes the wholly owned subsidiary Ecster AB.

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. Establishing compliance functions at central or local level does not release any employee from the responsibility of complying with the external and internal regulations applying to the operations. The Compliance function monitors and verifies regulatory compliance in the Handelsbanken Group. The regulations are often complex, and in some cases the individual employee may have limited experience. 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 CEO appoints the Chief Compliance Officer. The Chief Compliance Officer reports quarterly to the CEO on compliance in the Group. 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. There are local risk control functions in all countries where the Bank has operations, as well as at some central units and subsidiaries. Local risk control functions work with identifying, measuring, analysing and reporting risks in the operations. Local risk control reports to Group Risk Control and to the management of the operations.

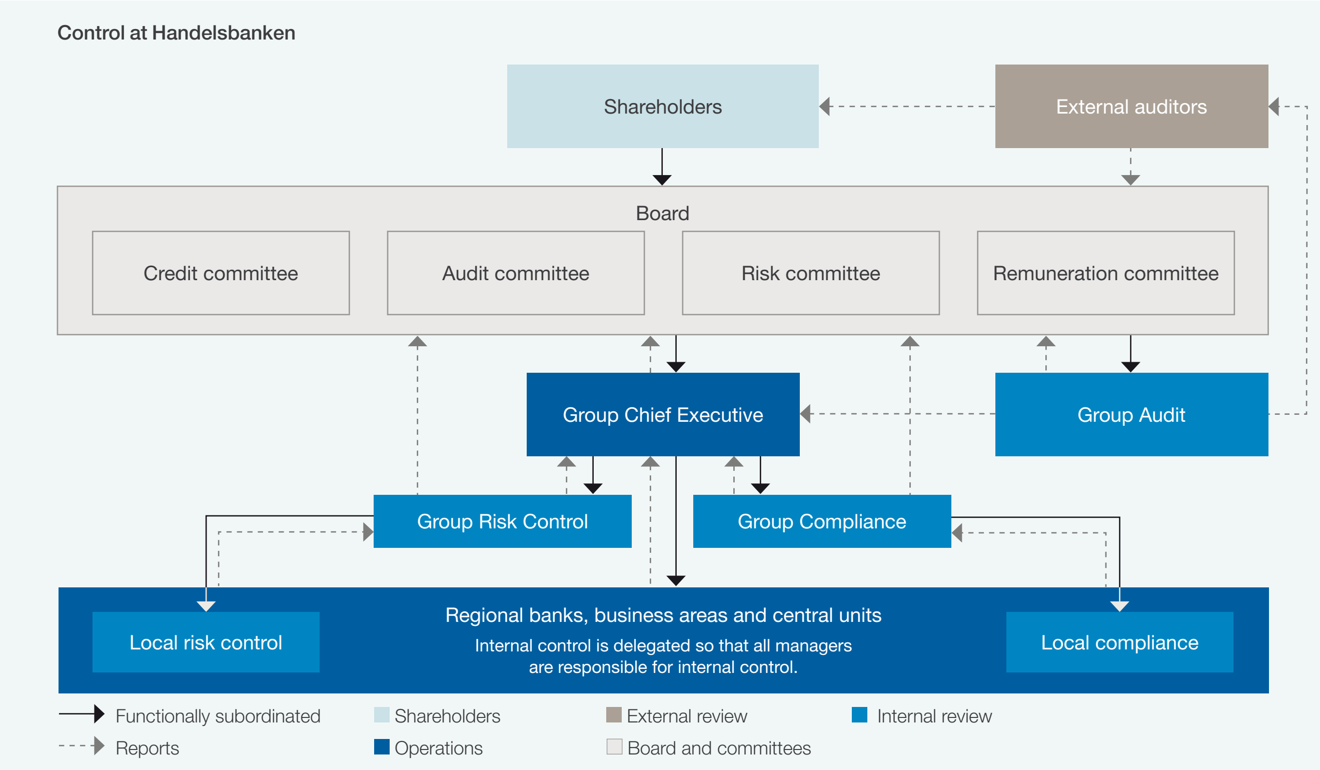
Group Risk Control identifies, measures, analyses and reports all the Group's material risks. This includes monitoring and checking the Group's risk management and assessing that Handelsbanken's risk management framework is fit-for-purpose and efficient. Group Risk Control also checks that the risks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

The Head of Group Risk Control 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 85–119, and also in the Bank's Pillar 3 Report.

Group Audit

Long before external requirements for internal auditing were introduced, the Bank had an internal audit function that was independent of the line organisation. The organisation has centrally and regionally placed internal auditors. The regional internal audit departments are part of Group Audit, which constitutes an integrated internal audit function. Group Audit comprises some 110 employees. Group Audit is the Board's controlling



body. The Chief Audit Officer is appointed by and reports to the Board. The selected organisation and long tradition give Group Audit the authority and integrity required to enable the auditors elected by the AGM to rely on measures and data from Group Audit.

Group Audit is tasked with performing an independent, impartial audit of the operations and financial reporting of the Handelsbanken 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 the contact person 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 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.

Risk control policy

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. Risk control is organised into both central and local risk control. Central risk control, called Group Risk Control, reports to the CEO.

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

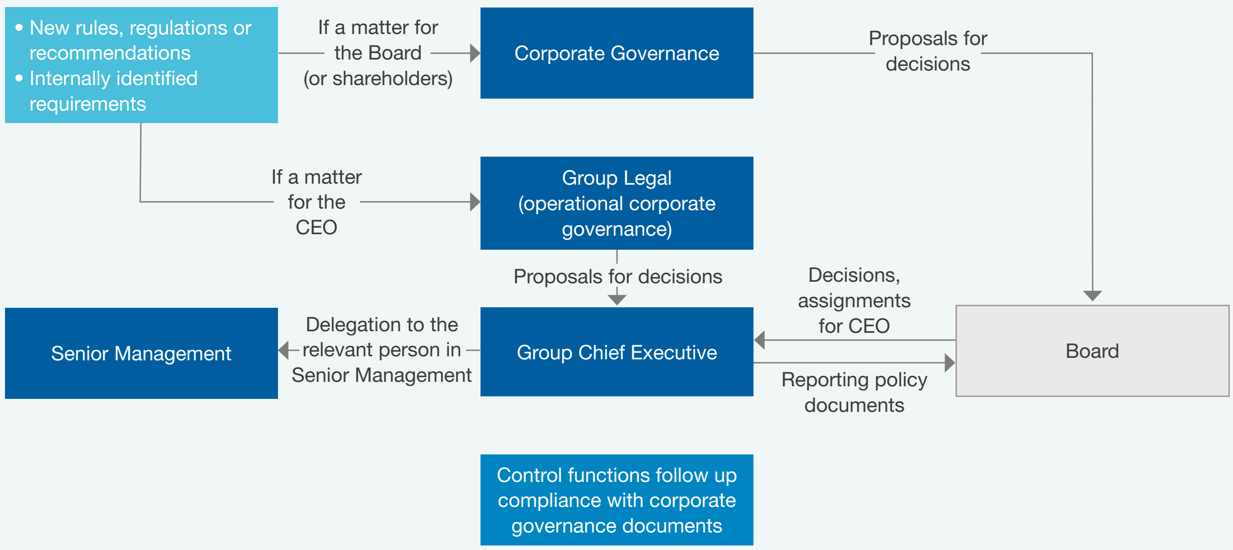
The purpose of the capital policy is to ensure that the Group's supply of capital is satisfactory. The Group must at all times be well capitalised in relation to risk, and fulfil the goals established by the Board and the capital adequacy requirements established by supervisory authorities, even in situations of financial stress (see the section on risk in note G2 on pages 85–119). 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.

Production and follow-up of corporate governance documents – an overview



This chart shows an overview of the process for producing and following up corporate governance documents. A policy or guideline may need to be drawn up or amended as a result of external factors, such as a new regulations or internal requirements. For policies from the Board, the Corporate Governance unit draws up a proposal which is then presented to the Board for adoption. Group Legal is responsible for formulating proposals for guidelines from the CEO, which are then submitted to the CEO for a decision. The CEO is responsible for ensuring that policies and guidelines are implemented, although this task may be delegated to the relevant members of Senior Management. The Bank's control functions are tasked with monitoring whether these documents are complied with in the organisation.

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

This policy sets the direction for Handelsbanken's sustainability activities, in terms of Handelsbanken's approach to material topics relating to customers, the Group's actions as an employer and business in society, and also the relationship with owners and investors. Handelsbanken aims to integrate financial, social and environmental sustainability into all its business operations.

Handelsbanken's success is dependent on the confidence of customers, employees, owners, public authorities and other stakeholders that the Group is acting in a responsible manner. In order for this confidence to be maintained, there must be transparency in the Group's sustainability activities.

The policy is available at handelsbanken.se/csreng.

Policy on 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, for example with the aid of Handelsbanken's whistleblowing system.

The policy is available at handelsbanken.se/csreng.

Policy for managing 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.se/csreng.

Policy against corruption

This policy 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, and must therefore not participate in actions that may involve bribery or any other improper influence.

The policy is available at handelsbanken.se/csreng.

Remuneration policy

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 this page and details about remuneration are shown in note G8 on pages 122–125.

Suitability assessment policy
Suitability assessments in conjunction with the election of board members at the Bank's subsidiaries, and ahead of decisions on appointment of members to the Senior Management and the Head of Group Audit, are performed by Group HR.

Policy for internal audit operations
Group Audit is to evaluate the efficiency and appropriateness of the Group's processes for risk management, internal steering 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.

Compliance policy
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 operations that are subject to a licence conducted by the Handelsbanken Group. Handelsbanken has a low tolerance of the risks linked to inadequate compliance 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 the CEO, as well as for the Board and its risk committee. The compliance function must be independent and organisationally separated from the functions and areas to be monitored and controlled.

Policy for handling customer complaints
The branch responsible for the customer is responsible for receiving and handling a customer complaint. Complaints must be dealt with promptly and professionally, in a dialogue with the customer, taking into consideration the current regulations in the area to which the complaint relates.

Policy for employees' private securities and currency transactions
This policy applies to all Handelsbanken Group employees – temporary as well as permanent – related persons and service providers. Its purpose is to prevent any person who is subject to the policy from carrying out his/her own securities transactions that involve market abuse, 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
This 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
Handelsbanken's low risk tolerance must permeate all products and services offered to customers of the Bank and its subsidiaries. The Handelsbanken Group's product range must maintain a high level of quality and meet customers' needs, characteristics and goals, as well as being presented in such a way that customers are able to make well-founded decisions. Handelsbanken's policy for products and services stipulates a common, uniform process for the management of products and services within the Group, in compliance with applicable laws and regulations, with regard to manufacture and distribution as well as follow-up that the products and services are sold to the correct target group.

Policy on measures against financial crime
This policy is based on i.a. the Swedish Act on Money Laundering and Terrorist Financing (Prevention) and the Swedish Act on Certain International Sanctions. Handelsbanken shall not participate in transactions which may be suspected of being linked to criminal activities, or transactions of which the employees do not understand the implications. Handelsbanken's work method is based on knowledge of customers and an understanding of customers' operations. Customer due diligence must be performed and maintained for as long as the customer relationship exists. Handelsbanken shall 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 areas, in certain subsidiaries with mutual fund operations and in the UK subsidiary Heartwood. 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. Fewer than 2 per cent of the Group's employees are eligible to receive variable remuneration. The total amount allocated during one year for variable remuneration paid to the Handelsbanken Group's employees must not exceed 0.4 per cent of the Bank's common equity tier 1 capital. For 2018, a total of SEK 46 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.

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 122–125. This note also provides information about amounts for salaries, pensions and other benefits, and loans to Executive Directors.

Fixed remuneration

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.

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. 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, the market, and being a cultural ambassador for the Bank.

Principles for remuneration to executive officers

The shareholders at the AGM decide on guidelines for remuneration to the CEO and other executive officers. The guidelines are applied to the CEO, other Executive Directors, and any members of the Handelsbanken Board who are also employees of the Bank. For the AGM guidelines from 2018, see the "Annual general meeting 2018" section on page 49.

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 16 individuals (as at 31 December 2018). The Board also determines remuneration for heads of control functions and deputy chief executives who are not executive officers.

In accordance with guidelines from the AGM, remuneration is paid only in the form of fixed salary and pension provisions, and also customary benefits such as a company car. Handelsbanken may provide housing as part of the remuneration if approved by a special decision of the Board. No variable remuneration is paid, nor are there any agreements on severance pay. The period of notice on the part of the officer is a maximum of six months, and on the part of Handelsbanken a maximum of 12 months or, if the Bank terminates the contract later than five years after the person becomes a member of the group of executive officers, the period of notice is a maximum of 24 months.

According to the AGM guidelines, the retirement age for new officers is normally 65 years of age. For officers who remain in their positions after reaching the standard retirement age, a mutual period of notice of no more than six months applies.

These officers receive an allocation in Handelsbanken's profit-sharing scheme Oktogonen on the same conditions as all other employees of the Bank and are also entitled to convert salary to pension on the same conditions as other employees. Note G8 on pages 122–125 provides further information about remuneration to executive officers. Fees for serving on the boards of other companies on behalf of the Bank are to be paid to the Bank.

Ahead of the 2019 AGM, the Board is proposing guidelines for remuneration and other terms of employment for executive officers as follows. The guidelines must not affect the remuneration previously decided for executive officers.

- 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 bonus and percentage of 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. Pension benefits are defined contribution and may be payable in addition to pension plans under collective agreements.
- 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 other termination benefits are paid. Other time periods may apply due to collective agreements and labour legislation.
- The Board shall have the right to deviate from the established guidelines if there are special reasons in an individual case.

These guidelines apply to the CEO, other Executive Directors and Board Members of the parent company who are also employees of the Bank.

Variable remuneration

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

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, 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.

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). 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

The control environment described above in this Corporate Governance Report is fundamental to Handelsbanken's internal control regarding financial reporting: organisational structure, division of responsibilities, guidelines and steering documents.

Risk assessment is another part of the internal control process and comprises identification and management of the risks that may affect financial reporting, as well as the control activities aimed at preventing, detecting and correcting errors and deviations.

Risk assessment

The annual self-evaluations carried out at regional banks, subsidiaries, central departments and international units are an essential part of the Bank's risk assessment. Risks related to financial reporting are part of this total analysis.

In a self-evaluation, the events that constitute potential risks to the operation are evaluated, and then the probability and consequences of each risk are estimated. Particular focus is placed on the risk of fraud and the risk of loss or embezzlement of assets. A plan of action is then drawn up, based on the self-evaluation. Other aspects of Handelsbanken's risk management are detailed in note G2 on pages 85–119 and in the Bank's Pillar 3 report.

Control activities

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

Group Finance is responsible for consolidated accounts, for 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 requirement is, however, calculated by Group Risk Control. Group Finance must also ensure that the staff concerned are aware of and have access to instructions of significance to the financial reporting. Risk Control identifies, checks and reports risks of errors in the Bank's assumptions and assessments that form the basis of the Bank's financial reporting.

Reported amounts and analyses of income statements and balance sheets are reconciled and checked regularly within the accounting and control organisation.

Heads of accounting and control at regional banks, subsidiaries, central departments and international units are responsible for ensuring that the control activities in the financial reporting for their respective units 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, each unit certifies that the key controls have been carried out, with no discrepancies evident, and that its balance sheet and income statement are correct. The Head of Group Finance (CFO) reports the status regarding 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.

As part of the quality control work for financial reporting, the Board has set up an audit committee consisting of the Chairman of the Board and three Board members. 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 financial reporting. See the section under the Committee work heading on page 50 for more details.

Information and communication

The Bank has information and communication paths with the aim of achieving completeness and correctness in its financial reports. The Group's general accounting instructions and special procedures for producing financial reports are communicated to the staff concerned via the Group's intranet. The system used for financial reporting encompasses the entire Group.

Follow-up

Group Audit, Group Compliance, Group Risk Control and the accounting/control units monitor compliance with internal policies, instructions and other policy documents. Monitoring takes place at the central level, but also locally in regional banks, subsidiaries, central departments, and international units. 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 53. The Group's information and communication paths are monitored continually to ensure that they are fit-for-purpose for the financial reporting.

The Board

Name	Pär Boman Chairman	Fredrik Lundberg Vice Chairman	Jon Fredrik Baksaas Board Member	Hans Biörck Board Member	Anders Bouvin Board Member
Year elected	2006	2002	2003	2018	2017
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 • Vice 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 Lundbergföretagen AB, Skanska AB.	Board Member Telefonaktiebolaget LM Ericsson and Statnett SF.	Chairman of Skanska AB and Trelleborg AB.	President and and Group Chief Executive of Handelsbanken • Vice Chairman Swedish Bankers' Association.
Background	2006–2015 President and CEO of Handelsbanken.	CEO L E Lundbergföretagen AB since 1981 • Active in 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 in finance, financial control and general management • 1988–1989 Employee of Aker AS • 1985–1988 Stolt Nielsen Seaway AS • 1979–1985 Det Norske Veritas, Norway and Japan.	2001–2011 Skanska, Vice President and CFO • 1998–2001 Autoliv, CFO • 1997–1998 Self-employed • 1977–1997 Various positions in Esselte.	2010–2016 EVP, Head of Handelsbanken UK • 2007–2010 EVP, Head of Regional Bank Northern Great Britain • 2002–2007 EVP, Head of Handelsbanken Denmark • 1999–2002 Head of Handelsbanken's branch in New York • Employed by Handelsbanken since 1985.
Education	Engineer and Business/ Economics degree.	Graduate in Business Administration and Master of Engineering, PhD (Econ) h.c. and PhD (Tech) h.c.	Graduate in Business Administration and PED from IMD.	Graduate in Business Administration.	B.A. degree (filosofie kandidat) in Business and Economics Hon DSc from The London Institute of Banking & Finance.
Remuneration 2018[1]	SEK 4,617,500	SEK 1,316,250	SEK 1,883,750	SEK 795,000	SEK 0
Credit committee Participation	Chairman 11/11	10/11	9/11	8/11[2]	11/11
Audit committee Participation	5/5	-	5/5	-	-
Remuneration committee Participation	Chairman 7/7	-	-	-	-
Risk committee Participation	5/5	-	5/5	-	-
Board meetings Participation	Chairman 11/11	10/11	11/11	9/11[2]	11/11
Own shareholdings and those of immediate family	125,077, of which 25,077 in indirect holdings[3].	61,775,000	3,800	5,000	64,571, of which 49,571 in indirect holdings[3]. 2014 convertible at nominal amount: SEK 5,869,254.
Dependent/ independent	Not independent of the Bank and its management (former CEO). Not independent of major shareholders (Vice Chairman 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.	Not independent of the Bank and its management (CEO). Independent of major shareholders.
Number of assignments[4] Actual number of assignments[5]	5[6] 14	4[6] 9	4 5	3 5	1 4

[1] Remuneration decided by the AGM. Total remuneration to the Board in 2018 was SEK 15,057,500.
[2] Member of the Board/committee from March 2018.
[3] Indirect holdings of shares in Handelsbanken via the Oktogonen profit-sharing foundation.
[4] 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.
[5] Number of assignments disregarding the basis of calculation stated in footnote 4.
[6] 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.

Kerstin Hessius Board Member	Jan-Erik Höög Board Member	Ole Johansson Board Member	Lise Kaae Board Member	Bente Rathe Board Member	Charlotte Skog Board Member
2016	2017	2012	2015	2004	2012
1958	1969	1951	1969	1954	1964
Swedish	Swedish	Finnish	Danish	Norwegian	Swedish
CEO Third National Swedish Pension Fund • Board member Vasakronan AB, Hemsö Fastighets AB, Trenum AB, Svensk-Danska Broförbindelsen SVEDAB AB and Øresundsbro Konsortiet.	Head of Private Banking and Deputy Head of Business Support, Handelsbanken South East Sweden • Chairman of the Oktogonen Foundation.	Chairman of Hartwall Capital Oy Ab • Board member Konecranes Oyj Apb.	CEO HeartLand A/S • Board member Whiteway A/S and various companies in 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, Oktogonen Foundation.
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.	Has held various positions at Handelsbanken • Employee since 1991.	1975–2011 various positions within Wärtsilä (Metra) Group, except for a period at Valmet 1979–1981 • CEO 2000–2011.	1992–2008 PricewaterhouseCoopers.	1999–2002 Deputy CEO Gjensidige NOR (CEO of life insurance company, Chair of Mutual Fund and Asset Management Company) • 1996–1999 CEO Gjensidige Bank AS • 1993–1996 CEO Elcon Finans AS • 1991–1993 Deputy CEO Forenede Forsikring • 1989–1991 CFO Forenede Forsikring • 1977–1989 Head of Credits and CFO E.A. Smith AS.	Has held various positions at Handelsbanken • Employee since 1989.
Graduate in Business Administration.	Economics Programme Upper Secondary School, DIHM Diploma in Business Administration (IHM Business School).	Diploma in Economics and Business Administration.	Authorised Public Accountant.	Graduate in Business Administration and MBA.	Economics Programme Upper Secondary School.
SEK 955,000	SEK 0	SEK 1,955,000	SEK 1,341,250	SEK 2,033,750	SEK 0
-	Deputy member -	9/11	-	11/11	Deputy member 1
-	-	5/5	3/5[2]	Chairman 5/5	-
-	-	7/7	-	7/7	-
Chairman 3/5[2]	-	5/5	3/5[2]	5/5	-
11/11	11/11	11/11	11/11	11/11	11/11
8,700	28,855, of which 28,855 in indirect holdings[3]. 2014 convertible at nominal amount: SEK 1,188,742.	93,545	2,560	0	28,563, of which 27,847 in indirect holdings[3]. 2014 convertible at nominal amount: SEK 251,744.
Independent of the Bank, its management and major shareholders.	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). Not independent of major shareholders (Board Member of Oktogonen Foundation).
4	2	2	3	2	3
10	3	4	53	3	7

Company Secretary and Head of Corporate Governance

Klas Tollstadius
Company Secretary and Head of Corporate Governance • Year of birth 1954 • Employed at Handelsbanken since 1991 • Shareholdings* 39,541, of which 26,235 in indirect holdings** • 2014 convertible: SEK 5,617,510

* Direct holdings of shares or convertibles refer to own holdings or those of closely related persons.
** Indirect holdings of shares in Handelsbanken via the Oktogonen profit-sharing foundation.

Senior Management

and Audit and Whistleblowing Function

Executive Directors [1] in Senior Management

Name	Position	Year of birth	Employed	Shareholdings	Convertible 2014 [2]
Nina Arkilahti	CEO, Handelsbanken Finland	1967	1995	Shareholdings* 21,387, of which 14,190 in indirect holdings**	SEK 5,617,510
Per Beckman	Chief Credit Officer, Group Credits	1962	1993	Shareholdings* 14,175, of which 14,175 in indirect holdings**	SEK 5,617,510
Pål Bergström	Chief Compliance Officer, Group Compliance	1967	2015	Shareholdings* 7,166, of which 7,166 in indirect holdings**	–
Anders Bouvin	President and Group Chief Executive	1958	1985	Shareholdings* 64,571, of which 49,571 in indirect holdings**	SEK 5,869,254
Maria Hedin	CRO, Group Risk Control	1964	2010	Shareholdings* 4,706, of which 4,460 in indirect holdings**	SEK 5,176,431
Joakim Jansson	Head, Business Support Capital Markets	1976	2006	Shareholdings* 7,116, of which 7,116 in indirect holdings**	SEK 1,188,742
Agneta Lilja	CIO, Group IT	1961	1985	Shareholdings* 48,627, of which 48,627 in indirect holdings**	SEK 5,617,510
Rolf Marquardt	CFO, Group Finance	1964	2002	Shareholdings* 10,184, of which 10,184 in indirect holdings**	SEK 1,188,742
Lars Moesgaard	CEO, Handelsbanken Denmark	1968	1988	Shareholdings* 9,137, of which 7,694 in indirect holdings**	SEK 1,188,742
Stina Petersson	Chief Human Resources Officer, Group HR	1965	1985	Shareholdings* 40,687, of which 40,687 in indirect holdings**	SEK 1,188,742
Mikael Sørensen	CEO, Handelsbanken UK	1966	1994	Shareholdings* 8,653, of which 8,653 in indirect holdings**	SEK 5,617,510
Dag Tjernsmo	CEO, Handelsbanken Norway	1962	1988	Shareholdings* 17,158, of which 17,158 in indirect holdings**	SEK 5,436,030
Jens Wiklund	CEO, Handelsbanken the Netherlands	1975	1997	Shareholdings* 12,752, of which 12,752 in indirect holdings**	SEK 835,878
Carina Åkerström	Deputy Group Chief Executive. Head, Handelsbanken Stockholm	1962	1986	Shareholdings* 28,820, of which 28,820 in indirect holdings**	SEK 5,617,510

[1] *Executive Directors are members of Senior Management and are the Bank's executive officers according to the definition in the Swedish Companies Act and also senior management as defined by the Swedish Financial Supervisory Authority.*

Other members of Senior Management

Name	Position	Year of birth	Employed	Shareholdings	Convertible 2014 [2]
Katarina Berner Frösdal	Chief Operating Officer, Handelsbanken Sweden	1956	1979	Shareholdings* 1,484, of which 1,484 in indirect holdings**	SEK 5,617,510
Klas Bornälv	Head, Group Infrastructure	1971	1997	Shareholdings* 13,898, of which 13,898 in indirect holdings**	SEK 1,188,742
Magnus Ericson	Head, Handelsbanken Northern Sweden	1968	1988	Shareholdings* 25,324, of which 24,324 in indirect holdings**	SEK 1,188,742
Anders Fagerdahl	Head, Handelsbanken South East Sweden	1969	1988	Shareholdings* 28,287, of which 28,287 in indirect holdings**	SEK 1,188,742
Ingela Forsberg	Head, Handelsbanken Northern UK	1977	2000	Shareholdings* 11,541, of which 11,541 in indirect holdings**	–
Mikael Hallåker	Chairman of subsidiary	1959	2001	Shareholdings* 10,752, of which 10,752 in indirect holdings**	SEK 1,188,742
John Hodson	Head, Handelsbanken Southern UK	1961	2007	Shareholdings* 2,159, of which 2,159 in indirect holdings**	SEK 1,340,957
Elisabet Jamal Bergström	Chief Communications and Sustainability Officer, Group Communications & Sustainability	1968	1994	Shareholdings* 15,984, of which 12,372 in indirect holdings**	SEK 251,744
Maria Lidström Andersson	CEO, Stadshypotek	1971	1995	Shareholdings* 16,741, of which 16,441 in indirect holdings**	SEK 835,878
Dan Lindwall	Acting Head, Markets & Asset Management	1965	2000	Shareholdings* 12,904, of which 12,904 in indirect holdings**	SEK 1,188,742
Katarina Ljungqvist	Head, Handelsbanken Western Sweden	1965	1989	Shareholdings* 28,514, of which 28,514 in indirect holdings**	SEK 5,617,510
Nick Lowe	Head, Handelsbanken Central UK	1958	2007	Shareholdings* 2,088, of which 2,088 in indirect holdings**	SEK 5,152,092
Suzanne Minifie	Head, Handelsbanken Yorkshire and North East UK	1972	2006	Shareholdings* 1,797, of which 1,797 in indirect holdings**	SEK 1,355,187
Juha Rantamaa	Head, Group IT Operations & Development	1964	2011	Shareholdings* 11,747, of which 11,747 in indirect holdings**	SEK 1,188,742
Hannu Saari	Chief Financial Crime Prevention Officer, Group Financial Crime Prevention	1963	1997	Shareholdings* 14,850, of which 14,850 in indirect holdings**	SEK 1,188,742
Louise Sander	CEO, Handelsbanken Liv Pension & Life	1969	2013	Shareholdings* 1,726, of which 1,726 in indirect holdings**	SEK 1,188,742
Göran Stille	Chairman of subsidiary	1966	1987	Shareholdings* 24,075, of which 14,175 in indirect holdings**	SEK 5,617,510
Chris Teasdale	Head, Handelsbanken South West UK	1970	2007	Shareholdings* 2,223, of which 2,223 in indirect holdings**	SEK 972,092
Martin Wasteson	Chief Legal Officer, Group Legal	1971	2012	Shareholdings* 2,315, of which 2,315 in indirect holdings**	–
Pontus Åhlund	Head, Handelsbanken Central Sweden	1963	1983	Shareholdings* 49,872, of which 41,305 in indirect holdings**	SEK 5,617,510

Audit and Whistleblowing Function, independent of Senior Management

Tord Jonerot	Chief Audit Executive, Group Audit	1958	1990	Shareholdings* 27,392, of which 27,392 in indirect holdings**	SEK 5,617,510

* Direct holdings of shares or convertibles refer to own holdings or those of closely related persons.
** Indirect holdings of shares in Handelsbanken via the Oktogonen profit-sharing foundation.
[2] See note G38.

Group

Financial reports Group

CONTENTS

Income statement Group

Group SEK m		2018	2017
Interest income	*Note G3*	49 171	42 092
of which interest income according to effective interest method and interest on derivatives for hedging		*48 341*	*41 657*
Interest expenses	*Note G3*	-17 885	-12 326
Net interest income		**31 286**	**29 766**
Fee and commission income	*Note G4*	12 183	11 539
Fee and commission expenses	*Note G4*	-1 936	-1 821
Net fee and commission income		**10 247**	**9 718**
Net gains/losses on financial transactions	*Note G5*	908	1 271
Risk result – insurance	*Note G6*	106	142
Other dividend income		218	591
Share of profit of associates	*Note G18*	0	14
Other income	*Note G7*	1 005	172
Total income		**43 770**	**41 674**
Staff costs	*Note G8*	-13 465	-12 472
Other expenses	*Note G9*	-6 712	-5 889
Depreciation, amortisation and impairment of property, equipment and intangible assets	*Note G24, G25*	-713	-619
Total expenses		**-20 890**	**-18 980**
Profit before credit losses		**22 880**	**22 694**
Net credit losses	*Note G10*	-881	-1 683
Gains/losses on disposal of property, equipment and intangible assets	*Note G11*	14	14
Operating profit		**22 013**	**21 025**
Taxes	*Note G34*	-4 656	-4 923
Profit for the year		**17 357**	**16 102**
attributable to			
Shareholders in Svenska Handelsbanken AB		17 354	16 099
Minority interest		3	3
Earnings per share, total operations, SEK	*Note G12*	8.93	8.28
after dilution	*Note G12*	8.84	8.20

Statement of comprehensive income Group

Group SEK m	2018	2017
Profit for the year	17 357	16 102
Other comprehensive income		
Items that will not be reclassified to the income statement		
Defined benefit pension plans	-4 405	3 919
Equity instruments measured at fair value through other comprehensive income	-188	
Tax on items that will not be reclassified to the income statement	978	-864
of which defined benefit pension plans	*977*	*-864*
of which equity instruments measured at fair value through other comprehensive income	*1*	
Total items that will not be reclassified to the income statement	**-3 615**	**3 055**
Items that may subsequently be reclassified to the income statement		
Cash flow hedges	768	-2 350
Debt instruments measured at fair value through other comprehensive income	-12	
Available-for-sale instruments (IAS 39)		-470
Translation difference for the year	-188	-2 241
of which hedges of net investments in foreign operations	*-850*	*-1 509*
Tax on items that may subsequently be reclassified to the income statement	38	844
of which cash flow hedges	*-159*	*517*
of which debt instruments measured at fair value through other comprehensive income	*3*	
of which available-for-sale instruments (IAS 39)		*-5*
of which hedges of net investments in foreign operations	*194*	*332*
Total items that may subsequently be reclassified to the income statement	**606**	**-4 217**
Total other comprehensive income	**-3 009**	**-1 162**
Total comprehensive income for the year	**14 348**	**14 940**
Attributable to		
Shareholders in Svenska Handelsbanken AB	14 345	14 940
Minority interest	3	0

The year's reclassifications to the income statement are presented in Statement of changes in equity.

In 2018, other comprehensive income totalled SEK -3,009m (-1,162) 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.

At the closing of the annual accounts 2017, net pensions, net of pension obligations and plan assets were an asset. At year-end 2018, net pensions were a liability. During the January – December period, other comprehensive income was negatively affected by SEK -3,428m after tax, related to defined benefit pension plan, while in the period of comparison, there was a positive effect of SEK 3,055m after tax. The main reasons for the change during the period is that the plan assets have decreased since 31 December 2017 and that the pension obligations have increased as a result of a decrease in the discount rate for the Swedish pension obligations, to 2.00% from 2.20% since 31 December 2017.

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. Over time, these values become zero at maturity for each individual hedge, but lead to volatility in other comprehensive income during their term. In 2018, the value changes on hedge derivatives in cash flow hedges were SEK 609m (-1,833) 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 -39m (-22) was reclassified to the income statement 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 -187m (-488) and SEK -9 (12) 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 6m (-1,909) after tax during the year.

Balance sheet Group

Group SEK m		2018	2017
ASSETS			
Cash and balances with central banks		317 217	226 314
Other loans to central banks	*Note G13*	33 557	38 920
Interest-bearing securities eligible as collateral with central banks	*Note G16*	122 260	129 006
Loans to other credit institutions	*Note G14*	22 137	20 250
Loans to the public	*Note G15*	2 189 092	2 065 761
Value change of interest-hedged item in portfolio hedge		33	36
Bonds and other interest-bearing securities	*Note G16*	50 729	49 601
Shares	*Note G17*	13 821	14 052
Investments in associates	*Note G18*	259	297
Assets where the customer bears the value change risk	*Note G19*	136 346	135 617
Derivative instruments	*Note G21*	58 041	56 070
Reinsurance assets		12	14
Intangible assets	*Note G24*	10 455	9 861
Property and equipment	*Note G25*	2 229	2 238
Current tax assets		617	242
Deferred tax assets	*Note G34*	1 044	399
Assets held for sale		19	
Net pension assets	*Note G8*	-	1 239
Other assets	*Note G26*	16 880	10 715
Prepaid expenses and accrued income	*Note G27*	3 426	6 345
Total assets	*Note G39*	**2 978 174**	**2 766 977**
LIABILITIES AND EQUITY			
Due to credit institutions	*Note G28*	194 082	174 820
Deposits and borrowing from the public	*Note G29*	1 008 487	941 967
Liabilities where the customer bears the value change risk	*Note G30*	136 346	135 617
Issued securities	*Note G31*	1 394 647	1 276 595
Derivative instruments	*Note G21*	17 360	24 876
Short positions	*Note G32*	6 163	2 072
Insurance liabilities	*Note G33*	542	549
Current tax liabilities		1 118	394
Deferred tax liabilities	*Note G34*	5 786	6 853
Provisions	*Note G35*	222	153
Net pension liabilities	*Note G8*	3 226	-
Other liabilities	*Note G36*	12 984	15 863
Accrued expenses and deferred income	*Note G37*	3 865	12 718
Subordinated liabilities	*Note G38*	51 085	32 896
Total liabilities	*Note G39*	**2 835 913**	**2 625 373**
Minority interest		12	11
Share capital		3 013	3 013
Share premium reserve		5 629	5 629
Reserves		5 098	8 106
Retained earnings		111 155	108 746
Profit for the year, attributable to shareholders in Svenska Handelsbanken AB		17 354	16 099
Total equity		**142 261**	**141 604**
Total liabilities and equity		**2 978 174**	**2 766 977**

Changed presentation of accrued interest, Group SEK m		Carrying amount 31 Dec 2018	Changed presentation of accrued interest	Amount without changed presentation of accrued interest
Assets				
Cash and balances with central banks		317 217	102	317 115
Other loans to central banks	*Note G13*	33 557	-6	33 563
Interest-bearing securities eligible as collateral with central banks	*Note G16*	122 260	322	121 938
Loans to other credit institutions	*Note G14*	22 137	63	22 074
Loans to the public	*Note G15*	2 189 092	3 119	2 185 973
Bonds and other interest-bearing securities	*Note G16*	50 729	216	50 513
Prepaid expenses and accrued income	*Note G27*	3 426	-3 816	7 242
Total		**2 738 418**	**-**	**2 738 418**
Liabilities				
Due to credit institutions	*Note G28*	194 082	204	193 878
Deposits and borrowing from the public	*Note G29*	1 008 487	780	1 007 707
Issued securities	*Note G31*	1 394 647	7 070	1 387 577
Short positions	*Note G32*	6 163	32	6 131
Subordinated liabilities	*Note G38*	51 085	1 193	49 892
Accrued expenses and deferred income	*Note G37*	3 865	-9 279	13 144
Total		**2 658 329**	**-**	**2 658 329**

As of 2018, Handelsbanken presents contractual accrued interest on financial assets and financial liabilities as part of the carrying amount for the asset or liability on the balance sheet. The size of the total balance sheet has not been affected. The presentation of historical comparison figures has not been changed. Previous periods, contractual interest on financial assets and financial liabilities will continue to be presented under Prepaid expenses and accrued income and Accrued expenses and deferred income.

The table above shows the effect on the affected balance sheet lines at 31 December 2018 if the changed presentation of accrued interest had not been implemented.

Statement of changes in equity Group

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	Minority 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**
Reclassification to retained earnings							1 392		1 392
Dividend							-14 581		-14 581
Effects of convertible subordinated loans	0	0							0
Change in minority interests								-2	-2
Closing equity 2018	**3 013**	**5 629**	**1 283**	**1 263**	**304**	**2 248**	**128 509**	**12**	**142 261**

Group 2017 SEK m	Share capital	Share premium reserve	Defined benefit plans	Hedge reserve	Fair value reserve	Translation reserve	Retained earnings incl. profit for the year	Minority interest	Total
Opening equity 2017	**3 013**	**5 628**	**1 656**	**2 487**	**974**	**4 151**	**118 466**	**6**	**136 381**
Profit for the year							16 099	3	16 102
Other comprehensive income			3 055	-1 833	-475	-1 909		0	-1 162
Total comprehensive income for the year			**3 055**	**-1 833**	**-475**	**-1 909**	**16 099**	**3**	**14 940**
Dividend							-9 721		-9 721
Effects of convertible subordinated loans	0	1							1
Change in minority interests							1	2	3
Closing equity 2017	**3 013**	**5 629**	**4 711**	**654**	**499**	**2 242**	**124 845**	**11**	**141 604**

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 2018, convertibles for a nominal value of SEK 0m (1) relating to subordinated convertible bonds had been converted into 1,609 class A shares (22,151). 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	2018	2017
Hedge reserve at beginning of year	654	2 487
Cash flow hedges		
Effective part of change in fair value		
Interest rate risk	-536	
Foreign exchange risk	1 304	
Unrealised value changes		-1 601
Reclassified to the income statement[1]	-	-232
Tax	-159	
Hedge reserve at end of year	**1 263**	**654**

Change in fair value reserve SEK m	2018	2017
Fair value reserve at the end of 2017	499	974
Effect of transition to IFRS 9	1	
Fair value reserve at beginning of year	**500**	
Unrealised value change – equity instruments	-187	
Realised value change – equity instruments	5	
Unrealised value change – debt instruments	-10	
	1	
Unrealised value change for remaining and new holdings (IAS 39)		-472
Reclassified to retained earnings – equity instruments	-5	
Reclassified to the income statement – debt instruments[2]	-	
Reclassified to the income statement – equity instruments (IAS 39)[3]		-3
Fair value reserve at end of year	**304**	**499**

Change in translation reserve SEK m	2018	2017
Translation reserve at beginning of year	2 242	4 151
Change in translation difference pertaining to branches	1 520	-1 902
Change in translation difference pertaining to subsidiaries	-128	-13
Reclassified to the income statement[3]	2	6
Reclassified to retained earnings[4]	-1 388	
Translation reserve at end of year	**2 248**	**2 242**

[1] Tax reclassified to the income statement pertaining to this item SEK 1,651m.
[2] Tax reclassified to the income statement pertaining to this item SEK -m.
[3] Tax reclassified to the income statement pertaining to this item SEK 0m (1).
[4] Tax reclassified to retained earnings pertaining to this item SEK 335m.

Cash flow statement Group

Group SEK m	2018	2017
OPERATING ACTIVITIES		
Operating profit, total operations	22 013	21 025
of which paid-in interest	*50 266*	*42 045*
of which paid-out interest	*-17 648*	*-14 902*
of which paid-in dividends	*372*	*686*
Adjustment for non-cash items in profit/loss		
Credit losses	1 057	1 872
Unrealised changes in value	1 589	907
Depreciation, amortisation and impairment	713	619
Paid income tax	-5 106	-5 723
Changes in the assets and liabilities of operating activities		
Other loans to central banks	5 363	-13 393
Loans to other credit institutions	-1 887	11 097
Loans to the public	-124 830	-103 787
Interest-bearing securities and shares	4 872	-12 883
Due to credit institutions	19 262	-3 960
Deposits and borrowing from the public	66 520	112 631
Issued securities	118 051	14 831
Derivative instruments, net positions	-9 381	20 080
Short positions	4 178	646
Claims and liabilities on investment banking settlements	-7 311	-393
Other	-18 441	-3 678
Cash flow from operating activities	**76 662**	**39 891**
INVESTING ACTIVITIES		
Acquisitions of and contributions to associates	-219	-76
Sales of shares	262	14
Acquisitions of property and equipment	-695	-724
Disposals of property and equipment	312	273
Acquisitions of intangible assets	-786	-701
Cash flow from investing activities	**-1 126**	**-1 214**
FINANCING ACTIVITIES		
Issued subordinated loans	15 449	-
Dividend paid	-14 581	-9 721
Cash flow from financing activities	**868**	**-9 721**
of which exchange rate differences	*4 132*	*-504*
Cash flow for the year	**76 404**	**28 956**
Liquid funds at beginning of year	226 314	199 362
Cash flow from operating activities	76 662	39 891
Cash flow from investing activities	-1 126	-1 214
Cash flow from financing activities	868	-9 721
Exchange rate difference on liquid funds	14 499	-2 004
Liquid funds at end of year	**317 217**	**226 314**

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, as well as 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 5 February 2019 and will be presented for adoption by the AGM on 27 March 2019.

2. CHANGED ACCOUNTING POLICIES

On 1 January 2018, IFRS 9 Financial Instruments, which replaced IAS 39 Financial Instruments, entered into force in the EU. Handelsbanken has applied the new rules for classification and measurement, as well as those for impairment, since 1 January 2018. Handelsbanken has decided to continue to apply the hedge accounting rules in IAS 39, in accordance with the transitional rules in IFRS 9. The new rules for classification and measurement include new classification principles and new measurement categories for financial assets and liabilities. Under the new rules for impairment, the model based on incurred credit losses has been replaced with a model based on expected credit losses. Handelsbanken has not recalculated the comparative figures for previous periods in conjunction with the transition, and has instead opted to recognise adjustments to the carrying amounts of financial assets and liabilities as at the transition date of 1 January 2018 under retained earnings in equity.

The Group's opening retained earnings declined by SEK 640 million before tax due to the transition to IFRS 9, of which SEK 24 million is due to the new classification and measurement rules and SEK 616 million to the new impairment rules. Handelsbanken presents the effects of the transition to IFRS 9 in two tables, provided on page 163 for the Group and on page 225 for the parent company. Handelsbanken does not apply the transitional rules which have been decided for capital adequacy, but instead applies IFRS 9 to capital adequacy in its entirety.

IFRS 15 Revenue from Contracts with Customers also entered into force on 1 January 2018. IFRS 15 introduces a new model to establish how and when income must be recognised. The standard does not apply to financial instruments, insurance contracts or leases. In its implementation of the standard, Handelsbanken has elected to apply the modified retrospective method, with the effect of the initial application on the implementation date of the standard, and with no recalculation of comparison periods.The transition to IFRS 15 has entailed expanded disclosure requirements, but has otherwise not had any impact on Handelsbanken's financial reports, capital adequacy or large exposures. The lack of any initial effect on the Bank in conjunction with the transition to IFRS 15 is due to the fact that the previously applied principles for recognising income are consistent with the requirements presented in IFRS 15.

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 2017 Annual Report.

3. CHANGES IN IFRS NOT YET APPLIED

IFRS 16 Leases

IFRS 16 Leases has been adopted by the EU and is to be applied as of the 2019 financial year. The main change arising from the new standard is that all leases (with the exception of short-term contracts and contracts of minor 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 attributable to the lease liability. The standard entails new disclosure requirements but, for lessors, the requirements are largely unchanged. Handelsbanken has chosen not to early adopt the standard. The main impact on the Group's accounts is expected to come from accounting for contracts for the rental of premises. Handelsbanken intends to apply the modified retrospective method when it adopts the standard. The comparative figures will therefore not be restated. The Bank calculates that the asset (right-of-use asset) as at the transition date to IFRS 16, 1 January 2019, amounts to approximately SEK 4 billion and the lease liability to approximately SEK 4 billion. Furthermore, the Bank's assessment is that the opening balance of retained earnings will not be affected by an initial impact in conjunction with the transition, as the Bank intends to apply the alternative of recognising all assets (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 agreement. IFRS 16 is not assessed as having a material impact on the Group's financial results.

IFRS 17 Insurance contracts

IFRS 17 Insurance contracts has been published by the International Accounting Standards Board (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 measured, and implies 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

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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 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.

In the event of a business combination, 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 associates. 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. Associates 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 associates are deducted from the carrying amount of the holding. Shares of the profit of associates 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 loss. 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 senior 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 from 1 January 2018, and which were classified as available-for-sale financial assets until 31 December 2017, are recognised as a component of Other comprehensive income and are accumulated in equity. Exchange rate 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

The current method has been used when translating the foreign entities' (including branches') balance sheets and income statements from the functional currency to the Group's presentation currency. 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.

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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).

8. FINANCIAL INSTRUMENTS

Measurement categories

In accordance with IFRS 9, all financial assets 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 allocated 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 measured 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 when making 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, see section 10. 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, as well as 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, see section 10. 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

G1 Cont.

comprehensive income, it must be valued at fair value through profit or loss.

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 equities, 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 valuing the asset.

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 counterpositions 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. 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 relating to 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 which case the fee received is included in the effective interest rate of the loan.

Financial guarantees and irrevocable loan commitments are subject to impairment testing, see section 10.

Combined financial instruments

A combined (hybrid) 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:

- 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, and
- 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 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 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 predetermined 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), in which case 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.

G1 Cont.

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 the offsetting of financial assets and liabilities is provided in note G23.

Accounting policies applied until 31 December 2017
Measurement categories
For the purposes of measurement, in compliance with IAS 39, all financial assets were placed in the following valuation categories:
1. loans and receivables
2. assets held to maturity
3. assets at fair value through profit or loss
   - held for trading
   - assets which, upon initial recognition, were designated at fair value through profit or loss
4. available-for-sale assets.

Financial liabilities were classified as follows:
1. liabilities at fair value through profit or loss
   - liabilities held for trading
   - liabilities which, upon initial recognition, were designated at fair value through profit or loss
2. other financial liabilities.

The classification on the balance sheet was independent of the measurement category. Thus, different valuation principles may have been be applied for assets and liabilities recognised on the same row on the balance sheet. A classification into measurement categories of the financial assets and liabilities which were recognised on the balance sheet is shown in note G39.

Upon initial recognition, all financial assets and liabilities were designated at fair value. For assets and liabilities at fair value through profit or loss, the transaction costs were recognised in the income statement on the acquisition date. For other financial instruments, the transaction costs were included in the acquisition cost.

Loans and receivables
Unlisted interest-bearing assets were classified as Loans and receivables. Loans and receivables were recognised at amortised cost, i.e. the discounted present value of all future cash flows relating to the instrument where the discount rate is the asset's effective interest rate at the time of acquisition. Loans and receivables were subject to impairment testing when indications of an impairment loss were present. See section 10 for more details. The impairment loss was recognised in the income statement. Thus, loans and receivables were recognised at their net amount, after deduction for probable and actual credit losses. Early redemption fees for loans and receivables repaid before maturity were recognised immediately in the income statement under Net gains/losses on financial transactions.

Assets held to maturity
Listed interest-bearing assets which the Group intended and had the capacity to hold to maturity were reported in the Assets held to maturity category. Assets that were classified as held to maturity were recognised at amortised cost. Assets held to maturity were subject to impairment testing when there were indications of an impairment loss. See section 10 for more details.

Assets and liabilities held for trading
Assets and liabilities held for trading consisted of listed financial instruments and derivatives. Financial instruments held for trading were recognised at fair value on the balance sheet. Interest, dividends and other value changes related to these instruments were recognised in the income statement under Net gains/losses on financial transactions.

Financial assets and liabilities which upon initial recognition were classified at fair value in the income statement
The option of classifying financial instruments at fair value through the income statement was applied for financial assets and liabilities that were not held for trading but for which the internal management and valuation was based on fair values. This valuation principle was also applied to avoid inconsistencies when valuing assets and liabilities which were counter-positions of each other and which were managed on a portfolio basis (for example, assets and liabilities resulting from unit-linked insurance contracts).

Changes in the fair value of financial instruments measured at fair value were recognised in the income statement under Net gains/losses on financial transactions. Interest related to lending and interest-bearing securities which, upon initial recognition, were categorised at fair value through profit or loss was recognised under Net interest income.

Available-for-sale financial assets
The majority of the Group's holdings of financial instruments for which there is an active market but which are not held for trading were classified as available-for-sale financial assets. Financial assets which were classified as available for sale were recognised at fair value on the balance sheet. Changes in market value of the assets were recognised as a component of Other comprehensive income and included in the fair value reserve in equity. Changes in fair value were not recognised in the income statement until the asset had been realised or an impairment loss had occurred. Interest related to this category of assets was recognised directly under Net interest income in the income statement. Foreign exchange effects relating to monetary assets which are available for sale were reported under Net gains/losses on financial transactions. Impairment testing of available-for-sale financial assets was performed when there was an indication of impairment; see section 10 concerning impairment losses for financial assets. Dividends on shares designated as available for sale were continuously recognised in profit or loss as Other dividend income.

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 was recognised as a liability under Accrued expenses and deferred income on the balance sheet. The guarantee was subsequently measured at the higher of the amortised premium or the amount that represents the expected cost of settling the obligation to which the guarantee gives rise. Premiums relating to issued financial guarantees were amortised under Net fee and commission income over the validity period of the guarantee. In addition, the total guaranteed amount relating to guarantees issued was reported off-balance as a contingent liability. A utilised guarantee was reported as a probable or actual credit loss, depending on the circumstances.

Premiums for purchased financial guarantees were accrued and recognised as decreased interest income under Net interest income if the interest on the debt instrument to which the guarantee refers was recognised there.

Loan commitments were reported off-balance until the settlement date of the loan. Fees received for loan commitments were accrued under Net fee and commission income over the maturity of the commitment unless it was highly probable that the commitment would be fulfilled, in which case the fee received was included in the effective interest of the loan.

Combined financial instruments
An embedded derivative is a component of a combined (hybrid) financial instrument that also

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includes a non-derivative host contract, which means that some of the combined instrument's cash flows vary in a way similar to the cash flows of a stand-alone derivative. An embedded derivative was separated from the host contract and recognised separately in Derivatives on the balance sheet when its economic characteristics were not closely related to those of the host contract. This was the case, for example, for issues of equity-linked bonds and other structured products where the derivative was recognised separately from the host contract at fair value through profit or loss.

The inherent value of the option to convert in issued convertible debt instruments was recognised separately in equity. The value of the equity component was determined at the time of issue as the difference between the fair value of the convertible instrument in its entirety reduced by the fair value of the liability component. The carrying amount of the equity component was not adjusted during the life of the convertible instrument. The liability component was recognised at fair value on the balance sheet at the time of issue. After initial recognition, the liability component was recognised at amortised cost using the original effective interest rate.

Combined financial instruments held for trading and combined financial instruments where the economic characteristics and risks of the instrument's various components are similar (such as variable rate lending with an interest rate cap) were not accounted for separately.

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 received 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.

For financial instruments where there is no reliable information about market prices, 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 examined in order to ensure that the valuation reflects the current market price. The examinations 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 shares and participations in level 3 are valued, 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. Since 1 January 2018, shares in level 3 have, in all material respects, been classified as measured at fair value through other comprehensive income whereas the classification until 31 December 2017 was as available for sale. 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.

Valuation principles adopted by the European Venture Capital & Private Equity Association (EVCA) are used when valuing level 3 units in private equity funds. 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.

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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.

The new impairment rules in IFRS 9 have resulted in changes in the process and methodology applied for calculating expected credit losses. The rules have not entailed any changes in the credit process, credit policy or Handelsbanken's decentralised way of working. For agreements in Stage 1 and Stage 2, there is a Group-wide, central process using model-based calculations. 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). See the 'Credit risks' section of note G2 for a detailed description of what constitutes a significant increase in credit risk. For agreements in Stage 3, expert-based calculations are made. One exception to this is a small portfolio of homogeneous claims in Stage 3 with similar risk profiles, which also uses a model-based calculation. In conjunction with each reporting date, an assessment is made at the agreement level as to whether an agreement will be subject to a model-based calculation or an expert-based calculation.

Collective assessment

Collective assessment is defined as an assessment of expected credit losses based on the outcomes of statistical models, which are, in turn, based on historical outcomes of expected credit losses for groups with similar exposures. Similar exposures are identified using portfolio segmenting. For a detailed description of portfolio segmenting, refer to note G2, under the heading 'Credit risks'. As a general rule, collective assessment is used for the model-based calculations for agreements in Stage 1 and Stage 2, and for a small portfolio of homogeneous claims in Stage 3.

Individual assessment

Individual assessment is defined as an assessment whereby the expected credit loss is based on the specific characteristics of the individual counterparty. As a general rule, individual assessment is used for agreements in Stage 3 for which expert-based calculations are carried out.

Model-based calculations for agreements in Stage 1 and Stage 2 (and for a small portfolio of homogeneous claims in Stage 3)

For calculating the expected credit losses on agreements in Stage 1 and Stage 2, there is a Group-wide, central process using internally developed statistical models.

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 summed up. The sum total of the credit losses caused by default which are expected to occur within 12 months constitutes the expected credit losses in Stage 1. The sum total of the credit losses caused by default which are expected to occur within the remaining lifetime of the asset constitutes the expected credit losses in Stage 2.

The calculation of the expected credit losses takes into consideration three macroeconomic scenarios (one neutral, one positive and one negative) 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.

Expert-based calculations for agreements in Stage 3

Assets in Stage 3 are tested for impairment at the individual level using an expert-based 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 bank branch with business responsibility (unit with customer and credit responsibility) and is decided by the regional or 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 claim's original effective interest rate. The scenarios used may take into account both macro-economic 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 calculations for agreements in Stage 1 and Stage 2

Expert-based calculation is also carried out for credit losses 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. 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 in Stage 1 and Stage 2. The manual analysis aims to apply expert knowledge about the individual credits to an assessment of whether the model-based 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 model-based 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 model-based calculation.

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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 that 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 not be able to fulfil its contractual payment obligations. Such an assessment implies that it is deemed to be more likely that the borrower will not be able 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/cancelled payments, records of non-payment or other signs of impaired repayment capacity. Other signals may include the borrower entering 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 impairment into account. 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 to terms and conditions in conjunction with restructurings or other financial relief measures 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 market conditions with regard to repayment or interest.

If the cash flow from a financial asset which is classified as measured at amortised cost has been modified, but the cash flow has 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 another 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 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.

Accounting policies applied until 31 December 2017

Loans and receivables recognised at amortised cost

All units with customer and credit responsibility in the Handelsbanken Group regularly performed individual assessments of the need for recognising impairment losses for loans and receivables that were recognised at amortised cost. Impairment testing was performed where there were objective circumstances indicating that the recoverable amount of the claimwas less than its carrying amount. Objective evidence could, according to the circumstances, be late or non-payment, bankruptcy, changed credit rating, or a decline in the market value of the collateral.

When impairment testing was performed, the recoverable amount of the claim was calculated by discounting the estimated future cash flows related to the claim and any collateral (including guarantees) by the effective interest rate of the claim. If the collateral was a listed asset, the valuation of the collateral was based on the

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quoted price. Otherwise the valuation was based on the yield value or an estimation of the market value. Collateral in the form of property mortgages was valued in the same way as repossessed real property. An impairment loss was recognised if the estimated recoverable amount was less than the carrying amount and was recognised as a credit loss in the income statement. A reported credit loss reduced the carrying amount of the claim on the balance sheet, either directly (actual loss) or by a provision account for credit losses (probable loss).

In addition to this individual assessment of claims, a collective assessment was made with the purpose of identifying the need to recognise an impairment loss that could not yet be allocated to individual loans. The analysis was based on a distribution of individually valued claims in terms of the risk class. An impairment loss was recognised if this was justifiable taking into account changes in the risk classification and expected loss. Impairment losses which were recognised for a group of claims were transferred to impairment losses for individual claims as soon as there was available information about the impairment in value at an individual level. A group impairment test was also performed for homogeneous groups of smaller claims with a similar risk profile.

Credit losses for the period comprised actual losses and probable losses on credits granted, minus recoveries and reversals of previous impairment losses recognised for probable credit losses. Actual credit losses could refer to entire claims or parts of claims and were recognised when there was no realistic possibility of recovery. This was the case, for example, when a trustee in bankruptcy had estimated bankruptcy dividends, when a scheme of arrangement had been accepted, or a concession had been granted in some other way. An amount conceded in connection with the reconstruction of a claim or group of claims was always classified as an actual credit loss. If the customer was following a payment plan for a loan which was previously classified as an actual credit loss, the amount of the loss was subject to new testing. Recoveries comprised reversed amounts on credit losses previously reported as actual losses. Information about probable and actual losses is provided in note G10.

Interest rate effects arising due to discounting effects when the period until the expected payment decreased resulted in a reversal of previously provisioned amounts which were recognised as interest income in accordance with the effective interest method.

Disclosures concerning impaired loans

Disclosures concerning impaired loans were provided gross, before a provision for probable credit losses, and net, after a provision for probable credit losses. Claims were defined as impaired loans if it was not probable that all contractual cash flows would be fulfilled. The full amount of all claims which were classified as impaired loans was recognised as an impaired loan, even if parts of the claim were covered by collateral. Claims which had been written off as actual credit losses were not included in impaired loans.

Valuation of repossessed property and equipment to protect claims

Upon initial recognition, repossessed property and equipment was recognised at fair value on the balance sheet. Repossessed property and equipment (including repossessed lease assets) which was expected to be divested in the near future was valued at the lower of the carrying amount and fair value less costs to sell. Repossessed property which was not expected to be divested in the near future was recognised as investment properties at fair value through profit or loss. Unlisted shareholdings taken over to protect claims were recognised as available-for-sale financial assets.

Impairment losses on available-for-sale financial assets

Impairment losses on available-for-sale financial assets were recognised when there was objective evidence that one or more events of default had occurred with an impact on the expected future cash flows for the asset. For interest-bearing financial assets, examples of events of default that may have indicated an impairment loss are a probable future bankruptcy, evidence of considerable financial difficulties on the part of the issuer, or evidence of permanent changes in the market where the asset is traded. For equity instruments, a permanent or considerable decline in the fair value was an indication of the need to recognise an impairment loss. When an impairment loss was recognised the part of the cumulative loss that was previously recognised in the fair value reserve in equity was recognised in the income statement.

Previously recognised impairment losses on interest-bearing securities classified as available-for-sale financial assets were reversed in the income statement if the fair value of the asset had increased since the impairment loss was recognised and the increase could be objectively related to an event occurring after the impairment loss was recognised. Previous impairment losses on equity instruments classified as available-for-sale financial instruments were not reversed.

11. HEDGE ACCOUNTING

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, liabilities in the functional currency of the respective foreign operation are used as a hedging instrument when hedging foreign exchange risks related to net investments in foreign operations. 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 prematurely, 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 prematurely 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

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separate item on the balance sheet in connection 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 rate 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 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 rate 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 Group's leases are defined as either finance 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 operating leases. All leases where the Group is the lessor have been defined as finance leases. Finance lease agreements of this kind are accounted for as loans on the balance sheet, initially at an amount corresponding to the net investment. Lease fees received are recognised on a continual basis as interest income or repayments.

As of 1 January 2018, finance leases are subject to impairment testing, in the same way as other financial assets measured at amortised cost. For the period until 31 December 2017, impairment testing on finance lease agreements was performed according to the same principles as for other lending recognised at amortised cost.

Operating lease agreements are not reported on the balance sheet. Costs relating to operating leases where the Group is the lessee are recognised on a straight-line basis as Other expenses.

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

In-payments and out-payments referring to customers' savings capital originating in investment contracts and financial components of insurance contracts are recognised directly over 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.

14. INTANGIBLE ASSETS

Recognition on 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.

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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 development of intangible assets.

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 possible 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 the business segment level. Key assessments and assumptions in the impairment testing of goodwill are described in note G24. Previously recognised goodwill impairment losses 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 estate 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 subdivided into different categories with separate depreciation plans. Such depreciation of components is normally only applied for real estate. 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 estate (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 charge 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 below.

Share premium reserve

The share premium reserve comprises the options component of issued convertible notes and the amount that in the issue of shares and conversion of convertible debt securities 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 value changes for these debt instruments are reclassified from the fair value reserve to the income statement. Realised value changes for equity instruments classified as measured at fair value through other comprehensive income are reclassified from the fair value reserve to retained earnings. Until 31 December 2017, the fair value reserve comprised unrealised value changes for financial assets classified as available for sale.

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

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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 comprises 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.

Minority interest
The minority 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. The minority 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 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 received as compensation 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.

Interest income and interest expenses are recognised under 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 (as of 1 January 2018) and interest flows deriving from financial instruments held for trading (until 31 December 2017), which are recognised under Net gains/losses on financial transactions, where the overall activity in the trading book is recognised.

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 deriving 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 which have been performed but not yet been paid for. Deferred income is recognised for payments received for services which have not yet been performed. Income deriving 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), but 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 referring to financial guarantees issued, as well as 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 primarily comprises rental income and capital gains/losses arising from the divestment of participating interests in subsidiaries and associates. The item Other income therefore does not, in all material respects, refer to income deriving 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.

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.

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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 under 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. The ineffective components of cash flow hedges consist 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 of insurance contracts 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 as of 1 January 2018, which were classified as available for sale until 31 December 2017, are recognised in the income statement under the item Other dividend income. Dividends on shares measured at fair value through profit or loss as of 1 January 2018, which were classified as held for trading until 31 December 2017, are recognised under the item Net gains/losses on financial transactions. Dividends on shares in associates are not included in the Dividends item in the income statement. The recognition of Share of profit of associates is described in section 4.

<u>Accounting policies applied until 31 December 2017</u>

Net gains/losses on financial transactions

Net gains/losses on financial transactions included all items with an impact on profit or loss that arose when measuring financial assets and liabilities at fair value through profit or loss and when all financial assets and liabilities were realised. Specifically, the items reported here were:

- Capital gains or losses from the disposal and settlement of financial assets and liabilities.
- Unrealised changes in the value of the assets and liabilities which, upon initial recognition, were categorised as assets at fair value through profit or loss, excluding the component of change in value recognised as interest.
- Realised and unrealised changes in the value of financial assets and liabilities classified as held for trading.
- Interest from financial instruments held for trading, with the exception of interest originating from derivatives that are hedging instruments whose interest flows were reported under Net interest income.
- Dividend income on financial assets classified as held for trading.
- Unrealised changes in fair value of the hedged risk in assets and liabilities which are hedged items in fair value hedges, and amortisation of unrealised value changes for hedges which have been terminated early.
- Unrealised value changes on derivatives which comprise hedging instruments in fair value hedges.
- Ineffective component of value changes on hedging instruments which are hedging cash flow hedges and hedging of net investments in foreign operations.
- Negative yield split in the insurance operations, i.e. the losses arising when the yield on financial assets in the insurance business is less than the change in guaranteed yield.

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, in Other comprehensive income or directly in equity depending on where the underlying transaction is reported.

21. ESTIMATES AND KEY ASSUMPTIONS

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 carrying amount 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. Assessments and assumptions which have had a material impact on the financial reports are presented below.

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Estimates and key assumptions 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 first-class corporate bonds. In this context, covered mortgage bonds are considered to be corporate bonds. The maturity corresponds to the estimate average maturity of the pension obligation, this being 20 years. Since there is no liquid market for covered mortgage bonds with this maturity period, the discount rate is instead set 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 covered mortgage 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 macroanalysis 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. 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 strong. 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 the 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 use 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.

Expert-based calculation

Expert-based calculations are applied as a rule for agreements in Stage 3. Expert-based calculation is also 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. For a more detailed description of expert-based calculation, see point 10 under the headings 'Expert-based calculations for agreements in Stage 3' and 'Expert-based calculations for agreements in Stage 1 and Stage 2'.

Accounting policies applied until 31 December 2017

Credit losses

The value of the Group's loan claims was reviewed regularly and individually for each claim. If necessary, the loan claim was written down to the assessed recoverable amount. The estimated recoverable amount was based on an assessment of the counterparty's financial repayment capacity and assumptions on the realisable value of any collateral. The final outcome may have deviated from the original provisions for credit losses. The assessments and assumptions used were subject to regular examinations by the internal credit organisation. See also note G2 for a detailed description of internal risk control and how the Bank manages credit risk.

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's goal is always that no credit will lead to a loss. This approach completely determines the Bank's granting of credit and the work with its credit portfolios. 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

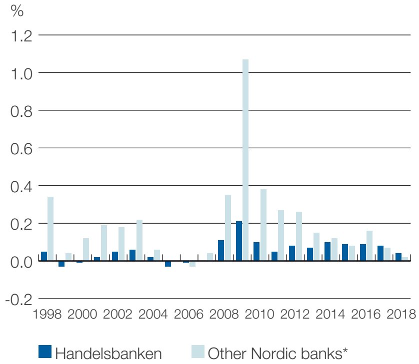
Handelsbanken offers a wide range of different banking and insurance products. These entail a variety of risks that are systematically identified, measured, managed and reported in all parts of the Group. Handelsbanken's restrictive approach to risk means that the Bank deliberately avoids high-risk transactions, 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 presence, 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.

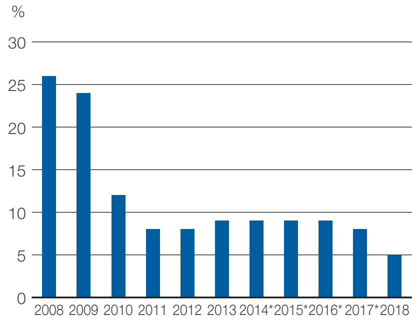
This restrictive approach to risk means that the Bank is a stable and long-term business partner for its customers, regardless of the business cycle or market situation. It contributes both to good risk management and to sustaining a high service level even when operations and the markets where the Bank operates are subject to strain. The same principles for the Bank's approach to risks apply in all countries

Figure 2 (Pillar 3) Credit losses as a percentage of lending 1998–2018



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

Figure 3 (Pillar 3) Net gains/losses on financial transactions as a proportion of profit 2008–2018



Source: Annual report
* Excluding non-recurring items.

Figure AR:1 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, foreign exchange risk and commodity price risk.
Liquidity risk	Liquidity risk is the risk that the Bank will not be able to meet its payment obligations as 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 is the risk that the Bank does not comply with laws, regulations and internal rules, or accepted business practices and standards.
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.

where the Bank operates and they are guiding principles in the Bank's continued international expansion.

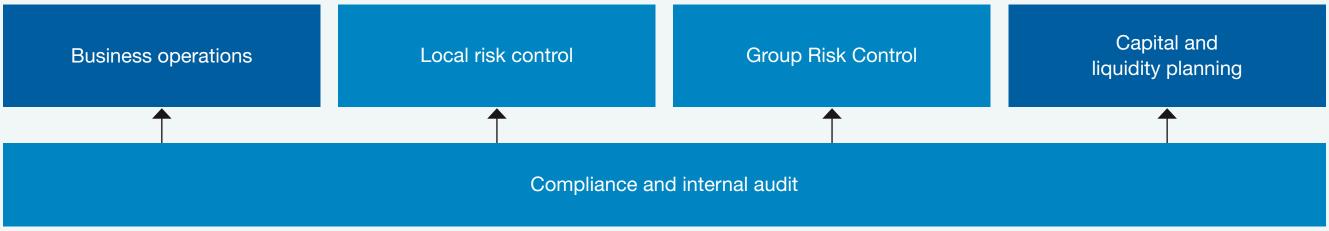
RESILIENT RISK MANAGEMENT

Handelsbanken's capital situation and liquidity situation are strong. The Bank has continuous access to the financial markets via its short-term and long-term funding programmes. The Bank has a large liquidity reserve of high quality, 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 an extensive 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 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 in recent years.

Figure 5 (Pillar 3) 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 business and for all risk management. 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 commodities 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.

Local risk control

There is a local risk control function for each country where the Bank has operations and for subsidiaries, as well as for some central units. Local risk control works to identify, measure, analyse and report risks in the operations. Local risk control also checks the limits for market, liquidity and counterparty risks, and operational risk, and evaluates breaches of these limits and credit limits. In addition, local risk control must also ensure that risk analysis is performed for new and materially changed products and services, markets, processes and IT systems, and in conjunction with significant changes to the operations or organisation. Local risk control must also evaluate the business operations' work with operational risk. At country level, local risk control is tasked with monitoring credit risks and the credit process. A special local risk control function within Group IT monitors risks in IT and information security. Local risk control reports to Group Risk Control and also to the management of the operations.

Group Risk Control

As business decisions become more decentralised, the need for central monitoring of the risk and capital situation increases. Group Risk Control is therefore a natural and vital component of the Bank's business model.

Group Risk Control has the task of identifying, measuring, analysing and reporting all the Group's material risks. It monitors that the risks and risk management fall within the risk tolerance established by the Board, and that management has reliable information to use as a basis for managing risks in critical situations. Group Risk Control also has functional responsibility for ensuring that local risk control functions measure risks 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.

Stress tests – capital and liquidity planning

If – despite the work in the three components described above – 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.

Compliance and internal audit

In addition to the elements described above, operations are examined by compliance and by the internal auditors. The Compliance function's area of responsibility is to identify the risks that the Handelsbanken Group will not meet its obligations under regulations, laws and other rules for operations that are subject to a licence, and to check and monitor that these risks are being managed by the units concerned.

CREDIT RISK

Credit risk is 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 loan 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.

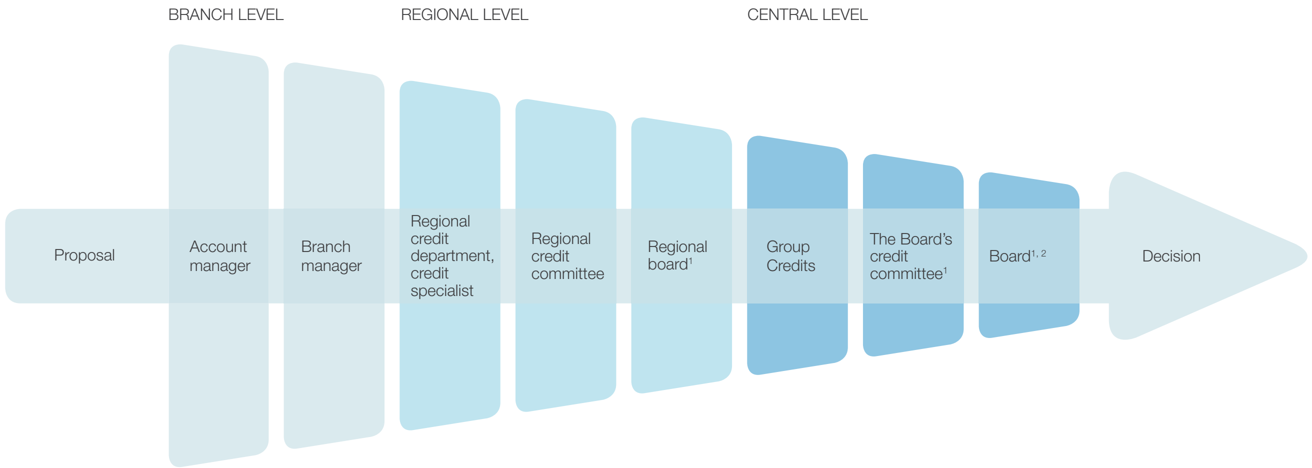
For regional bank boards, the Board's credit committee and the Board, the credit decision refers to the total amount of the credit limit with possible headroom for unsecured credits. For borrowers whose total loans exceed SEK 3 million, the credit decision is made in the form of a credit limit. In the case of loans to private individuals against collateral in the residential property, a limit requirement comes into play for amounts exceeding SEK 6 million. 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 participants throughout the decision process, 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 the participants, the credit application is rejected. The 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

Figure AR:2 Credit process and decision levels at Handelsbanken



Breakdown of limit decisions[3]

	Branch level	Regional level	Central level
Proportion of number of limits	72%	27%	1%
Proportion of limit amount	13%	31%	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.

the exception of credit decisions made via automatic modelling. Automatic models used in such decisions require the approval of the Group Chief Executive.

The decision procedure for credits and credit limits is illustrated in Figure AR:2 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.

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:3 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, requiring 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. As of 1 January 2018, Handelsbanken applies IFRS 9 for the impairment of financial assets. The impairment requirements presented in IFRS 9 are based on a model for expected credit losses, replacing the incurred loan loss model in IAS 39 which was effective prior to this date. For a more detailed description of IFRS 9, refer to notes G1 and G2, under the heading Calculation of expected credit losses pursuant to IFRS 9.

Table AR:3 Credit risk exposures, geographical breakdown

Credit risk exposures, geographical breakdown 2018 SEK m		Sweden	UK	Norway	Denmark	Finland	The Netherlands	USA	Other countries	Total
Balance sheet items										
Cash and balances with central banks		55	73 393	3 549	505	129 633	3 096	105 730	1 256	317 217
Other loans to central banks	*Note G14*	10 129	846	-	22 582	-	-	-	-	33 557
Loans to other credit institutions	*Note G15*	12 830	453	394	41	44	154	4 025	4 196	22 137
Loans to the public	*Note G16*	1 379 534	234 554	258 819	105 061	139 111	47 319	4 559	20 135	2 189 092
Interest-bearing securities eligible as collateral with central banks	*Note G17*	96 863	-	-	11	-	-	24 567	819	122 260
Bonds and other interest-bearing securities	*Note G17*	43 694	-	-	-	-	-	7 035	-	50 729
Derivative instruments[1]	*Note G22*	57 552	0	-	35	26	-	398	30	58 041
Total		**1 600 657**	**309 246**	**262 762**	**128 235**	**268 814**	**50 569**	**146 314**	**26 436**	**2 793 033**
Off-balance sheet items										
Contingent liabilities	*Note G42*	303 254	55 534	64 748	30 485	40 107	7 233	27 780	22 570	551 711
of which guarantee commitments		*38 518*	*6 030*	*6 639*	*7 842*	*7 179*	*186*	*15 431*	*11 114*	*92 939*
of which obligations		*264 736*	*49 504*	*58 109*	*22 643*	*32 928*	*7 047*	*12 349*	*11 456*	*458 772*
Total		**303 254**	**55 534**	**64 748**	**30 485**	**40 107**	**7 233**	**27 780**	**22 570**	**551 711**
Total on and off-balance sheet items		**1 903 911**	**364 780**	**327 510**	**158 720**	**308 921**	**57 802**	**174 094**	**49 006**	**3 344 744**

Credit risk exposures, geographical breakdown 2017 SEK m		Sweden	UK	Norway	Denmark	Finland	The Netherlands	USA	Other countries	Total
Balance sheet items										
Cash and balances with central banks		82	84 766	3 918	2 150	84 925	397	48 025	2 051	226 314
Other loans to central banks	*Note G14*	6 683	492	7 170	24 198	-	-	-	376	38 919
Loans to other credit institutions	*Note G15*	15 007	472	124	27	37	75	2 499	2 010	20 251
Loans to the public	*Note G16*	1 315 476	213 847	245 189	98 470	126 741	40 352	4 528	21 158	2 065 761
Interest-bearing securities eligible as collateral with central banks	*Note G17*	107 493	-	-	11	-	-	20 741	761	129 006
Bonds and other interest-bearing securities	*Note G17*	41 824	-	-	-	0	-	7 777	-	49 601
Derivative instruments[1]	*Note G22*	55 579	41	-	22	33	-	379	15	56 069
Total		**1 542 144**	**299 618**	**256 401**	**124 878**	**211 736**	**40 824**	**83 949**	**26 371**	**2 585 921**
Off-balance sheet items										
Contingent liabilities	*Not K42*	285 685	54 783	59 385	31 592	36 475	6 095	25 111	19 924	519 050
of which guarantee commitments		*25 435*	*6 200*	*6 466*	*7 633*	*5 135*	*126*	*14 396*	*10 276*	*75 667*
of which obligations		*260 250*	*48 583*	*52 919*	*23 959*	*31 340*	*5 969*	*10 715*	*9 648*	*443 383*
Total		**285 685**	**54 783**	**59 385**	**31 592**	**36 475**	**6 095**	**25 111**	**19 924**	**519 050**
Total on and off-balance sheet items		**1 827 829**	**354 401**	**315 786**	**156 470**	**248 211**	**46 919**	**109 060**	**46 295**	**3 104 971**

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 45,437m (39,232).

Table AR:4 Loans to the public subject to impairment testing under IFRS 9, geographical breakdown

Loans to the public Geographical breakdown 2018 SEK m	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
USA	4 481	79	-	0	-1	-	4 559
Other countries	19 906	188	212	-4	-1	-166	20 135
Total	**2 126 983**	**58 179**	**7 731**	**-312**	**-552**	**-2 937**	**2 189 092**

Table AR:5 Loans to the public subject to impairment testing under IFRS 9, broken down by sector and industry

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	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**

Loans to the public, breakdown by sector 2017 (IAS 39) SEK m	2017 Loans before deduction of provisions	 Provisions for probable loan losses	 Loans after deduction of provisions
Private individuals	1 040 638	-710	1 039 928
of which mortgage loans	*850 962*	*-39*	*850 923*
of which other loans with property mortgages	*128 728*	*-133*	*128 595*
of which other loans, private individuals	*60 948*	*-538*	*60 410*
Housing co-operative associations	205 984	-18	205 966
of which mortgage loans	*172 264*	*-11*	*172 253*
Property management	565 190	-523	564 667
Manufacturing	27 393	-471	26 922
Retail	21 282	-201	21 081
Hotel and restaurant	8 369	-35	8 334
Passenger and goods transport by sea	8 499	-1 325	7 174
Other transport and communication	16 088	-25	16 063
Construction	20 216	-697	19 519
Electricity, gas and water	22 040	-128	21 912
Agriculture, hunting and forestry	13 064	-46	13 018
Other services	22 208	-215	21 993
Holding, investment, insurance companies, mutual funds etc.	67 805	-249	67 556
Sovereigns and municipalities	13 611	0	13 611
of which the Swedish National Debt Office	*1 831*	*-*	*1 831*
Other corporate lending	18 533	-53	18 480
Total loans to the public, before collective provision	**2 070 920**	**-4 696**	**2 066 224**
Collective provisions for individually assessed loans			-463
Total loans to the public			**2 065 761**

Table AR:6 Loans to the public subject to impairment testing under IFRS 9, geographical breakdown by sector

Loans to the public after deduction of provisions, geographical breakdown by sector 2018 SEK m	Sweden	UK	Norway	Denmark	Finland	The Netherlands	USA	Other countries	Total
Private individuals	806 379	71 668	95 482	63 042	40 995	13 698	12	6 627	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*	*12*	*5 852*	*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	611	3 847	598 002
Manufacturing	12 996	2 409	2 054	1 743	2 104	1	2 517	3 329	27 153
Retail	10 675	4 241	3 483	2 288	1 302	38	0	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	941	3 524	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	478	2 304	16 430
Total loans to the public, before collective provision	**1 379 534**	**234 554**	**258 819**	**105 061**	**139 111**	**47 319**	**4 559**	**20 135**	**2 189 092**
of which total provsions for expected credit losses (Stage 1-3)	*-1 369*	*-389*	*-670*	*-470*	*-726*	*-5*	*-1*	*-171*	*-3 801*
Total loans to the public	**1 380 903**	**234 943**	**259 489**	**105 531**	**139 837**	**47 324**	**4 560**	**20 306**	**2 192 893**

Loans to the public after deduction of provisions, geographical breakdown by sector 2017 (IAS 39) SEK m	Sweden	UK	Norway	Denmark	Finland	The Netherlands	USA	Other countries	Total
Private individuals	772 051	65 741	89 200	59 039	37 527	10 464	16	5 890	1 039 928
of which mortgage loans	*729 891*	-	*59 430*	*41 686*	*19 916*	-	-	-	*850 923*
of which other loans with property mortgages	*8 374*	*61 108*	*17 653*	*13 520*	*12 628*	*10 120*	*16*	*5 176*	*128 595*
of which other loans, private individuals	*33 786*	*4 633*	*12 117*	*3 833*	*4 983*	*344*	-	*714*	*60 410*
Housing co-operative associations	165 061	-	17 694	890	22 321	-	-	-	205 966
of which mortgage loans	*146 091*	-	*16 907*	-	*9 254*	-	-	-	*172 252*
Property management	244 295	125 504	104 219	20 297	37 298	27 628	559	4 867	564 667
Manufacturing	11 922	2 396	2 621	1 420	2 781	988	2 083	2 711	26 922
Retail	10 762	3 506	4 033	1 222	1 362	-	1	195	21 081
Hotel and restaurant	2 282	3 436	505	2 012	94	-	-	5	8 334
Passenger and goods transport by sea	3 179	9	1 957	158	1 871	-	-	-	7 174
Other transport and communication	9 063	1 548	3 601	436	1 106	292	-	17	16 063
Construction	8 336	2 730	7 315	339	758	-	-	41	19 519
Electricity, gas and water	8 284	305	4 994	61	7 844	197	-	227	21 912
Agriculture, hunting and forestry	11 458	822	70	66	52	-	-	550	13 018
Other services	11 467	4 389	3 757	837	1 531	-	-	12	21 993
Holding, investment, insurance companies, mutual funds etc.	48 371	1 922	1 192	7 974	3 345	-	973	3 779	67 556
Sovereigns and municipalities	4 612	-	247	153	8 599	-	-	-	13 611
of which the Swedish National Debt Office	*1 831*								*1 831*
Other corporate lending	4 522	1 556	3 954	3 593	309	784	902	2 860	18 480
Total loans to the public, before collective provision	**1 315 665**	**213 864**	**245 359**	**98 497**	**126 798**	**40 353**	**4 534**	**21 154**	**2 066 224**
Collective provisions for individually assessed loans	-189	-17	-170	-27	-57	-1	0	-2	-463
Total loans to the public	**1 315 476**	**213 847**	**245 189**	**98 470**	**126 741**	**40 352**	**4 534**	**21 152**	**2 065 761**

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 note G2, 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 (Pillar 3 2018) 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 policy for collateral has 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:7 Credit risk exposures, breakdown by type of collateral

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	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**

Credit risk exposures Breakdown by type of collateral 2017 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	Total
Balance sheet items										
Cash and balances with central banks				226 314						226 314
Other loans to central banks	*Note G13*			38 920						38 920
Loans to other credit institutions	*Note G14*	-	-	2 835	-	1 403	-	-	16 012	20 250
Loans to the public	*Note G15*	1 411 424	301 060	66 306	22 783	15 162	24 896	17 703	206 427	2 065 761
Interest-bearing securities eligible as collateral with central banks	*Note G16*									129 006
Bonds and other interest-bearing securities	*Note G16*									49 601
Derivative instruments	*Note G21*	475	493	3 024	175	32 497	-	9	19 397	56 070
Total		**1 411 899**	**301 553**	**337 399**	**22 958**	**49 062**	**24 896**	**17 712**	**241 836**	**2 585 922**
Off-balance sheet items										
Contingent liabilities	*Note G42*	49 394	47 296	39 144	14 530	14 848	397	5 849	347 591	519 049
of which guarantee commitments		*2 378*	*2 319*	*1 364*	*6 680*	*1 195*	-	*573*	*61 157*	*75 666*
of which obligations		*47 016*	*44 977*	*37 780*	*7 850*	*13 653*	*397*	*5 276*	*286 434*	*443 383*
Total		**49 394**	**47 296**	**39 144**	**14 530**	**14 848**	**397**	**5 849**	**347 591**	**519 049**
Total on and off-balance sheet items		**1 461 293**	**348 849**	**376 543**	**37 488**	**63 910**	**25 293**	**23 561**	**589 427**	**3 104 971**

[1] Including housing co-operative apartments.
[2] Refers to direct sovereign exposures and government guarantees.
[3] Does not include government guarantees.

Table AR:8 On and off-balance sheet items subject to impairment testing under IFRS 9, breakdown by type of collateral

On and off-balance sheet items subject to impairment testing under IFRS 9, breakdown by type of collateral 2018 SEK m		Gross			Provisions		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balance sheet items							
Cash and balances with central banks		**317 217**	**-**	**-**	**0**	**-**	**-**
Sovereigns, municipalities and county councils		317 217	-	-	0	-	-
Other loans to central banks	*Note G14*	**33 557**	**-**	**-**	**-**	**-**	**-**
Sovereigns, municipalities and county councils		33 557	-	-	-	-	-
Loans to other credit institutions	*Note G15*	**21 751**	**397**	**-**	**-3**	**-8**	**-**
Sovereigns, municipalities and county councils		2 804	94	-	-1	-1	-
Financial collateral		2 149	-	-	-	-	-
Unsecured		16 798	303	-	-2	-7	-
Loans to the public	*Note G16*	**2 126 983**	**58 179**	**7 731**	**-312**	**-552**	**-2 937**
Residential property		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		59 606	2 103	21	-2	-13	-
Guarantees as for own debt		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 17*	**1 236**	**-**	**-**	**0**	**-**	**-**
Bonds and other interest-bearing securities	*Note 17*	**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		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		47 698	259	-	-4	-	-
Other property		20 552	280	-	-2	-2	-
Sovereigns, municipalities and county councils		21 941	194	-	-	-	-
Guarantees as for own debt		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 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 supplement 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 598 billion (565). Here, 'property management' refers to all companies classified as 'property companies' for risk assessment purposes. It is common for groups of companies 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

Table AR:9 Loans to the public subject to impairment testing under IFRS 9, Property management

Loans to the public, Property management 2018	Gross			Provisions			
SEK m	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
USA	611	-	-	0	-	-	611
Other countries	3 828	2	25	-2	-	-6	3 847
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**

Loans to the public, Property management 2017 (IAS 39)	2017		
SEK m	Loans before deduction of provisions	Provisions for probable loan losses	Loans after deduction of provisions
Loans in Sweden			
State-owned property companies	4 329	-	4 329
Municipally owned property companies	8 874	-	8 874
Residential property companies	106 014	-20	105 994
of which mortgage loans	*92 260*	*0*	*92 260*
Other property management	125 224	-126	125 098
of which mortgage loans	*52 932*	*-2*	*52 930*
Total loans in Sweden	**244 441**	**-146**	**244 295**
Loans outside Sweden			
UK	125 701	-197	125 504
Norway	104 319	-100	104 219
Denmark	20 367	-70	20 297
Finland	37 302	-4	37 298
The Netherlands	27 628	-	27 628
USA	559	-	559
Other countries	4 873	-6	4 867
Total loans outside Sweden	**320 749**	**-377**	**320 372**
Total loans – Property management	**565 190**	**-523**	**564 667**

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 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), Denmark 97 per cent (96), Finland 98 per cent (98), Norway 97 per cent (96). The capital requirement in the Netherlands is mainly calculated using a standardised method which uses prescribed risk weights, meaning that risk ratings are not relevant. However, the proportion of exposures which are, in actuality, assigned a risk rating of five or better 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:10 Loans to the public, Property management, type of collateral and country

Loans to the public, Property management, type of collateral and country	2018					2017				
SEK m	Total	Companies owned by or property lending guaranteed by government or municipality	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
Sweden	251 755	13 920	126 098	101 345	10 392	244 441	13 598	118 902	100 362	11 579
UK	137 200	-	68 071	66 431	2 698	125 701	-	61 015	61 388	3 298
Norway	111 762	23	19 079	86 371	6 289	104 319	-	16 224	80 553	7 542
Denmark	20 785	-	11 848	7 886	1 051	20 367	-	10 829	7 620	1 918
Finland	41 239	20 363	7 196	12 818	862	37 302	18 083	5 777	12 848	594
The Netherlands	31 453	-	19 706	11 066	681	27 628	-	13 992	13 192	444
USA	611	-	-	-	611	559	-	-	-	559
Other countries	3 855	562	734	2 374	185	4873	551	808	3373	141
Total	**598 660**	**34 868**	**252 732**	**288 291**	**22 769**	**565 190**	**32 232**	**227 547**	**279 336**	**26 075**

Table AR:11 Loans to the public, Property management, risk class and country

Loans to the public, Property management, risk class and country 2018
SEK m

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
2	68 885	22 985	19 509	1 635	9 233	-	-	-	122 247	20.42
3	101 813	71 396	55 068	11 517	10 762	-	-	-	250 556	41.85
4	37 871	34 680	25 758	5 052	7 121	103	-	-	110 585	18.47
5	18 110	4 651	7 239	1 859	1 454	-	-	-	33 313	5.56
6	1 880	1 407	2 197	194	124	-	-	-	5 802	0.97
7	702	234	834	241	194	-	-	-	2 205	0.37
8	176	63	42	90	539	-	-	-	910	0.15
9	141	362	104	8	42	-	-	-	657	0.11
Defaults	238	727	175	98	102	-	-	-	1 340	0.22
Standardised approach[1]	0	76	1	7	1	31 350	-	3 855	35 290	5.89
Total	**251 755**	**137 200**	**111 762**	**20 785**	**41 239**	**31 453**	**611**	**3 855**	**598 660**	**100**

Loans to the public, Property management, risk class and country 2017
SEK m

Risk class	Sweden	UK	Norway	Denmark	Finland	The Netherlands	USA	Other countries	Total	%
1	22 433	950	1 287	76	8 167	-	559	-	33 472	5.92
2	64 187	23 608	23 010	3 780	9 856	-	-	-	124 441	22.02
3	91 895	65 576	53 368	8 926	11 199	-	-	0	230 964	40.86
4	47 323	28 664	16 243	5 043	6 218	-	-	-	103 491	18.31
5	15 788	4 593	6 282	1 694	1 248	-	-	-	29 605	5.24
6	1 545	595	2 701	431	93	-	-	-	5 365	0.95
7	649	194	637	110	389	-	-	-	1 979	0.35
8	208	94	330	99	31	-	-	-	762	0.13
9	90	39	172	18	27	-	-	-	346	0.06
Defaults	323	1 287	289	186	73	-	-	-	2 158	0.38
Standardised approach[1]	0	101	0	4	1	27 628	-	4 873	32 607	5.77
Total	**244 441**	**125 701**	**104 319**	**20 367**	**37 302**	**27 628**	**559**	**4 873**	**565 190**	**100**

[1] The standardised approach uses predetermined risk weightings, for which reason risk classes are not relevant.

Table AR:12 Loans to the public, Property management, risk class and collateral

Loans to the public, Property management, risk class and collateral 2018
SEK m

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**

Loans to the public, Property management, risk class and collateral 2017
SEK m

Risk class	Loans	Collateral				
		Residential property	Commercial property	Sovereign and municipal guarantees	Other collateral	Unsecured
1	33 487	16 243	4 218	8 583	2 786	1 657
2	124 442	54 907	47 738	6 357	2 862	12 578
3	230 964	90 792	125 499	4 554	3 701	6 418
4	103 500	44 335	51 090	3 781	1 646	2 648
5	29 604	10 032	16 755	617	730	1 470
6	5 371	927	4 091	1	235	117
7	1 980	474	1 199	10	98	199
8	762	135	552	-	62	13
9	348	83	222	3	28	12
Defaults	2 185	342	1 324	4	85	430
Standardised approach[1]	32 547	14 785	16 454	552	94	662
Total	**565 190**	**233 055**	**269 142**	**24 462**	**12 327**	**26 204**

[1] The standardised approach uses predetermined risk weightings, 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 (the Capital Requirements Regulation, CRR). The standardised approach entails that the risk weightings 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 weightings 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 corporate and institutional exposures, as well as for exposures to sovereigns, central banks, government agencies and municipalities (sovereign exposures).

The rating for retail exposures is not translated 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 internal rating system 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 – 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 SME:s, where the total exposure within the Group does not exceed SEK 5 million.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 SME:s 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, retail, exposures with collateral in property, exposures in default, past due items, other items and shares.

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

Table AR:13 Credit risk exposures by risk class

Credit exposures by risk class 2018	Balance sheet items						Off-balance sheet items		
SEK m	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
Risk class									
1	418 828	8 074	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	2 153	-	-	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 weightings, for which reason risk classes are not relevant.

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 exposure. The average default rate is then adjusted by various margins of conservatism.

Table AR:14 Balance sheet items subject to impairment testing under IFRS 9, breakdown by risk class

Balance sheet items subject to impairment testing under IFRS 9 Breakdown by risk class SEK m	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**

Table AR:15 Loans to the public subject to impairment testing under IFRS 9, breakdown by risk class

Loans to the public subject to impairment testing under IFRS 9 Breakdown by risk class SEK m	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:16 Off-balance sheet items subject to impairment testing under IFRS 9, breakdown by risk class

Off-balance sheet items subject to impairment testing under IFRS 9 Breakdown by risk class 2018 SEK m	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 weightings, for which reason risk classes are not relevant.

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 can be explained by the risk measures with a good margin. 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 carried exposure. 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 exposures and institutional exposures, 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 classification is 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 (Pillar 3 2018) report, under the heading Credit risk – quality assurance of the rating system.

CALCULATION OF EXPECTED CREDIT LOSSES PURSUANT TO IFRS 9

The introduction of the new accounting standard IFRS 9 as of 1 January 2018 imposes new rules for the calculation of provisions for expected credit losses on financial assets recognised at amortised cost and debt instruments recognised at fair value through other comprehensive income, as well as on financial guarantees and irrevocable loan commitments. This section provides descriptions of the processes and methods applied in Handelsbanken's model-based calculations of provisions for expected credit losses (ECL).

The calculation of expected credit losses is undertaken at agreement level, whereby the characteristics of the agreement and the counterparty govern the classification and quantification of the provision requirement. The assessment can be made at either the collective or individual level, 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 the table Differences between IFRS 9 and the IRB approach.

Macroeconomic information

The calculations regarding collective 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 70 per cent for the neutral scenario and 15 per cent for the positive and the negative scenarios, respectively. 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 weightings 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 collective assessments. 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. The change in credit risk is measured at the individual agreement level whenever possible. 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

Table AR:17 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.

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.

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 take their lead from the Bank's IRB models. 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 Chief Credit Officer, 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 2018 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 2019.

EXPERT-BASED CALCULATIONS FOR AGREEMENTS IN STAGE 3

Assets in Stage 3 are tested for impairment at the individual level using an expert-based 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 or 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 counterparty'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). For agreements in Stage 3, expert-based calculations are made. 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 Chief Credit Officer. 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 of 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 Chief Credit Officer for approval.

Any expert-assessed calculations in model-calculated agreements in Stage 1 and Stage 2 require the approval of the Chief Credit Officer 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 Chief Credit Officer. 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 Chief Credit Officer 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 Chief Credit Officer. 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 a regional or 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 52. 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 53.

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

Table 50 (Pillar 3) Counterparty risk, breakdown by exposure classes, exposure amounts and risk-weighted exposure amounts, IRB approach

Exposure amount broken down into derivatives, equity loans and securities financing transactions.

Counterparty risk, breakdown by exposure classes, exposure amounts and risk-weighted exposure amounts, IRB approach	2018		2017	
SEK m	Exposure amount	Risk-weighted exposure amount	Exposure amount	Risk-weighted exposure amount
Exposure classes, IRB approach				
Institutional exposures	68 864	9 218	55 891	8 697
Corporate exposures	19 013	2 986	17 180	3 400
Sovereign exposures	8 228	96	8 223	183
Total IRB approach	**96 105**	**12 300**	**81 294**	**12 280**

Table 51 (Pillar 3) Counterparty risk, breakdown by exposure classes, exposure amounts and risk-weighted exposure amounts, standardised approach

Exposure value broken down into derivatives, equity loans and securities financing transactions.

Counterparty risk, breakdown by exposure classes, exposure values and risk-weighted exposure amounts, standardised approach	2018		2017	
SEK m	Exposure amount	Risk-weighted exposure amount	Exposure amount	Risk-weighted exposure amount
Exposure classes, standardised approach				
Sovereign and central bank exposures	6 776	136	5 708	114
Other	6 776	136	5 708	114
of which cleared via central counterparties	*378*	*162*	*426*	*238*
Total standardised approach	**7 154**	**298**	**6 134**	**352**
Total IRB and standardised approach	**103 259**	**12 598**	**87 428**	**12 632**

Table 52 (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 SEK m	2018	2017
Positive gross market value for derivative contracts	79 091	76 892
Netting gains[1]	33 654	37 660
Current set-off exposure	45 437	39 232
Collateral[1]	38 698	30 023
Net credit exposure for derivatives	6 739	9 209

[1] Collateral offset on the balance sheet is reported under netting gains.

Table 53 (Pillar 3) Counterparty risks in derivative contracts including potential future exposure

Counterparty risks in derivative contracts including potential future exposure 2018 SEK m	Current set-off exposure	Potential future exposure	Exposure amount	Risk-weighted exposure amount	Capital requirement
Sovereign exposures	1 714	658	2 372	95	8
Institutional exposures	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*

Counterparty risks in derivative contracts including potential future exposure 2017 SEK m	Current set-off exposure	Potential future exposure	Exposure amount	Risk-weighted exposure amount	Capital requirement
Sovereign exposures	2 015	1 009	3 024	183	15
Institutional exposures	28 702	23 812	52 514	8 638	691
Corporate exposures	8 455	3 504	11 959	3 515	281
Others	60	54	114	84	7
Total	**39 232**	**28 379**	**67 611**	**12 420**	**994**
of which operations in the trading book	*13 479*	*12 628*	*26 107*	*5 203*	*416*

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.

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.

At Handelsbanken, 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. The work to significantly reduce the Bank's market risks started before the years of the financial crisis and before the regulations started to assign the importance to market risks that they do today. 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 Head of Group Treasury, who reports to the CFO, has the operational responsibility for the management of interest rate, foreign exchange and liquidity risks. 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 delegated directly to the Head of Business Support at Capital Markets by the CFO.

The CEO and the CFO also decide on supplementary risk measures, 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 risk is 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 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 for individual classes of risk and at portfolio level with a 99-per cent confidence level and a one-day holding period. The method 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 classified as trading book was SEK 9 million (18) at year-end. VaR is reported on a regular basis to the CFO, the CEO and the Board.

The VaR model does not identify risks associated with extreme market fluctuations. 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:18 Decision levels for market and liquidity risks

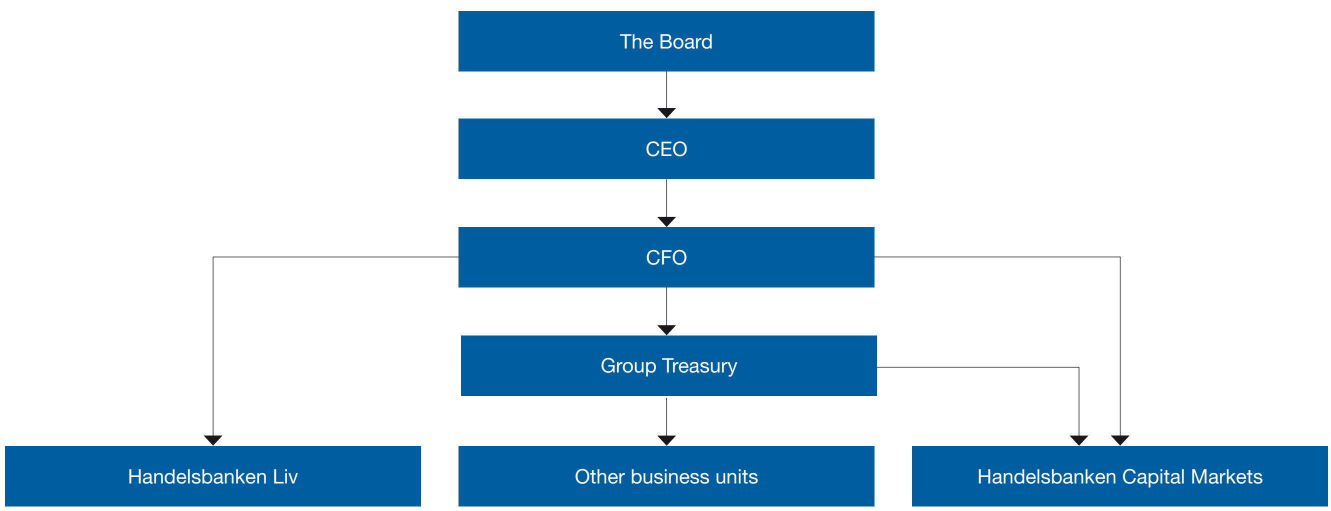


Table AR:19 VaR for trading book – Handelsbanken Capital Markets and Group Treasury[1]

VaR for trading book – Handelsbanken Capital Markets and Group Treasury[1]

	Total		Equities		Fixed income		Currency		Commodities	
SEK m	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Average	11	13	0	1	11	14	2	3	1	1
Maximum	16	21	3	1	13	22	5	6	4	4
Minimum	8	8	0	0	8	9	1	1	0	0
Year-end	9	18	0	0	8	19	4	2	0	0

[1] Portfolios classified as trading book are subject to special instructions and guidelines.

Table AR:20 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 SEK m	2018	2017
Average	76	103
Maximum	243	249
Minimum	35	39
Year-end	57	186

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 944 million (826). 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 the year-end was SEK 8 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 83 million (62) and the specific interest rate risk was SEK 5 million (6). 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-rate 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 measured as above was SEK 941 million (855) 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 337 million (463).

Table AR:21 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)** SEK m	2018	2017
SEK	218	215
DKK	297	257
EUR	84	102
NOK	142	94
USD	119	100
GBP	67	70
Other currencies	14	17
Total	**941**	**855**

Table AR:22 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 2018. Non-interest-bearing assets and liabilities have been excluded.

interest rate adjustment periods for assets and liabilities 2018 SEK m	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

interest rate adjustment periods for assets and liabilities 2017 SEK m	Up to 3 mths	3-6 mths	6-12 mths	1-5 yrs	Over 5 yrs	Total
Assets						
Loans	1 435 047	98 532	104 282	388 319	39 581	2 065 761
Banks and other financial institutions	284 029	1 288	35	107	25	285 484
Bonds, etc.	96 454	4 469	10 122	55 937	11 625	178 607
Total assets	**1 815 530**	**104 289**	**114 439**	**444 363**	**51 231**	**2 529 852**
Liabilities						
Deposits	919 422	13 693	5 865	2 910	77	941 967
Banks and other financial institutions	164 173	3 288	2 046	2 425	2 888	174 820
Issued securities	483 463	99 089	110 484	559 735	56 719	1 309 490
Other liabilities	-	-	-	-	-	-
Total liabilities	**1 567 058**	**116 070**	**118 395**	**565 070**	**59 684**	**2 426 277**
Off-balance sheet items	-45 354	-107 034	-15 195	150 987	14 322	-2 274
Difference between assets and liabilities including off-balance sheet items	203 118	-118 815	-19 151	30 280	5 869	101 301

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 174 million (93). The largest exposure in equities comes from the Swedish 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 the year-end, the Bank's VaR for equity price risk in the trading book was SEK 0 million (0).

Equity price risk outside the trading book

The Group's holdings of equities outside the trading book essentially comprise level 3 shares (unlisted), 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 (available for sale under IAS 39) 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:23 Equity price risk

Equity price risk SEK m	Change in volatility					
	2018			2017		
Change in equity price	-25%	0%	25%	-25%	0%	25%
10%	183	184	186	117	116	116
-10%	-174	-173	-172	-93	-92	-91

Table AR:24 Equity exposures outside the trading book

Equity exposures outside the trading book under IFRS 9 SEK m	2018
Holdings classified as measured at fair value through other comprehensive income	1 840
of which Level 1 and 2	*783*
of which Level 3	*1 057*
Holdings classified as measured at fair value through other comprehensive income	1 840
of which business-related	*1 633*
of which other holdings	*207*
Fair value reserve at beginning of year	547
Unrealised market value change during the year for retained and new holdings	-181
Realised due to sales and settlements during the period	-5
Fair value reserve at year-end	361
Included in tier 2 capital	0

Equity exposures outside the trading book under IAS 39 SEK m	2017
Classified as available for sale	1 174
of which listed	*4*
of which unlisted	*1 170*
Classified as available for sale	1 174
of which business-related	*1 152*
of which other holdings	*22*
Fair value reserve at beginning of year	1 035
Unrealised market value change during the year for retained and new holdings	-485
Realised due to sales and settlements during the period	-3
Fair value reserve at year-end	547
Included in tier 2 capital	0

Exchange rate risk

Handelsbanken has home markets outside Sweden and also operations in a number of other countries. Consequently, currency exposure of a structural nature arises, since the Group's accounts are presented in Swedish kronor. This structural risk is managed by considering the trade-off between reducing the impact of exchange rate movements on either capital ratios or equity. The Board has established the maximum impact on equity which the structural currency 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 68 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 currency 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 455 million (620), not including the structural currency 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 11 million (48), measured as the impact on the Bank of an instantaneous five per cent change in the Swedish krona.

Table AR:25 Exchange rate sensitivity

Exchange rate sensitivity (worst outcome +/-5% change in SEK against the respective currency) SEK m	2018	2017
EUR	13	21
NOK	8	11
DKK	7	4
USD	9	6
GBP	2	3
Other currencies	5	6

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 the year-end, the commodity price risk was SEK 4 million (3), 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 the year-end, the Bank's VaR for commodity price risk was SEK 0 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 core approach 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 at aggregate level and also 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 decide on 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.

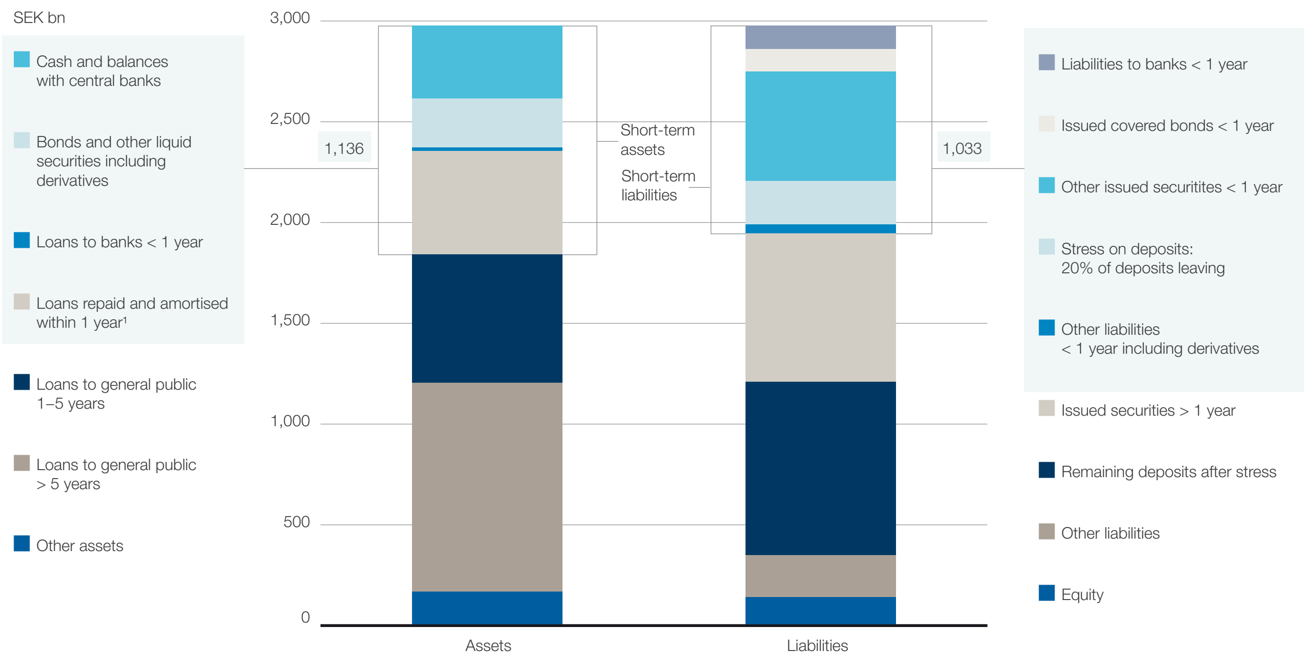
The starting point of this work is a well-matched balance sheet, where illiquid assets are financed using stable funding. The illiquid assets comprise credits to households and companies; these credits constitute the Bank's core business. The long-term stable funding of these assets consists of covered 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 towards 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:26 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 absolute 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.

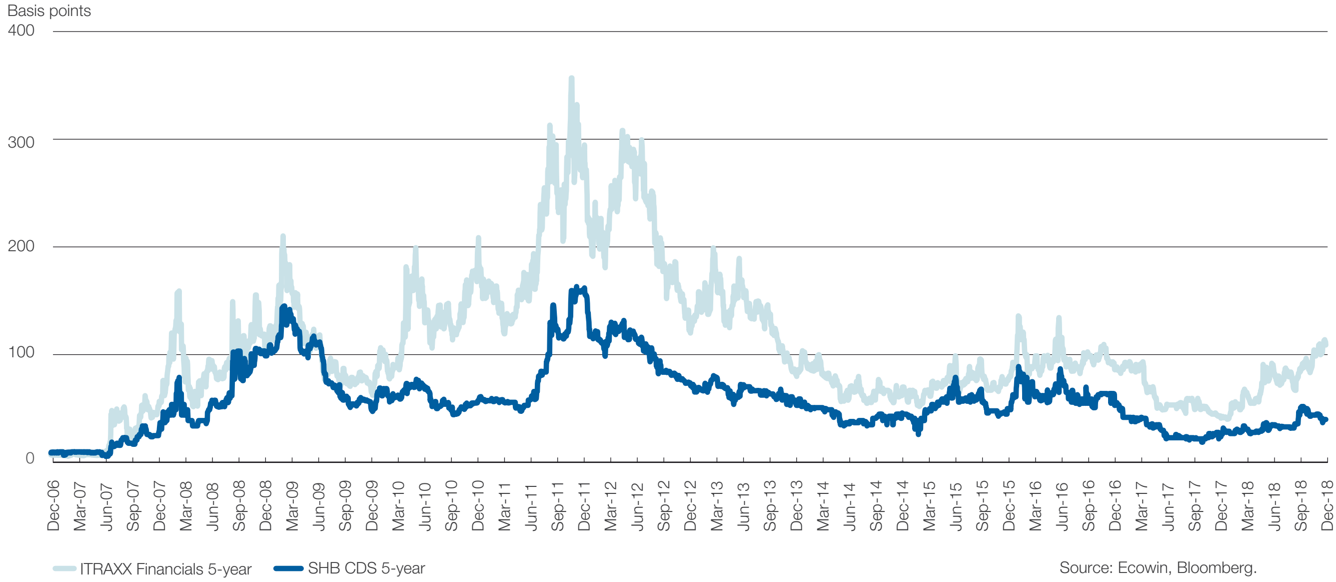
Good diversification between different types of funding sources in various markets, currencies and forms of funding instruments is a key component of the funding strategy. This reduces the significance of individual markets or sources of funding. Handelsbanken's long-term international funding is geographically well diversified, and the Bank has issued significant volumes of bonds in the UK, the US, Asia, and Australia, as well as in the euro market. 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:26 Composition of the balance sheet from a maturity perspective



[1] Scheduled amortisations, contractual maturities and estimated additional loan repayments.

Figure AR:27 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 389 million (227) in long-term market funding 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:29. 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:28 Maturity profile of long-term market funding
Refers to issued securities as at 31 December 2018 with an original maturity exceeding one year

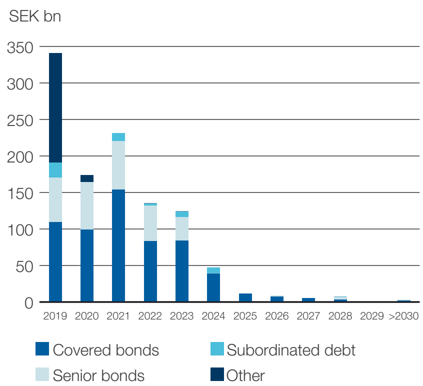


Figure AR:29 Market funding of covered bonds per currency 2018
Refers to the currency breakdown as at 31 December 2018 for issued covered bonds. Amounts in brackets SEK billion.

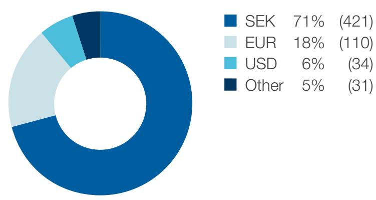


Figure AR:30 Short-term market funding by currency 2018
Refers to the currency breakdown as at 31 December 2018 for issued securities with original time to maturity of less than one year. Amounts in brackets SEK billion.

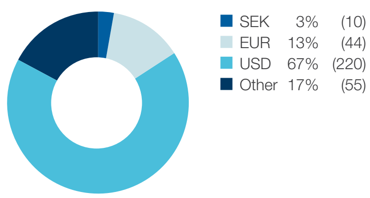


Figure AR:31 Long-term market funding by currency 2018
Refers to the currency breakdown as at 31 December 2018 for issued securities with original time to maturity of more than one year. Amounts in parentheses in SEK billion.

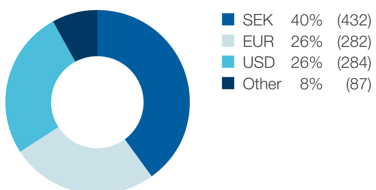
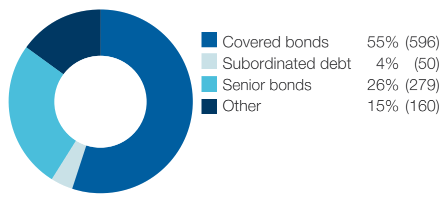


Figure AR:32 Long-term market funding by instrument 2018
Refers to breakdown by instrument as at 31 December 2018 for issued securities with original time to maturity of more than one year. Amounts in parentheses in SEK billion.



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 3,993 million (5,540). For more information about the Bank's encumbered assets, see the Assets pledged 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 non-encumbered funding and encumbered 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:33 shows that the volume of non-encumbered assets for Handelsbanken is 216 per cent (224) of the outstanding volume of non-encumbered funding. The Bank made the decision during the year to increase its market funding issuances, including non-covered funding. This explains the decrease in the ratio between non-encumbered assets in relation to the outstanding volume of non-covered funding compared with previous years.

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 53.1 per cent (53.8) in the Swedish pool, 55.1 per cent (55.6) in the Norwegian pool, and 49.2 per cent (49.7) in the Finnish pool. The conditions are also in place for a Danish pool, which Moody's has given a preliminary rating of Aaa, but this asset pool has not yet been used for issues. The Danish asset book's average volume-weighted LTV was 63.1 per cent (63.9). 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:33 and can be used for issues of covered bonds if necessary.

Table AR:33 Non-encumbered/non-pledged assets

Non-encumbered/non-pledged assets	2018		2017	
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	**351**	**36**	**267**	**32**
Liquid bonds in liquidity portfolio	**176**	**55**	**177**	**53**
Loans to households including derivatives	**550**		**467**	
of which mortgage loans	*366*	*93*	*277*	*86*
of which loans secured by collateral in property	*6*	*93*	*9*	*87*
of which other household lending	*178*	*112*	*181*	*109*
Loans to companies including derivatives	**985**		**937**	
of which mortgage loans	*279*	*141*	*272*	*141*
of which loans to housing co-operative associations excl. mortgage loans	*62*	*147*	*54*	*148*
of which loans to property companies incl./excl. mortgage loans				
- risk category 1–3	*288*	*177*	*276*	*180*
- risk category 4–5	*114*	*189*	*99*	*192*
- of which risk category > 5	*9*	*190*	*9*	*193*
of which other corporate lending				
- risk category 1–3	*151*	*205*	*141*	*210*
- risk category 4–5	*69*	*212*	*69*	*218*
- risk category > 5	*13*	*214*	*17*	*220*
Loans to credit institutions including derivatives	**18**		**19**	
- risk category 1–3	*16*	*215*	*19*	*223*
- risk category > 3	*2*	*216*	*0*	*223*
Other lending	**0**	**216**	**0**	**223**
Other assets	**0**	**216**	**9**	**224**
Total	2 080	216	1 876	224

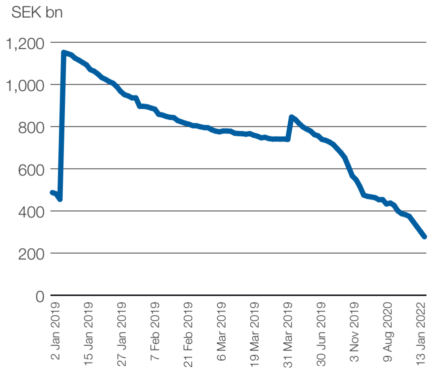
[1] NEA: Non-encumbered assets.
[2] Issued short and long non-secured funding and due to credit institutions.

Table AR:34 Cover pool dataw

Cover pool data	Sweden		Norway		Finland	
SEK m	2018	2017	2018	2017	2018	2017
Stadshypotek total lending, public	1 115 985	1 051 541	85 659	79 179	51 066	49 377
Available assets for cover pool	1 015 275	967 320	82 527	75 247	48 176	46 503
Utilised assets in cover pool	606 294	618 744	26 613	25 320	18 248	16 741
Substitute assets, cash on a blocked account	5 000	5 000	-	-	-	-
Maximum LTV %, weighted average ASCB definition[1]	53.14	53.81	55.09	55.55	49.2	49.68
LTV, breakdown						
0–10%	24	22.9	21.9	21.7	27.9	27.6
10–20%	19.9	19.8	20.9	20	23.4	23.3
20–30%	16.7	17.1	16.6	17	19.8	19.5
30–40%	13.9	14.4	13.9	14.1	13.3	13.4
40–50%	11	11.4	11.5	11.7	8.3	8.6
50–60%	7.9	8	8.6	8.8	4.8	5.2
60–70%	5	5	5.3	5.3	2	2.1
70–75%	1.6	1.4	1.3	1.4	0.5	0.4
Loan amount, weighted average, SEK	651 800	634 500	3 839 623	3 538 328	1 032 477	871 894
Loan term, weighted average, no. of months[2]	65	61	26	23	56	57
Interest rate adjustment periods, breakdown	48.2	54.9	99.2	97.9	99.8	99.9
Floating rate, %	51.8	45.1	0.8	2.1	0.2	0.1
Fixed rate, %						

[1] Association of Swedish Covered Bond issuers.
[2] As of Q2 2016, calculated from the approval date of the loan instead of the latest date for amendment of specific terms.

Figure AR:35 Stress test of liquidity, including liquidity-creating measures – accumulated liquidity position



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. Resistance to more long-term disruptions in the market is therefore 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.

Actions that generate liquidity are also used to steadily 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:26 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 crisis. Consistently steering the Bank towards positive future net cash flows, instead of point-in-time ratios, also secures this over time.

Table AR:37 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 has announced that, in addition, they intend to exercise supervision of LCR in individual currencies within the framework of the supervisory review and evaluation process in Pillar 2, as the EU's minimum requirement does not currently extend to a quantitative requirement in individual currencies.

The LCR may display a degree of volatility over time, for example when funding that was originally long term and that finances mortgage loans is approaching maturity and is to be replaced by new long-term funding, or when the composition of counterparty categories varies in the short-term funding. At year-end, the Group's aggregated LCR, according to the European Commission's Delegated Regulation, was 146 per cent (139), which shows that the Bank has large resistance to short-term disruptions on the funding markets. The structural liquidity measure, Net Stable Funding Ratio (NSFR) – the ratio between available stable funding and the requirement for stable funding – amounted to 104 per cent (102) at Group level at the end of 2018.

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:36 Liquidity coverage ratio (LCR) – subcomponents

Liquidity coverage ratio (LCR) – subcomponents SEK m	31 Dec 2018	31 Dec 2017
High quality liquidity assets	**508 009**	**432 958**
Cash outflows	**404 045**	**353 756**
Deposits from the public and small enterprises	58 078	52 697
Unencumbered capital market financing	300 759	252 825
Encumbered capital market financing	4 609	9 119
Other cash outflows	40 599	39 115
Cash inflows	**55 956**	**42 406**
Inflows from fully performing exposures	25 418	28 292
Other cash inflows	30 538	14 114
Liquidity coverage ratio (LCR), %	**146%**	**139%**

The subcomponents are defined as stated in Commission Delegated Regulation (EU) 2015/61.

Table AR:37 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.se/ireng.

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	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 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	262 475	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**

Maturity analysis for financial assets and liabilities 2017 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	265 238	-	-	-	-	-	-	265 238
Interest-bearing securities eligible as collateral with central banks[1]	129 296	-	-	-	-	-	-	129 296
Bonds and other interest-bearing securities[2]	49 906	-	-	-	-	-	-	49 906
Loans to credit institutions	13 665	1 445	918	601	2 049	2 884	101	21 663
of which reverse repos	*1 340*	-	-	-	-	-	-	*1 340*
Loans to the public	56 263	249 434	183 229	192 418	409 251	1 048 010	-	2 138 605
of which reverse repos	*6 607*	-	-	-	-	-	-	*6 607*
Other	20 858	-	-	-	-	-	216 267	237 125
of which shares and participating interests	*14 052*	-	-	-	-	-	-	*14 052*
of which claims on investment banking settlements	*6 806*	-	-	-	-	-	-	*6 806*
Total assets	**535 226**	**250 879**	**184 147**	**193 019**	**411 300**	**1 050 894**	**216 368**	**2 841 833**
Due to credit institutions	90 432	48 763	3 661	4 399	1 150	6 373	22 959	177 737
of which repos	*126*	-	-	-	-	-	-	*126*
of which deposits from central banks	*34 335*	*26 309*	*553*	-	-	-	*1 496*	*62 693*
Deposits and borrowing from the public	9 411	29 483	4 928	767	2 374	5 665	889 651	942 279
of which repos	*0*	-	-	-	-	-	-	*0*
Issued securities[3]	62 324	370 578	194 043	205 022	439 494	58 788	-	1 330 249
of which covered bonds	*4 584*	*97 275*	*86 808*	*126 429*	*289 426*	*53 842*	-	*658 364*
of which certificates and other securities with original maturity of less than one year	*55 690*	*241 017*	*66 379*	-	-	-	-	*363 086*
of which senior bonds and other securities with original maturity of more than one year	*2 050*	*32 286*	*40 856*	*78 593*	*150 068*	*4 946*	-	*308 799*
Subordinated liabilities	392	781	25	21 316	13 984	-	-	36 498
Other	8 674	-	-	-	-	-	332 038	340 712
of which short positions	*2 085*	-	-	-	-	-	-	*2 085*
of which liabilities on investment banking settlements	*6 589*	-	-	-	-	-	-	*6 589*
Total liabilities	**171 233**	**449 605**	**202 657**	**231 504**	**457 002**	**70 826**	**1 244 648**	**2 827 475**
Off-balance sheet items								
Financial guarantees and unutilised committed loan offers	443 383							

Derivatives 2017 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	271 825	391 212	65 514	123 510	254 782	57 424	1 164 267
Total derivatives outflow	270 128	380 734	63 543	111 732	243 383	56 443	1 125 963
Net	**1 697**	**10 478**	**1 971**	**11 778**	**11 399**	**981**	**38 304**

[1] SEK 72,611m (89,070) of the amount (excl. interest) has a residual maturity of less than one year.
[2] SEK 7,047m (15,402) of the amount (excl. interest) has a residual maturity of less than one year.
[3] SEK 653,553m (606,772) 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. Liquidity reserves are kept in all currencies that are relevant to the Bank and are accessible for 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 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:38 Holdings with central banks and banks, and securities holdings in the liquidity reserve, market value

Holdings with central banks and banks, and securities holdings in the liquidity reserve, market value 2018 SEK m	**SEK**	**EUR**	**USD**	**Other**	**Total**
Cash and balances with, and other lending to, central banks	10 191	133 073	105 666	101 749	350 679
Balances with other banks and National Debt Office, overnight	123	13	200	151	487
Government-issued securities	81 252	5 682	24 569	-	111 503
Securities issued by municipalities and other public entities	3 538	-	2 871	5	6 414
Covered bonds	34 865	1 793	-	13 108	49 766
Own covered bonds	7 870	69	-	-	7 939
Securities issued by non-financial companies	50	78	-	-	128
Securities issued by financial companies (excl. covered bonds)	21	12	-	141	174
Other securities	-	-	-	-	-
Total	**137 910**	**140 720**	**133 306**	**115 154**	**527 090**

Holdings with central banks and banks, and securities holdings in the liquidity reserve, market value 2017 SEK m	**SEK**	**EUR**	**USD**	**Other**	**Total**
Cash and balances with, and other lending to, central banks	6 766	85 624	48 079	124 765	265 234
Balances with other banks and National Debt Office, overnight	1 831	13	19	178	2 041
Government-issued securities	92 916	6 916	22 173	-	122 005
Securities issued by municipalities and other public entities	6 433	-	3 897	50	10 380
Covered bonds	31 911	1 973	-	6 625	40 509
Own covered bonds	2 338	-	-	1 402	3 740
Securities issued by non-financial companies	126	15	-	-	141
Securities issued by financial companies (excl. covered bonds)	131	144	-	-	275
Other securities	-	-	-	-	-
Total	**142 452**	**94 685**	**74 168**	**133 020**	**444 325**

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.

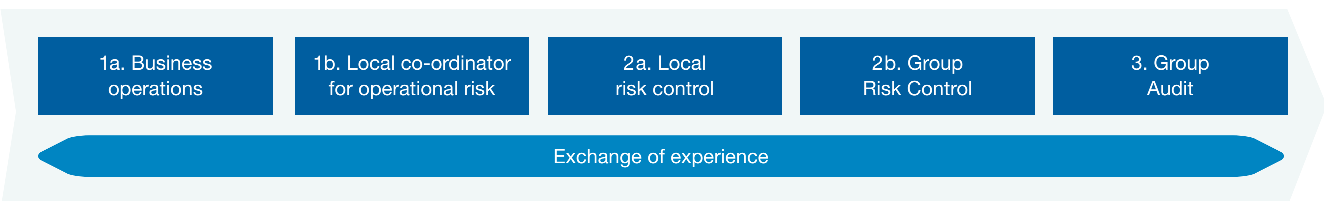
The Board has determined the Handelsbanken Group's tolerance of operational risk. Handelsbanken has a low tolerance of operational risk, although operational risk is an inevitable component of all operations at the Bank. Significant operational risks that could cause major operational losses must be 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. Handelsbanken's operational losses, which comprise expected and recognised operational losses and any recoveries, totalled SEK 60 million (49) in 2018. It is not unusual that the amount referring to operational losses is adjusted over time due to recoveries or other compensation received, 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.

Figure AR:39 Operational risk management and control at Handelsbanken



Operational risk is managed in the business operations, and this management is checked by local risk control functions and Group 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.

Local risk control functions must ensure that the units within their own operations identify, assess, report and manage operational risk, and perform follow-up to ensure that the action decided upon is being taken. This is done by means of regular quality assurance and evaluation of the operations' work with 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 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 resulted in a loss exceeding 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.

OPRA Risk Analysis self-assessment procedure

OPRA Risk Analysis is a 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. Local risk control is informed about the completed OPRA Risk Analysis, including the action plan, and it evaluates the procedure. Group Risk Control provides regular support to the local OpRisk co-ordinator's planning, implementation and follow-up and also performs an annual aggregate assessment of the evaluations from all local risk control units.

Risk indicators

Risk indicators are applied in order to identify and warn of heightened operational risk. If a threshold value for a risk indicator is exceeded, a consequence and probability assessment must be carried out 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 conditional 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

A special local risk control function within Group IT monitors risks in IT and information security.

Figure AR:40 Breakdown of losses exceeding SEK 25 thousand, 2014–2018

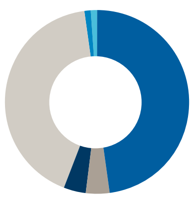
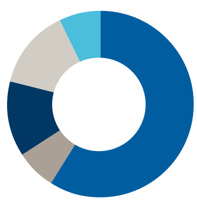


Figure AR:41 Breakdown of loss amount exceeding SEK 25 thousand, 2014–2018



INFORMATION SECURITY AND IT SECURITY

In its operations, a bank continuously processes sensitive information about customers and customer 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, such as through training programmes and information initiatives.

PRIVACY 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 CEO 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. This means that any risks are identified on a regular basis and that internal rules are produced so that the information is protected over time.

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

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 we apply a process where risk analysis plays a central role. The risk analyses employ the IRAM method (ISF's Information Risk Analysis Methodology).

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 for financial crime. Financial crime includes money laundering, terrorist financing, tax evasion, corruption, fraud and breaches of international sanctions. Handelsbanken has a Group-wide department dedicated to preventing financial crime. The department is headed by the Bank's specially appointed officer, who is a member of Senior Management. Essential starting points for the Bank's efforts to prevent financial crime are the Bank's low risk tolerance and the body of external regulations on money laundering and terrorist financing.

CHANGE MANAGEMENT

Change management applies to 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.

Each business area, subsidiary and regional bank is responsible for ensuring that changes are managed in accordance with these central guidelines and instructions.

There is an established decision procedure detailing how new products and services are to be introduced. A risk analysis must always be completed prior to launch, which is evaluated by the local risk control function. The analysis examines the risks for the Bank and for the customer, including operational risk and reputation risk. In addition, the analysis looks at areas like financial crime, sustainability, information security and data quality. Group Risk Control is involved in complex cases or when this is justified for other reasons.

The instructions for operational and/or organisational changes stipulate that a decision procedure must be in place for decisions relating to major changes, and that the responsibilities of the different functions in the process must be clearly defined. Before a decision can be made concerning operational and/or organisational changes, a risk analysis must be completed. Both the decision and underlying material supporting the decision must be documented.

Changes in IT systems are managed in accordance with Handelsbanken's IT development model. The decision documentation for material changes to IT systems requires that an analysis of the risks associated with the change is carried out. The local risk control function must ensure that risks are evaluated prior to any decision being made.

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. Local risk control performs an annual evaluation of the procedure. Group Risk Control then performs an aggregated evaluation at Group level.

Handelsbanken participated in the collaboration exercise organised by FSPOS (Finansiella Sektorns Privat-Offentliga Samverkan, the Swedish financial sector's private-public partnership organisation) for 2018, the overall aim of which was to strengthen the sector's capacity to manage disruptions and stoppages in the financial sector.

OUTSOURCING AGREEMENTS

The CEO has issued guidelines that set out the conditions and requirements for outsourcing work and functions of material significance to the operations. 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 by conducting operations to a high ethical standard, and through pro-active business intelligence and accompanying, relevant corrective action when needed. In 2018, several training programmes were mandatory for all employees in the Group, covering ethical standards, sustainability and anti-corruption, money laundering and terrorist financing, and the General Data Protection Regulation. Handelsbanken's low risk tolerance is also reflected in its approach to remuneration. The Bank regards fixed remuneration as contributing to sound operations, so this is applied as a fundamental rule.

SUSTAINABILITY

Sustainability risk can arise in any of the Bank's different roles – as a lender, asset manager, service provider, purchaser or an employer. Sustainability risk spans areas such as human rights, the environment, climate, corruption, and money laundering. It is important to anticipate and manage sustainability risk, for financial and legal reasons as well as for the Bank's reputation.

Handelsbanken's activities for managing sustainability risk follow the Bank's decentralised model and are aligned with the Bank's generally low tolerance of risk. 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 correcting deficiencies in information on companies' work on and management of climate change. 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 has in 2018, for the first time, published climate reports in accordance with the TCFD's recommendations for Handelsbanken Liv and Handelsbanken Asset Management. The work to revise policy documents and review the Bank's various risk management processes, in order to identify work outstanding to fully align with TCFD's recommendations, has also continued over the past year.

COMPLIANCE RISK

Compliance risk is the risk that the Bank does not comply with laws, regulations and internal rules, or accepted business practices or standards.

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."

Poor management of compliance risks may lead to increased operational risk, the risk of sanctions or other interventions, financial losses or a loss of confidence in the Group's business 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 credit 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

In functional and operational terms, compliance is a joint function, comprised of several units in which there is a clear local presence and responsibility for local compliance work. Organisationally, these units may report to the central department (Group Compliance) or, if delegated by the Chief Compliance Officer, to their local head of operations. The Chief Compliance Officer carries out an annual evaluation of whether units which report to their local head of operations have the requisite resources and competency, and whether work at the unit is being run effectively and independently of the operations being monitored.

RESPONSIBILITIES

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 promote a high level of compliance and to promote that Handelsbanken's low tolerance of compliance risks is adhered to. The compliance function is responsible for identifying and assessing material compliance risks and deficiencies, performing regular controls and assessments as to how the Bank fulfils its obligations with regard to legislation, regulations and other rules applying to the licensed operations, providing recommendations, support, and advice to the Bank's units regarding compliance questions and reporting to management and the Board regarding compliance and compliance risks and deficiencies. The Chief Compliance Officer has the ultimate responsibility for the compliance function and reporting of compliance in the Group.

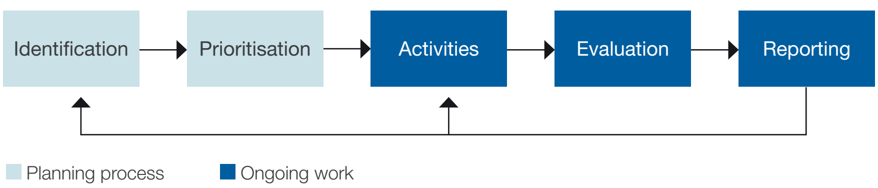
RISK-BASED COMPLIANCE WORK

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, 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 and recommendations to the units concerned.

COMPLIANCE RISKS

In 2018, a few compliance risks were reported as significant at Group level – that is, major or

Figure AR:42 The compliance process



critical risks – and they were subject to action to reduce them to an acceptable level. In 2018, the compliance risks associated with the rules concerning measures against money laundering and terrorist financing were still assessed as the most significant ones. Positive strides have been made in this area during the year and a number of improvements have been made to the existing infrastructure. However, continued work is 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.

Within the framework of an asset quality review and internal risk rating, Swedish and international supervisory authorities have raised questions primarily concerning the possibility of an external party being able to reproduce the risk rating performed as part of Handelsbanken's decentralised expert model. As a result of this, the compliance risk in this area has also been deemed higher. Nonetheless, the risk is deemed to be following a downward trend thanks to the measures taken during the year.

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 is applied with great caution and is not offered to employees whose professional activities have a material impact on the Bank's risk profile.

In 2018, 187 employees (202) who have been able to earn variable remuneration earned SEK 46 million (60) in variable remuneration.

ORGANISATION 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. Local risk control regularly monitors that the remuneration system is applied as intended. 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.

Table AR:43 Variable remuneration

Variable remuneration	2018	2017
Earned variable remuneration[1], SEK m	46	60
Salaries and fees, SEK m	8 726	8 373
No. of persons able to earn variable remuneration[2]	187	202
Average number of employees	12 307	11 832
Earned variable remuneration, as a proportion of salaries and fees, %	0.5	0.7
Provision for variable remuneration as a proportion of common equity tier 1 capital	0.04	0.05
No. of persons able to earn variable remuneration as a proportion of average number of employees, %	1.5	1.7

[1] All variable remuneration is paid in cash. 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 202 persons who were able to earn variable remuneration in 2017, 133 received an allocation.

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.

In addition to the market risk that is calculated using the standard formula prescribed by Solvency 2, the company also uses its own model for calculating the total market risk in the traditionally managed portfolios. The model, which calculates VaR with a 99.5 per cent confidence level and a holding period of three months, specifies market risk as the size of the capital contribution required to fulfil the terms of the insurance contract. The main risk for Handelsbanken Liv's traditionally managed portfolios is interest rate risk. At year-end, VaR was SEK 637 million (736).

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.

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.se.

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.

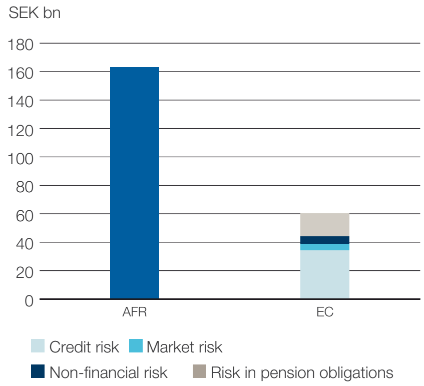
Credit risk is calculated using simulated outcomes of default for all the Group's counterparties and exposures.

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

Figure AR:44 (Figure 83, Pillar 3) Total of AFR and EC including diversification 2018



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 60.2 billion (60.0), 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 271 per cent (251) 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.

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, account must also be taken of 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 loan 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 2018, the common equity tier 1 ratio was 16.8 per cent (22.7). The lower common equity tier 1 ratio reflects the fact that the Bank's capital requirement for mortgage loans was moved from Pillar 2 to Pillar 1 during the fourth quarter of 2018. The risks are thus unchanged. The ratio between AFR and EC was 271 per cent (251) 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. For example, an assessment has been made of the effects of MREL and the liabilities proportion principle laid down in the resolution regulations.

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 the Bank's assessment, the Supervisory Authority's common equity tier 1 capital requirement at the end of the fourth quarter was 15.1 per cent.

G3 Net interest income

SEK m	2018	2017
Interest income		
Loans to credit institutions and central banks	3 160	2 140
Loans to the public	41 469	38 919
Interest-bearing securities eligible as collateral with central banks	387	188
Bonds and other interest-bearing securities	811	676
Derivative instruments	1 817	-949
Other interest income	1 334	1 342
Total	**48 978**	**42 316**
Interest income reported in net gains/losses on financial transactions	-193	224
Total interest income	**49 171**	**42 092**
of which interest income according to effective interest method and interest on derivatives for hedging	*48 341*	*41 657*
Interest expenses		
Due to credit institutions and central banks	-1 362	-1 281
Deposits and borrowing from the public	-1 814	-1 545
Issued securities	-18 458	-15 732
Derivative instruments	8 070	9 378
Subordinated liabilities	-1 543	-1 411
Other interest expenses	-3 080	-2 130
Total	**-18 187**	**-12 721**
Interest expenses reported in net gains/losses on financial transactions	-302	-395
Total interest expenses	**-17 885**	**-12 326**
of which interest expenses according to effective interest method and interest on derivatives for hedging	*-15 114*	*-10 302*
Net interest income	**31 286**	**29 766**

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 expense.

G4 Net fee and commission income

SEK m	2018	2017
Brokerage and other securities commissions	690	886
Mutual funds	3 692	3 559
Custody and other asset management fees	1 043	722
Advisory services	214	234
Insurance	714	664
Payments	3 605	3 359
Loans and deposits	1 340	1 238
Guarantees	390	381
Other	495	496
Total fee and commission income	**12 183**	**11 539**
Securities	-222	-264
Payments	-1 630	-1 491
Other	-84	-66
Total fee and commission expenses	**-1 936**	**-1 821**
Net fee and commission income	**10 247**	**9 718**

Total fee and commission per segment 2018	Home markets									
SEK m	Sweden	UK	Denmark	Finland	Norway	The Netherlands	Capital Markets	Other	Adjustments and eliminations	Total
Brokerage and other securities commissions	200	5	36	7	14	36	372	39	-19	690
Mutual funds	840	-	25	36	65	61	2 783	0	-118	3 692
Custody and other asset management fees	393	283	133	27	26	59	123	0	-1	1 043
Advisory services	0	36	11	0	-	-	167	-	0	214
Insurance	360	-	22	4	17	-	333	1	-23	714
Payments	2 512	269	205	314	257	2	70	-12	-12	3 605
Loans and deposits	696	150	51	265	96	19	59	5	-1	1 340
Guarantees	102	24	56	26	58	2	122	-	0	390
Other	397	4	62	16	2	1	250	0	-237	495
Total fee and commission income	**5 500**	**771**	**601**	**695**	**535**	**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	2018	2017
Amortised cost	180	156
of which loans	*357*	*372*
of which interest-bearing securities	*0*	
of which issued securities	*-177*	*-216*
Fair value through other comprehensive income	0	
of which expected credit losses	*-1*	
Financial instruments available for sale (IAS 39)		8
Fair value through profit or loss, fair value option	-129	
of which interest-bearing securities	*-129*	
Other financial instruments at fair value through profit/loss (IAS 39)		-553
of which interest-bearing securities		*-524*
of which loans		*-29*
Fair value through profit or loss, mandatory, including FX effects	1 107	
Trading, derivatives, FX effects, etc. (IAS 39)		1 814
Hedge accounting	-44	-29
of which net gains/losses on fair value hedges	*-4*	*-7*
of which cash flow hedge ineffectiveness	*-40*	*-22*
Result from financial components in insurance contract	-206	-125
Total	**908**	**1 271**

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 -47m in 2018. For 2017, the corresponding value change amounted to SEK 33m.

G6 Risk result – insurance

SEK m	2018	2017
Premiums written	459	470
Insurance claims paid	-382	-378
Change in provisions for unsettled claims	33	32
Other	-4	18
Total	**106**	**142**

G7 Other income

SEK m	2018	2017
Rental income	38	39
Other operating income[1]	967	133
Total	**1 005**	**172**

[1] Handelsbanken AB sold its shares in UC AB during 2018 which affects other operating income by SEK 837m.

G8 Staff costs

SEK m	2018	2017
Salaries and fees	-8 726	-8 373
Social security costs	-2 069	-2 015
Pension costs[1]	-1 397	-1 302
Transfer to profit-sharing foundation	-859	-768
Other staff costs	-414	-14
Total	**-13 465**	**-12 472**

[1] The components in the reported pension costs are shown in the Pension costs table.

Salaries and fees SEK m	2018	2017
Executive officers[2]	-146	-141
Others	-8 580	-8 232
Total	**-8 726**	**-8 373**

[2] Executive Directors and Board members in the parent company and Chief Executives, Deputy Chief Executives and Board members in subsidiaries (on average 58 people).

Gender distribution	2018		2017	
%	Men	Women	Men	Women
Executive officers excluding Boards	62	38	61	39
Of which in parent company	*62*	*38*	*64*	*36*
Of which in subsidiaries	*62*	*38*	*59*	*41*
Boards	64	36	63	37
Of which in parent company	*64*	*36*	*55*	*45*
Of which in subsidiaries	*65*	*35*	*64*	*36*

Average number of employees	2018	Men	Women	2017	Men	Women
Sweden	7 262	3 483	3 779	7 010	3 359	3 651
UK	2 319	1 339	980	2 151	1 253	898
Norway	771	411	360	750	405	345
Denmark	659	329	330	653	335	318
Finland	635	273	362	623	261	362
The Netherlands	313	215	98	284	196	88
USA	66	44	22	67	45	22
China	75	28	47	71	27	44
Luxembourg	52	30	22	57	35	22
Singapore	33	11	22	36	9	27
Germany	42	21	21	42	21	21
Poland	36	14	22	39	14	25
Other countries	44	18	26	49	16	33
Total	**12 307**	**6 216**	**6 091**	**11 832**	**5 976**	**5 856**

Remuneration[3] exceeding EUR 1 million No. of persons	2018	2017
Range EUR 1.0–1.5m	2	2
Range EUR 1.5–2.0m	0	0
Range EUR 2.0–2.5m	2	1
Range EUR exceeding 2.5m	0	1
Total	**4**	**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 pages 55–56.

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 1,172 (1,259) 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 2018, the Handelsbanken Group had no risk-takers who earned variable remuneration.

For the financial year 2018, Handelsbanken has transferred SEK 859 million to the Oktogonen profit-sharing scheme. An amount of SEK 768 million was transferred for 2017.

REMUNERATION TO EXECUTIVE OFFICERS

The executive officers of the parent company are the Group Chief Executive (CEO), other Executive Directors and Board members, who are presented on pages 58–61. The remuneration to executive officers of the parent company is in accordance with the guidelines for remuneration established by the 2018 annual general meeting (AGM). See also pages 55–56.

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' Chief Executives, Deputy Chief Executives and Board members.

Remuneration to executive officers of the Handelsbanken Group is paid only in the form of fixed salary and pension contributions, as well as customary benefits such as a company car. The Bank may provide housing as part of the remuneration if approved by a special decision of the Board. No variable remuneration is paid. Executive officers who are employees of the Bank are included in Handelsbanken's Oktogonen profit-sharing scheme 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 is provided on pages 58–59 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 contributions for defined contribution pensions, and any pension contributions that have been sacrificed from salary.

The CEO's remuneration and pension terms

The CEO, Anders Bouvin, received a fixed salary of SEK 13.2 million (12.0) during the year. Othenäe, r salary benefits were SEK 0.5 million (0.2), and the pension cost was SEK 8.0 million (7.3), corresponding to 60.5 per cent (61.1) of the salary. The CEO reached 60 years of age in 2018 and is a member of both the defined benefit and defined contribution pension schemes. His defined benefit pension has been fully accrued upon reaching the age of 60 and is equivalent to 65 per cent of his fixed salary. His defined contribution pension was two per cent of his salary until the age of 60. After the age of 60, the contribution amounts to 35 per cent of his fixed salary. The defined benefit pension is deferred for disbursement after the completion of employment and is co-ordinated with statutory pension insurance. The CEO announced in October 2018 that he will be retiring on 31 August 2019.

Remuneration and pension terms for other executive officers in the parent company

Pension terms

Three (3) of the Bank's other Executive Directors, employed in the parent company, receive a defined benefit pension of a maximum of 65 per cent of their salary at the time of retirement, and also a pension contribution of a maximum of two per cent of their salary. Their minimum retirement age is 60*, and the defined benefit pension is earned successively during the period of employment; it is fully accrued for these persons at the age of retirement.

G8 Cont.

Remuneration[1] to risk-takers[2], business segments	2018		2017	
SEK m	Remuneration	No. of persons	Remuneration	No. of persons
Handelsbanken Sweden	509	456	588	540
Handelsbanken UK	455	296	410	291
Handelsbanken Denmark	109	72	117	82
Handelsbanken Finland	84	65	81	66
Handelsbanken Norway	121	68	105	65
Handelsbanken the Netherlands	67	48	62	50
Handelsbanken Capital Markets	180	44	181	46
Other	296	123	290	119
Total	**1 821**	**1 172**	**1 834**	**1 259**

Remuneration[1] to risk-takers[2]	2018		2017	
	Senior Management[3]	Other risk-takers	Senior Management[3]	Other risk-takers
Earned fixed remuneration, SEK m	111	1 710	121	1 713
Earned variable remuneration, SEK m	-	-	-	-
Total	**111**	**1 710**	**121**	**1 713**
No. of persons with fixed remuneration only	14	1 158	16	1 243
No. of persons who may receive both fixed and variable remuneration	0	0	0	0
Total number of persons	**14**	**1 158**	**16**	**1 243**
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 2018 or 2017. 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 5m (2) invariable remuneration earned before 2017 was disbursed to risk-takers. The closing balance of deferred remuneration was SEK 8m (13). 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 16m (50) in termination benefits was paid to 7 (26) risk-takers. Total contracted termination benefits during the year amount to SEK 17m (65), with the highest individual amount being SEK 8m (16.7). 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 concept of Senior Management in its regulations FFFS 2011:1. At Handelsbanken, this corresponds to the Bank's Executive Directors.

A defined contribution pension with 65 as the age of retirement is received by nine Executive Directors (9). The contribution 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 accrued.

Remuneration

In 2018, Deputy CEO, Carina Åkerström, received a fixed salary of SEK 5.2 million (5.0). Other salary benefits were SEK 0.2 million (0.1), and the pension cost was SEK 3.2 million (3.1), corresponding to 62.7 per cent (62.4) of the salary.

Other Executive Directors, an average of 13 individuals (13) during the year, have received fixed salaries, after conversion to pension, totalling SEK 61.1 million (62.2). Other salary benefits were SEK 6.6 million (5.9), and the Bank's pension cost was SEK 23.0 million (24.8). Before conversion to pension, the pension cost was SEK 23.0 million (24.8), corresponding to 37.6 per cent (40.0) of the salary.

Fees for serving on the boards of other companies on behalf of the Bank have been paid to the Bank.

Remuneration to executive officers in subsidiaries

Fees paid to the 18 board members (16) of subsidiaries who are not employees of the Bank or its subsidiaries were SEK 4.2 million (4.1).

In 2018, the Chief Executives and Deputy Chief Executives of the subsidiaries, 17 individuals (16), received fixed salaries after conversion to pension equalling SEK 47.6 million (44.1). Other salary benefits were SEK 2.2 million (2.1) and the Bank's pension cost was SEK 9.8 million (11.1). Before conversion to pension, the pension cost was SEK 9.5 million (10.8), corresponding to 19.8 per cent (24.4) of the salary.

Remuneration is not paid to Chief Executives and Deputy Chief Executives of subsidiaries whose main duties are performed in another role at Handelsbanken.

PENSION OBLIGATIONS TO EXECUTIVE OFFICERS

As of 31 December 2018, the pension obligation** for the CEO Anders Bouvin was SEK 242.1 million (220.4). As of 31 December 2018, the pension obligation for the Deputy CEO Carina Åkerström was SEK 92.7 million (83.1), and for the other Executive Directors in the parent company – 11 individuals (12) – pension obligations were SEK 260.4 million (233.7).

Pension obligations in the Handelsbanken Group for all current and former executive officers were SEK 3,022 million (2,897) as of 31 December 2018. Pension obligations for all current and former executive officers in the parent company were SEK 2,847 million (2,738) as of 31 December 2018. The number of people covered by these obligations in the Group is 82 (84), of

* In new pension terms entered into after 1 January 2012, the age of retirement is 65.
** Pension obligations are liabilities which, in accordance with IAS 19, the Bank reserves for payment of future defined benefit pensions. The size of the obligation depends on financial and demographic assumptions which may change from year to year.

G8 Cont.

whom 60 (61) are pensioners. The corresponding number for the parent company is 67 (69), of whom 54 (55) are pensioners.

CREDITS TO AND DEPOSITS FROM EXECUTIVE OFFICERS

As of 31 December 2018, credits to executive officers in the parent company were SEK 64.3 million (79.5), and in the subsidiaries SEK 93.9 million (67.0). Deposits in the parent company from these individuals totalled SEK 458.0 million (527.0). In 2018, the Bank's interest income from these individuals for credits in the parent company totalled SEK 0.2 million (0.4), and in the subsidiaries SEK 1.2 million (0.8). Interest paid to these individuals for deposits in the parent company was SEK 1.5 million (1.6).

As of 31 December 2018, credits to executive officers in the subsidiaries in the Handelsbanken Group were SEK 123.5 million (107.9). Credit and deposit terms for executive officers are in accordance with the same principles as for all other employees of the Handelsbanken Group. All credits are subject to a credit assessment.

PENSIONS

Net pension obligations SEK m	2018	2017
Pension obligations	31 969	30 455
Fair value of plan assets	28 743	31 694
Net pensions	**-3 226**	**1 239**

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 10,458m (10,897). SKP entails a commitment by the Bank amounting to the same amount as the plan assets.

Part of the commitment, SEK 7,919m (8,265), is conditional.

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, and the majority of the defined benefit pension obligation was transferred to Storebrand. A small number of employees remained in the defined benefit plan due to the fact that they were not fully capable of working. During 2018, these individuals have either been migrated to the defined contribution plan or to Storebrand's risk operations, within which defined benefit pension accruals have continued. As a result of this change, pension obligations in Norway have decreased by SEK 52m as at 31 December 2018.

For employees in the UK employed before 1 January 2006, the defined benefit pension scheme closed for the accrual of further benefits from 28 February 2018. Instead, the employees concerned became members of a defined contribution pension scheme from 1 March 2018. Defined benefit pension accrued until 28 February 2018 remains a part of the Bank's pension obligation. The result of the closing of the scheme was that pension obligations in the UK decreased by SEK 144m as at 31 December 2018.

Pension costs SEK m	2018	2017
Service cost	-842	-809
Past service cost[1]	166	235
Interest on pension obligations	-681	-704
Interest on plan assets	703	650
Gains and losses from settlements and curtailments	58	-64
Social security costs, defined benefit plans	4	29
Pension costs, defined benefit plans	**-592**	**-663**
Pension costs, defined contribution plans	-767	-629
Social security costs, defined contribution plans	-38	-10
Total pension costs	**-1 397**	**-1 302**

[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.

Defined benefit obligations SEK m	2018	2017
Opening balance	30 455	29 670
Service cost	838	809
Past service cost	-196	-989
Interest on defined benefit obligation	681	704
Paid benefits	-947	-853
Gains and losses from settlements and curtailments	-58	17
Actuarial gains (-)/losses (+)	1 107	1 174
Foreign exchange effect	89	-77
Closing balance	**31 969**	**30 455**

Plan assets SEK m	2018	2017
Opening balance	31 694	27 509
Past service cost	-30	-754
Interest on plan assets	703	650
Funds contributed by the employer	542	178
Compensation to employer	-480	-545
Gains and losses from settlements and curtailments	-	-46
Funds paid directly to employees	-420	-366
Actuarial gains (+)/losses (-)	-3 309	5 096
Foreign exchange effect	43	-28
Closing balance	**28 743**	**31 694**

Return on plan assets SEK m	2018	2017
Interest on plan assets	703	650
Actuarial gains (+)/losses (-)	-3 309	5 096
Actual return	**-2 606**	**5 746**

Allocation of plan assets SEK m	2018	2017
Shares listed on an active market	25 908	29 036
Shares not listed on an active market	348	717
Interest-bearing securities listed on an active market	2 185	1 493
Interest-bearing securities not listed on an active market	-	25
Other plan assets	302	423
Total	**28 743**	**31 694**

The plan assets include shares in Svenska Handelsbanken AB (publ) with a market value of SEK 115m (130) on the balance sheet date 31 December 2018. Bonds issued by Svenska Handelsbanken AB (publ) are included with a market value of SEK 439m (479). Other plan assets include a liability for compensation that has not yet been paid out from the pension foundation.

G8 Cont.

Actuarial gains (-)/losses (+), defined benefit obligation SEK m	2018	2017
Changes in demographic assumptions	-41	-227
Changes in financial assumptions	843	1 066
Experience-based adjustments	305	335
Total	**1 107**	**1 174**

Future cash flows SEK m	Outcome 2018	Forecast 2019
Paid benefits	-947	-841
Funds contributed by the employer	542	63

Defined benefit pensions are mainly paid to employees in Sweden. Of the total net obligation, the Swedish plan accounts for SEK 29,579m (27,417) and the closed UK plan for SEK 2,275m (2,866). In addition, there are small defined benefit schemes in Germany which, given their size, are not considered material and are therefore not presented in more detail.

Of the total plan assets, the Swedish plan assets are SEK 26,497m (29,712), while an amount of SEK 2,238m (1,940) is attributable to the closed plan in the UK. In addition, there are small amounts 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.

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 Act and Mutual Benefit Societies Act are mainly applied. In the UK, the standard UK pensions and tax law is applied.

Significant assumptions	Sweden		UK	
	2018	2017	2018	2017
Discount rate, %	2.00	2.20	2.90	2.50
Expected salary increase, %	3.5	3.5	N/A	4.7
Pension indexing, %	2.0	2.0	3.2	3.2
Income base amount, %	3.0	3.0	N/A	N/A
Inflation, %	2.0	2.0	3.4	3.4
Staff turnover, %	3.0	3.0	N/A	N/A
Remaining life expectancy at retirement age, years	23.1	23.1	23.6	23.9
Average duration (Macaulay), years	18.9	18.4	20.0	22.0

Sensitivity analysis		Effects on the defined benefit obligation			
		Increased defined benefit obligation, SEK m		Decreased defined benefit obligation, SEK m	
	Changes in assumptions	2018	2017	2018	2017
Discount rate, %	0.5	2 441	2 600	-2 811	-2 298
Expected salary increase, %	1.0	1 350	1 521	-2 063	-1 780
Pension indexing, %	0.5	1 556	1 715	-1 425	-1 057
Remaining life expectancy at retirement age, years	1.0	965	999	-941	-757

The above sensitivity analysis is based on a change of one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The same method has been applied when calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions 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 2017 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	2018	2017
Property and premises	-1 310	-1 235
External IT costs	-2 191	-1 935
Communication	-344	-309
Travel and marketing	-305	-317
Purchased services	-1 760	-1 406
Supplies	-178	-178
Other administrative expenses	-624	-509
Total	**-6 712**	**-5 889**
of which expenses for operating leases		
Minimum lease fee	*-752*	*-630*
Variable fee	*-80*	*-153*
Total	**-832**	**-783**

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	2017
Within 1 year	-788	-693
Between 1 and 5 years	-2 250	-1 740
Over 5 years	-1 411	-1 539
Total	**-4 449**	**-3 972**

Remuneration to auditors and audit companies	**Ernst & Young AB**		**PricewaterhouseCoopers AB**		**KPMG**
SEK m	**2018**	**2017**	**2018**	**2017**	**2017**
Audit assignment	-19	-15	-4	-5	-4
Audit operations outside the audit assignment	-3	-1	-	-	-1
Tax advice	-	-	-	-1	
Other services	-	-	-	-	

Internal audit costs were SEK 169m (145) during the year.

G10 Credit losses

SEK m	2018
Expected credit losses on balance sheet items	
The year's provision Stage 3	-1 155
Reversal of Stage 3 provisions to Stage 1 or Stage 2	265
Total expected credit losses in Stage 3	**-890**
The year's net provision Stage 2	33
The year's net provision Stage 1	93
Total expected credit losses in Stage 1 and Stage 2	**126**
Total expected credit losses on balance sheet items	**-764**
Expected credit losses on off-balance sheet items	
The year's net provision Stage 3	0
The year's net provision Stage 2	23
The year's net provision Stage 1	33
Total expected credit losses on off-balance sheet items	**56**
Write-offs	
Actual credit losses for the year[1]	-3 060
Utilised share of previous provisions in Stage 3	2 711
Total write-offs	**-349**
Recoveries	176
Net credit losses	**-881**
of which loans to the public	*-929*

[1] Of the year's actual credit losses, SEK 413m is subject to enforcement activities.

G10 Cont.

(IAS 39) SEK m	2017
Specific provision for individually assessed loans	
The year's provision	-1 811
Reversal of previous provisions	225
Total	**-1 586**
Collective provision	
The year's net provision for individually assessed loans	-120
The year's net provision for homogeneous loans	-10
Total	**-130**
Off-balance sheet items	
Losses on off-balance sheet items	-4
Reversal of previous losses on off-balance sheet items	10
Change in collective provision for off-balance sheet items	-27
Total	**-21**
Write-offs	
Actual credit losses for the year	-1 253
Utilised share of previous provisions	1 102
Recoveries	205
Total	**54**
Net credit losses	**-1 683**

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 1,335m.

Key figures, credit losses **Loans to the public**	**2018**
Credit loss ratio, acc., %	0.04
Total reserve ratio, %	0.17
Reserve ratio Stage 1, %	0.01
Reserve ratio Stage 2, %	0.95
Reserve ratio Stage 3, %	38.00
Proportion of loans in Stage 3, %	0.22

G10 Cont.

Impaired loans, etc. (IAS 39) SEK m	2017
Impaired loans	7 944
Specific provisions for individually assessed loans	-4 578
Provisions for collectively assessed homogeneous groups of loans with limited value	-118
Collective provisions for individually assessed loans	-463
Net impaired loans	**2 785**
Total impaired loans reserve ratio, %	64.9
Proportion of impaired loans, %	0.13
Impaired loans reserve ratio excl. collective provisions, %	59.1
Loans past due >60 days, which are not impaired	968
Impaired loans reclassified as normal loans during the year	13

CHANGE ANALYSIS

Change in provision for expected credit losses, balance sheet items that are subject to impairment testing 2018

SEK m	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	-401	-576	-4 696	-5 673
Derecognised assets	51	109	145	305
Write-offs	0	26	2 685	2 711
Remeasurements due to changes in credit risk	-126	-619	-175	-920
Changes due to update in the methodology for estimation	29	154	-	183
Foreign exchange effect, etc.	-7	-23	-40	-70
Purchased or originated assets	-59	-82	-16	-157
Transfer to Stage 1	-13	44	0	31
Transfer to Stage 2	94	-245	2	-149
Transfer to Stage 3	116	652	-842	-74
Provision at end of year	**-316**	**-560**	**-2 937**	**-3 813**

Change in provision for expected credit losses, loans to the public 2018

SEK m	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	-400	-573	-4 696	-5 669
Derecognised assets	50	109	145	304
Write-offs	0	26	2 685	2 711
Remeasurements due to changes in credit risk	-118	-619	-175	-912
Changes due to update in the methodology for estimation	28	153	-	181
Foreign exchange effect, etc.	-7	-23	-40	-70
Purchased or originated assets	-58	-81	-16	-155
Transfer to Stage 1	-13	44	0	31
Transfer to Stage 2	90	-240	2	-148
Transfer to Stage 3	116	652	-842	-74
Provision at end of year	**-312**	**-552**	**-2 937**	**-3 801**

Change in provision for expected credit losses, off-balance sheet items that are subject to impairment testing 2018

SEK m	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	-110	-86	0	-196
Derecognised assets	16	13	0	29
Write-offs	-	-	-	-
Remeasurements due to changes in credit risk	9	-23	-	-14
Changes due to update in the methodology for estimation	24	25	-	49
Foreign exchange effect, etc.	-1	-2	-	-3
Purchased or originated assets	-28	-4	-	-32
Transfer to Stage 1	-4	18	-	14
Transfer to Stage 2	11	-33	-	-22
Transfer to Stage 3[1]	5	28	-	33
Provision at end of year	**-78**	**-64**	**-**	**-142**

[1] Contingent liabilities and obligations 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.

The calculation material has been supplemented during 2018, which has affected the calculated results, with these effects recognised under 'Changes due to update in the methodology for estimation'.

No material updates in the methodology for estimation have been implemented during the period. The anticipated effects of changes planned in the methodology for estimation during 2019 have been taken into account in the provision during the period, through the application of a model-based manual adjustment of the provision for corporate exposures in Stage 1 and Stage 2. Until such time as the change is implemented, the effect is recognised under 'Remeasurements due to changes in credit risk' together with other adjustments. The explanatory items are identified at the customer level by lender and country.

G10 Cont.

Change in provision for probable credit losses 2017 (IAS 39) SEK m	Provision for individually assessed loans	Collective provision for individually assessed loans	Provision for collectively assessed homogeneous loans	Total provision for probable credit losses
Provision at beginning of year	-4 188	-348	-107	-4 643
The year's provision	-1 811	-120	-58	-1 989
Reversal of previous provisions	225	-	11	236
Utilised for actual credit losses	1 102		37	1 139
Foreign exchange effect, etc.	94	5	-1	98
Provision at end of year	**-4 578**	**-463**	**-118**	**-5 159**

Change in gross volume, balance sheet items that are subject to impairment testing 2018

SEK m	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	2 339 400	30 876	10 186	2 380 462
Derecognised assets	-186 770	-7 462	-827	-195 059
Write-offs	-12	-38	-3 010	-3 060
Remeasurements due to changes in credit risk	36 142	12 891	-1 116	47 917
Changes due to update in the methodology for estimation	-	-	-	-
Foreign exchange effect, etc.	40 078	863	114	41 055
Purchased or originated assets	293 919	7 066	124	301 109
Transfer to Stage 1	34 136	-33 768	-368	-
Transfer to Stage 2	-49 980	50 447	-467	-
Transfer to Stage 3	-796	-2 299	3 095	-
Volume at end of year	**2 506 117**	**58 576**	**7 731**	**2 572 424**

Change in gross volume, loans to the public 2018

SEK m	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	2 030 102	30 749	10 045	2 070 896
Derecognised assets	-167 919	-7 418	-827	-176 164
Write-offs	-12	-38	-3 010	-3 060
Remeasurements due to changes in credit risk	-6 897	12 596	-971	4 728
Changes due to update in the methodology for estimation	-	-	-	-
Foreign exchange effect, etc.	20 812	851	114	21 777
Purchased or originated assets	267 593	7 003	120	274 716
Transfer to Stage 1	33 822	-33 454	-368	-
Transfer to Stage 2	-49 722	50 189	-467	-
Transfer to Stage 3	-796	-2 299	3 095	-
Volume at end of year	**2 126 983**	**58 179**	**7 731**	**2 192 893**

Change in gross volume, off-balance sheet items that are subject to impairment testing 2018

SEK m	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	415 943	7 309	681	423 933
Derecognised assets	-40 196	-1 109	-21	-41 326
Write-offs	-	0	0	0
Remeasurements due to changes in credit risk	-17 348	5 015	-410	-12 743
Changes due to update in the methodology for estimation	-	-	-	-
Foreign exchange effect, etc.	5 801	442	13	6 256
Purchased or originated assets	51 342	589	3	51 934
Transfer to Stage 1	14 780	-14 761	-19	-
Transfer to Stage 2	-10 222	10 246	-24	-
Transfer to Stage 3	-76	-112	188	-
Volume at end of year	**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, macro scenarios

The calculation of expected credit losses pursuant to IFRS 9 applies forward-looking information in the form of macro scenarios. 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 70%, while the two alternative scenarios, reflecting an upturn and a downturn in the economy, respectively, are each assigned a weighting of 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 2018.

Macro factors	Minimum			Average			Maximum		
	Downturn	Base case	Upturn	Downturn	Base case	Upturn	Downturn	Base case	Upturn
GDP growth									
Sweden	-0.40	1.60	1.70	1.89	2.00	2.11	2.50	2.20	3.20
UK	0.10	1.30	1.20	1.53	1.62	1.71	1.90	1.77	2.70
Norway	0.10	1.50	1.20	1.60	1.69	1.81	2.21	2.40	3.30
Denmark	-0.90	0.70	1.10	1.39	1.48	1.59	1.81	1.81	2.50
Finland	-0.70	1.20	1.10	1.56	1.66	1.77	1.95	1.95	3.10
The Netherlands and the rest of Europe	-0.40	1.30	1.00	1.20	1.32	1.42	1.70	1.63	2.80
USA	0.80	1.30	1.80	1.95	1.98	2.02	2.50	2.35	2.44
Other countries	2.90	3.00	3.00	3.10	3.13	3.15	3.50	3.52	3.61
Unemployment rate									
Sweden	6.30	6.30	5.90	6.80	6.66	6.58	7.70	6.70	6.70
UK	4.19	4.19	3.70	5.18	5.05	4.94	6.10	5.20	5.20
Norway	3.50	3.40	2.80	3.61	3.50	3.39	4.30	3.53	3.53
Denmark	4.50	4.50	4.30	5.60	5.44	5.31	6.70	5.50	5.50
Finland	6.90	6.90	6.20	7.09	6.93	6.82	8.35	7.23	7.23
The Netherlands and the rest of Europe	7.80	7.80	7.10	8.02	7.85	7.72	9.50	8.20	7.93
USA	3.70	3.70	3.70	4.65	4.61	4.57	5.60	5.30	5.00
Other countries	5.59	5.59	5.59	6.01	5.99	5.97	6.35	6.10	6.00
Policy interest rate									
Sweden	0.00	0.21	0.21	2.55	2.72	2.82	3.30	3.30	3.30
UK	0.25	0.75	0.75	2.53	2.68	2.80	3.30	3.30	3.30
Norway	0.50	1.21	1.21	2.48	2.67	2.78	3.10	3.10	3.10
Denmark	0.00	0.14	0.14	2.38	2.53	2.61	3.20	3.20	3.20
Finland	0.00	0.00	0.00	2.38	2.53	2.61	3.20	3.20	3.20
The Netherlands and the rest of Europe	0.00	0.00	0.00	2.38	2.53	2.61	3.20	3.20	3.20
USA	2.08	2.38	2.58	2.89	2.92	2.94	3.10	3.10	3.10
Other countries	3.00	3.09	3.09	3.74	3.75	3.76	4.10	4.10	4.10
Office property price growth									
Sweden	-8.72	-6.13	-9.55	-1.47	-1.43	-1.33	7.71	9.52	12.34
UK	-7.09	-3.90	-2.33	0.10	0.11	0.17	8.02	4.46	1.71
Norway	-9.49	-8.21	-9.28	-1.82	-1.70	-1.51	4.19	6.29	8.67
Denmark	-9.21	-7.55	-6.79	-2.24	-2.05	-1.84	3.13	4.22	5.33
Finland	-7.89	-6.27	-5.73	-1.06	-0.98	-0.86	7.99	5.14	6.23
The Netherlands and the rest of Europe	-5.95	-3.61	-6.51	0.64	0.48	0.49	2.73	4.07	5.85
USA	1.30	-3.98	1.30	1.98	0.60	1.98	2.35	2.00	2.35
Other countries	-0.40	1.30	1.00	1.20	1.32	1.42	1.70	1.63	2.80
Residential property price growth									
Sweden	-2.63	-0.72	-0.14	2.00	2.10	2.18	4.64	2.99	3.55
UK	-1.13	1.90	1.63	2.36	2.66	2.88	5.31	3.76	6.75
Norway	-1.70	1.00	1.73	2.60	2.68	2.76	3.80	3.00	3.00
Denmark	-1.90	1.50	1.00	2.28	2.37	2.47	2.70	2.60	4.20
Finland	-1.50	0.75	0.80	2.10	2.18	2.25	2.70	2.50	2.80
The Netherlands and the rest of Europe	0.20	1.50	1.60	2.28	2.37	2.45	2.50	3.10	4.00
USA	0.20	1.50	1.60	2.28	2.37	2.45	2.50	3.10	4.00
Other countries	0.20	1.50	1.60	2.28	2.37	2.45	2.50	3.10	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 2018, which arises when a probability of 100% is assigned to the negative and positive scenarios, respectively.

%	Increase in the provision in a negative scenario, expressed as a percentage	Decrease in the provision in a positive scenario, expressed as a percentage
Sweden	2.68	-2.24
UK	1.65	-1.54
Norway	1.70	-1.85
Denmark	1.25	-1.30
Finland	1.57	-1.45
The Netherlands	0.14	-0.13
USA	0.52	-0.51
Other	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 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".

Threshold value	Change in the total provision in Stage 1 and Stage 2, %
2	3.42
2.5	0.00
3	-2.09

CREDIT EXPOSURE BY PD RANGE

Balance sheet items by PD range 2018

	Gross volume, SEK m		
PD value[1]	Stage 1	Stage 2	Stage 3
0.00 to <0.15	2 115 004	11 404	-
0.15 to <0.25	255 600	6 220	-
0.25 to <0.50	65 057	4 406	-
0.50 to <0.75	23 657	1 296	-
0.75 to <2.50	34 971	11 145	-
2.50 to <10.00	11 057	19 958	-
10.00 to <100	771	4 147	-
100 (default)	-	-	7 731
Total	**2 506 117**	**58 576**	**7 731**

Loans to the public by PD range 2018

	Gross volume, SEK m		
PD value[1]	Stage 1	Stage 2	Stage 3
0.00 to <0.15	1 795 038	11 328	-
0.15 to <0.25	216 932	6 178	-
0.25 to <0.50	55 215	4 376	-
0.50 to <0.75	20 078	1 287	-
0.75 to <2.50	29 681	11 069	-
2.50 to <10.00	9 384	19 822	-
10.00 to <100	655	4 119	-
100 (default)	-	-	7 731
Total	**2 126 983**	**58 179**	**7 731**

Off-balance sheet items by PD range 2018

	Gross volume, SEK m		
PD value[1]	Stage 1	Stage 2	Stage 3
0.00 to <0.15	358 587	3 204	-
0.15 to <0.25	23 438	523	-
0.25 to <0.50	15 898	458	-
0.50 to <0.75	7 453	131	-
0.75 to <2.50	12 063	1 079	-
2.50 to <10.00	2 456	1 668	-
10.00 to <100	129	556	-
100 (default)	-	-	411
Total	**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	2018	2017
Property	73	104
Movable property	0	1
Shares	0	4
Carrying amount	**73**	**109**

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	2018	2017
Equipment	9	3
Property	5	11
Total	**14**	**14**

G12 Earnings per share

	2018	2017
Profit for the year, total operations, SEK m	17 357	16 102
of which interest expense on convertible subordinated loan after tax	*-104*	*-99*
Average number of shares converted during the year, millions	0.0	0.0
Average holdings of own shares in trading book, millions	-	-
Average number of outstanding shares, millions	1 944.2	1 944.2
Average dilution effect, number of shares, millions	30.3	30.1
Average number of outstanding shares after dilution, millions	1 974.5	1 974.3
Earnings per share, total operations, SEK	**8.93**	**8.28**
after dilution	8.84	8.20

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	2018	2017
Other loans to central banks in Swedish kronor	10 128	6 683
Other loans to central banks in foreign currency	23 429	32 237
Total	**33 557**	**38 920**
Provision for expected credit losses	-	
Total other loans to central banks	**33 557**	**38 920**
of which accrued interest income[1]	*-6*	
of which reverse repos	*-*	*-*

[1] As of 2018, the presentation of accrued interest has been changed, see "Changed presentation of accrued interest, Group".

Average volumes SEK m	2018	2017
Other loans to central banks in Swedish kronor	35 391	32 076
Other loans to central banks in foreign currency	25 125	35 768
Total	**60 516**	**67 844**
of which reverse repos	*-*	*164*

G14 Loans to other credit institutions

SEK m	2018	2017
Loans in Swedish kronor		
Banks	1 918	1 810
Other credit institutions	161	3 664
Total	**2 079**	**5 474**
Loans in foreign currency		
Banks	12 956	12 833
Other credit institutions	7 113	1 943
Total	**20 069**	**14 776**
Provision for expected credit losses	-11	
Provision for probable credit losses (IAS 39)		-
Total loans to other credit institutions	**22 137**	**20 250**
of which accrued interest income[1]	*63*	
of which reverse repos	*2 756*	*1 338*

[1] As of 2018, the presentation of accrued interest has been changed, see “Changed presentation of accrued interest, Group”.

Average volumes SEK m	2018	2017
Loans to other credit institutions in Swedish kronor	3 419	3 997
Loans to other credit institutions in foreign currency	41 094	44 958
Total	**44 513**	**48 955**
of which reverse repos	*7 356*	*9 726*

G15 Loans to the public

SEK m	2018	2017
Loans in Swedish kronor		
Households	845 880	806 455
Companies	494 228	480 564
National Debt Office	120	1 831
Total	**1 340 228**	**1 288 850**
Loans in foreign currency		
Households	315 625	288 999
Companies	537 040	493 071
National Debt Office	-	-
Total	**852 665**	**782 070**
Provision for expected credit losses	-3 801	
Provision for probable credit losses (IAS 39)		-5 159
Total loans to the public	**2 189 092**	**2 065 761**
of which accrued interest income[1]	*3 119*	
of which reverse repos	*9 050*	*6 607*
of which subordinated	*90*	*68*

[1] As of 2018, the presentation of accrued interest has been changed, see “Changed presentation of accrued interest, Group”.

Average volumes, excl. National Debt Office SEK m	2018	2017
Loans to the public in Swedish kronor	1 326 137	1 262 736
Loans to the public in foreign currency	848 198	759 366
Total	**2 174 335**	**2 022 102**
of which reverse repos	*13 648*	*12 295*

G16 Interest-bearing securities

SEK m	2018 Carrying amount	2018 Fair value	2018 Nominal amount	2017 Carrying amount	2017 Fair value	2017 Nominal amount
Interest-bearing securities eligible as collateral with central banks	122 260	122 260	120 924	129 006	129 006	127 392
of which accrued interest income[1]	*322*					
Bonds and other interest-bearing securities	50 729	50 729	44 279	49 601	49 601	47 094
of which accrued interest income[1]	*216*					
Total	**172 989**	**172 989**	**165 203**	**178 607**	**178 607**	**174 486**
of which subordinated	*20*	*20*		*30*	*30*	

[1] As of 2018, the presentation of accrued interest has been changed, see "Changed presentation of accrued interest, Group".

Interest-bearing securities broken down by issuer

SEK m	2018 Carrying amount	2018 Fair value	2018 Nominal amount	2017 Carrying amount	2017 Fair value	2017 Nominal amount
Government	122 260	122 260	120 924	129 006	129 006	127 392
Credit institutions	14 872	14 872	14 139	19 779	19 779	19 016
Mortgage institutions	30 787	30 787	26 032	27 927	27 927	26 166
Other	5 070	5 070	4 108	1 895	1 895	1 912
Total	**172 989**	**172 989**	**165 203**	**178 607**	**178 607**	**174 486**

Interest-bearing securities that are subject to impairment testing in accordance with IFRS 9

SEK m	2018
Interest-bearing securities eligible as collateral with central banks	
Fair value through other comprehensive income	405
Amortised cost	831
Total gross volumes	**1 236**
Provision for expected credit losses on instruments measured at amortised cost	0
Total carrying amount	**1 236**
Provision for expected credit losses recognised in the fair value reserve in equity	0
Bonds and other interest-bearing securities	
Fair value through other comprehensive income	5 373
Total carrying amount	**5 373**
Provision for expected credit losses recognised in the fair value reserve in equity	-1

Average volumes

SEK m	2018	2017
Interest-bearing securities	206 215	181 927
Interest-bearing securities, insurance operations	6 434	6 672
Total	**212 649**	**188 599**

G17 Shares

SEK m	2018	2017
Fair value through profit or loss, mandatory	11 981	
Held for trading (IAS 39)		12 878
Fair value through other comprehensive income	1 840	
Available for sale (IAS 39)		1 174
Total shares	**13 821**	**14 052**

Holdings at fair value through other comprehensive income/Available for sale (IAS 39)

SEK m	2018	2017
Asiakastieto Group Oy	545	-
BEC	432	393
Euroclear plc	381	349
Visa Inc	207	18
Visa Sweden Ekonomisk Förening	-	147
Other holdings	275	267
Total	**1 840**	**1 174**

Handelsbanken classifies the shareholdings above as measured at fair value through other comprehensive income, as these holdings are not held for trading. In 2018, Handelsbanken received dividends only on shares still held at the end of the reporting period. These dividends total SEK 218m and are recognised in the income statement under Other dividend income. During the year, the Bank has divested its holdings in DLR Kredit, Swift and Chaps Clearing Company Ltd, amounting to SEK 5m. 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 during 2018 on equity instruments measured at fair value through other comprehensive income, refer to the Statement of changes in equity for the Group. Prior to 1 January 2018, these holdings were recognised as available-for-sale financial assets, see notes G1 and G39.

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	**2018**	**2017**
Carrying amount at beginning of year	297	255
Share of profit for the year	0	14
Tax	0	2
Shareholders' contribution	-	76
Dividend	-2	-48
Acquisitions	-	-
Divestments	-36	-3
Impairment	-	-
Translation difference	0	1
Carrying amount at end of year	**259**	**297**

Income from associates SEK m	**2018**	**2017**
Profit for the year	0	16
Other comprehensive income	0	-2
Total comprehensive income for the year	**0**	**14**

					Carrying amount, SEK m	
Associates	**Corporate identity number**	**Domicile**	**Number of shares**	**Voting power,** %	**2018**	**2017**
Bankomat AB	556817-9716	Stockholm	150	20.00	76	74
BGC Holding AB	556607-0933	Stockholm	25 382	25.38	153	151
Dyson Group plc	00163096	Sheffield	74 333 672	24.01	0	0
Finansiell ID-teknik BID AB	556630-4928	Stockholm	12 735	28.30	18	23
Getswish AB	556913-7382	Stockholm	10 000	20.00	12	10
Upplysningscentralen UC AB[1]	556137-5113	Stockholm				39
USE Intressenter AB	559161-9464	Stockholm	2 448	24.48	0	
Total					**259**	**297**

[1] Information concerning the Group

G19 Assets where the customer bears the value change risk

SEK m	**2018**	**2017**
Unit-linked and portfolio bond insurance assets	132 077	131 484
Other fund assets	4 225	4 124
Share of consolidated funds not owned	44	9
Total	**136 346**	**135 617**

G20 Interests in unconsolidated structured entities

	Fund holdings	
SEK m	**2018**	**2017**
Assets		
Shares	585	730
Assets where the customer bears the value change risk	118 610	118 626
Total interests in structured unconsolidated entities	**119 195**	**119 356**

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

SEK m	Nominal amount/maturity: Up to 1 yr	Nominal amount/maturity: Over 1 yr up to 5 yrs	Nominal amount/maturity: Over 5 yrs	Nominal amount 2018	Nominal amount 2017	Positive market values 2018	Positive market values 2017	Negative market values 2018	Negative market values 2017
Derivatives held for trading									
Interest rate-related contracts									
Options	8 927	24 110	2 805	35 842	48 420	148	360	211	413
FRA/futures	1 196 539	267 593	0	1 464 132	1 379 859	85	179	462	72
Swaps	448 445	1 171 994	350 565	1 971 004	1 928 663	18 937	22 843	19 945	23 646
Currency-related contracts									
Options	41 762	1 141	33	42 936	81 944	238	346	344	410
Futures	100 393	6 651	1 662	108 706	97 014	1 188	1 087	792	1 004
Swaps	512 935	40 765	4 098	557 798	455 843	5 875	3 911	4 398	4 907
Equity-related contracts									
Options	8 378	4 666	94	13 138	25 560	534	1 540	779	1 801
Futures	1 217	0	0	1 217	1 141	5	1	0	5
Swaps	9 818	5 516	52	15 386	14 891	742	122	587	465
Commodity-related contracts									
Options	1 637	701	39	2 377	386	178	8	324	201
Futures	13 715	3 404	0	17 119	13 014	672	557	1 016	537
Credit-related contracts									
Swaps	485	4 258	1 355	6 098	8 183	252	288	246	115
Total	**2 344 251**	**1 530 799**	**360 703**	**4 235 753**	**4 054 918**	**28 854**	**31 242**	**29 104**	**33 576**
Derivatives for fair value hedges									
Interest rate-related contracts									
Options	785	4 600	0	5 385	5 812	12	23	0	-
Swaps	15 141	56 946	2 323	74 410	73 506	25	42	241	125
Total	**15 926**	**61 546**	**2 323**	**79 795**	**79 318**	**37**	**65**	**241**	**125**
Derivatives for cash flow hedges									
Interest rate-related contracts									
Swaps	122 887	419 112	72 099	614 098	568 282	12 592	12 756	3 381	3 698
Currency-related contracts									
Swaps	89 681	260 121	33 006	382 808	492 283	37 608	32 829	2 454	7 388
Total	**212 568**	**679 233**	**105 105**	**996 906**	**1 060 565**	**50 200**	**45 585**	**5 835**	**11 086**
Total derivative instruments	**2 572 745**	**2 271 578**	**468 131**	**5 312 454**	**5 194 801**	**79 091**	**76 892**	**35 180**	**44 787**
Of which exchange-traded derivatives				*1 060 603*	*1 069 100*	*745*	*492*	*1 127*	*1 075*
Of which OTC derivatives settled by CCP				*2 335 104*	*2 055 920*	*17 488*	*14 717*	*14 121*	*15 574*
Of which OTC derivatives not settled by CCP				*1 916 747*	*2 069 781*	*60 858*	*61 683*	*19 932*	*28 138*
Amounts offset				-2 241 073	-2 071 229	-21 050	-20 822	-17 820	-19 911
Net amount				**3 071 381**	**3 123 572**	**58 041**	**56 070**	**17 360**	**24 876**
Currency breakdown of market values									
SEK						-123 391	-129 791	147 160	127 172
USD						296 057	131 549	-83 058	-190 300
EUR						167 851	214 818	-20 447	30 137
Other						-261 426	-139 684	-8 475	77 778
Total						**79 091**	**76 892**	**35 180**	**44 787**

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 not yet recognised day 1 profit amounted to SEK 602m (638) 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. A description of the Group's hedging strategies and the different types of hedge accounting applied by risk category is provided below. 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.

Derivatives which constitute hedging instruments for interest rate and foreign exchange risk in cash flow hedges as at 31 December 2018

Risk category and type of hedge accounting SEK m	Up to 1 year	1–5 years	Over 5 years
Cash flow hedges			
Interest rate risk			
Interest rate swaps, fixed interest paid and variable interest received			
Nominal amount	22 474	68 483	14 910
Average fixed interest %	0.56	0.88	1.02
Interest rate swaps, variable interest paid and fixed interest received			
Nominal amount	100 413	350 629	57 189
Average fixed interest %	2.36	2.11	1.07
Foreign exchange risk			
Foreign exchange derivatives, EUR/SEK			
Nominal amount	14 844	56 060	18 838
Average exchange rate EUR/SEK	0.1118	0.1079	0.0972
Foreign exchange derivatives, EUR/NOK			
Nominal amount	-	40 184	-
Average exchange rate EUR/NOK	-	0.1172	-
Foreign exchange derivatives, GBP/SEK			
Nominal amount	-	7 274	-
Average exchange rate GBP/SEK	-	0.0907	-
Foreign exchange derivatives, USD/GBP			
Nominal amount	6 012	29 252	879
Average exchange rate USD/GBP	1.6033	1.3913	1.3157
Foreign exchange derivatives, USD/NOK			
Nominal amount	16 220	43 356	368
Average exchange rate USD/NOK	0.1561	0.1289	0.1326
Foreign exchange derivatives, USD/SEK			
Nominal amount	32 527	35 891	-
Average exchange rate USD/SEK	0.1278	0.1169	-
Foreign exchange derivatives, AUD/USD			
Nominal amount	4 740	8 949	796
Average exchange rate AUD/USD	1.0819	1.3823	1.3928
Foreign exchange derivatives, other currency pairs			
Nominal amount	15 338	39 155	12 125
Total	**212 568**	**679 233**	**105 105**

G22 Cont.

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). 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.
- R2 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 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.

Amounts attributable to hedging instruments and ineffectiveness in the hedge accounting as at 31 December 2018

Risk category and type of hedge accounting SEK m	Nominal amount hedging instrument	Carrying amount hedging instrument Assets	Carrying amount hedging instrument Liabilities	Balance sheet item in which the hedging instrument is included	Change in fair value used to calculate ineffectiveness for 2018	Change in the value of the hedging instrument recognised in other comprehensive income	Ineffectiveness recognised in the income statement	Income statement items which include the ineffectiveness	Reclassified from the hedge reserve to the income statement
Cash flow hedges									
Interest rate risk									
Interest rate swaps, fixed interest paid and variable interest received	105 867	586	930	Derivatives	125	123	2	Net gains/losses on financial transactions	-
Interest rate swaps, variable interest paid and fixed interest received	508 231	12 006	2 451	Derivatives	-662	-659	-3	Net gains/losses on financial transactions	-
Foreign exchange risk[1]									
Foreign exchange derivatives, EUR/SEK	89 742	7 742	48	Derivatives	-74	-74	-	Net gains/losses on financial transactions	-
Foreign exchange derivatives, EUR/DKK	3 796	4	12	Derivatives	46	46	-	Net gains/losses on financial transactions	-
Foreign exchange derivatives, EUR/GBP	12 331	1 333	-	Derivatives	75	75	-	Net gains/losses on financial transactions	-
Foreign exchange derivatives, EUR/NOK	40 184	4 625	-	Derivatives	-53	-44	-9	Net gains/losses on financial transactions	-
Foreign exchange derivatives, GBP/SEK	7 274	188	-	Derivatives	-36	-36	-	Net gains/losses on financial transactions	-
Foreign exchange derivatives, USD/GBP	36 143	4 007	-	Derivatives	240	246	-6	Net gains/losses on financial transactions	-
Foreign exchange derivatives, USD/NOK	59 944	8 922	-	Derivatives	320	320	-	Net gains/losses on financial transactions	-
Foreign exchange derivatives, USD/SEK	68 418	6 296	14	Derivatives	257	257	-	Net gains/losses on financial transactions	-
Foreign exchange derivatives, AUD/USD	14 485	-	1 549	Derivatives	-22	-22	-	Net gains/losses on financial transactions	-
Foreign exchange derivatives, other currency pairs	50 491	4 491	831	Derivatives	512	536	-24	Net gains/losses on financial transactions	-
Total	**996 906**	**50 200**	**5 835**		**728**	**768**	**-40**		**-**

[1] When analyses are conducted 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.

G22 Cont.

Hedged items as at 31 December 2018

Risk category and type of hedge accounting SEK m	Change in fair value used to calculate ineffectiveness for 2018	Hedge reserve	Amounts remaining in the hedge reserve from hedging relationships for which hedge accounting is no longer applied
Cash flow hedges			
Interest rate risk			
Issued variable-interest securities	-123	-477	-
Variable-interest loans to the public	659	3 601	-
Foreign exchange risk			
Securities issued in EUR and internal loans in DKK, GBP and NOK	-202	-1 080	-
Securities issued in USD and internal loans in GBP and NOK	-842	207	-
Issued securities and internal loans in other currencies	-260	-645	-
Total	**-768**	**1 606**	**-**

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.

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 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.

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).

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.

G22 Cont.

Derivatives which constitute hedging instruments for interest rate risk in fair value hedges as at 31 December 2018

Risk category and type of hedge accounting SEK m	Up to 1 year	1–5 years	Over 5 years
Fair value hedges			
Interest rate risk			
Interest rate swaps, fixed interest paid and variable interest received			
Nominal amount	15 141	56 946	2 323
Average fixed interest %	-0.22	0.12	0.62

Derivatives which constitute hedging instruments and ineffectiveness in the hedge accounting as at 31 December 2018

Risk category and type of hedge accounting		Carrying amount hedging instrument					
SEK m	Nominal amount hedging instrument	Assets	Liabilities	Balance sheet item in which the hedging instrument is included	Change in fair value used to calculate ineffectiveness for 2018	Ineffectiveness recognised in the income statement	Income statement items which include the ineffectiveness
Fair value hedges							
Interest rate risk							
Interest rate swaps, fixed interest paid and variable interest received	74 410	25	241	Derivatives	-131	-4	Net gains/losses on financial transactions
Portfolio fair value hedges							
Interest rate risk							
Interest rate options (cap)	5 385	12	-	Derivatives	2	-1	Net gains/losses on financial transactions

Hedged items as at 31 December 2018

Risk category and type of hedge accounting	Carrying amount hedged item		Accumulated fair value adjustment included in the carrying amount of the hedged item				
SEK m	Assets	Liabilities	Assets	Liabilities	Balance sheet item in which the hedged item is included	Change in value used to calculate ineffectiveness for 2018	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
Fair value hedges							
Interest rate risk							
Fixed-interest loans to the public	74 652		191		Loans to the public	127	-
Portfolio fair value hedges							
Interest rate risk							
Interest rate cap on variable rate lending	33					-3	-

G23 Offsetting of financial instruments

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**

2017 SEK m	Derivatives	Repurchase agreements, securities lending	Total
Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements			
Gross amount	76 892	18 605	95 497
Amounts offset	-20 822	-9 309	-30 131
Carrying amount on the balance sheet	**56 070**	**9 296**	**65 366**
Related amounts not offset on the balance sheet			
Financial instruments, netting arrangements	-16 838	-	-16 838
Financial assets received as collateral	-30 023	-9 296	-39 319
Related amounts not offset on the balance sheet	**-46 861**	**-9 296**	**-56 157**
Net amount	**9 209**	**-**	**9 209**
Financial liabilities subject to offsetting, enforceable master netting arrangements and similiar agreements			
Gross amount	44 787	9 435	54 222
Amounts offset	-19 911	-9 309	-29 220
Carrying amount on the balance sheet	**24 876**	**126**	**25 002**
Related amounts not offset on the balance sheet			
Financial instruments, netting arrangements	-16 838	-	-16 838
Financial assets pledged as collateral	-2 974	-126	-3 100
Related amounts not offset on the balance sheet	**-19 812**	**-126**	**-19 938**
Net amount	**5 064**	**-**	**5 064**

Derivative instruments are set off 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 set off 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 set-off cash collateral of SEK 5,106 million (3,342) derived from the balance sheet item Deposits and borrowing from the public. The amount set off for derivative liabilities includes set-off cash collateral of SEK 1,877 million (2,431) 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

2018 SEK m	Goodwill	Trademarks and other rights	Customer contracts	Internally developed software	Total 2018
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**

In 2018, development costs amounting to SEK 1,740m (1,621) have been recognised as expenses.

2017 SEK m	Goodwill	Trademarks and other rights	Customer contracts	Internally developed software	Total 2017
Cost of acquisition at beginning of year	6 761	182	777	2 403	10 123
Cost of acquisition of additional intangible assets	7	-	-	694	701
Disposals and retirements	-	-	-	-56	-56
Foreign exchange effect	30	3	13	-1	45
Cost of acquisition at end of year	**6 798**	**185**	**790**	**3 040**	**10 813**
Accumulated amortisation and impairment at beginning of year	-	-48	-114	-568	-730
Disposals and retirements	-	-	-	56	56
Amortisation for the year	-	-36	-39	-191	-266
Impairment for the year	-	-	-	-9	-9
Foreign exchange effect	-	-1	-2	0	-3
Accumulated amortisation and impairment at end of year	**-**	**-85**	**-155**	**-712**	**-952**
Carrying amount	**6 798**	**100**	**635**	**2 328**	**9 861**

	Goodwill		Intangible assets with an indefinite useful life	
SEK m	2018	2017	2018	2017
Handelsbanken Sweden	3 331	3 331	-	-
Handelsbanken UK	162	159	-	-
Handelsbanken Finland	18	17	-	-
Handelsbanken Denmark	2 558	2 463	-	-
Handelsbanken Norway	680	661	-	-
Handelsbanken the Netherlands	163	157	-	-
Handelsbanken Capital Markets	10	10	3	3
Total	**6 922**	**6 798**	**3**	**3**

Impairment testing of goodwill and intangible assets with an indefinite useful life

Recognised goodwill mainly derives from traditional banking operations on 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 impairment testing was performed, 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. Goodwill which is followed up internally at a lower level than the business segment level is tested at the lower level.

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 5.8 per cent (6.0) after tax. The corresponding rate before tax was 8.4 per cent (9.1).

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	2018	2017
Equipment	823	791
Property	1 353	1 342
Property repossessed for protection of claims	53	105
Total	**2 229**	**2 238**

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 53m (105). Unrealised value changes on these properties had an impact of SEK 0m (-1) 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 43m (96) are classified as level 2 in the valuation hierarchy described in note G1. Valuations where own assumptions are used to a material extent SEK 10m (8) 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 (-1). The year's sale of properties which are regularly measured at fair value amounts to SEK 49m (246) of which SEK 1m (7) was classified as level 3 before the sale. The value of new properties added during the year is SEK 2m (2), with SEK 0m (0) of this classified as level 3.

Equipment SEK m	2018	2017
Cost of acquisition at beginning of year	2 135	2 003
Cost of additional acquisition for the year	351	398
Disposals and retirements	-287	-244
Foreign exchange effect	43	-22
Cost of acquisition at end of year	**2 242**	**2 135**
Accumulated depreciation and impairment at beginning of year	-1 344	-1 291
Depreciation for the year according to plan	-329	-308
Disposals and retirements	281	250
Foreign exchange effect	-27	5
Accumulated depreciation and impairment at end of year	**-1 419**	**-1 344**
Carrying amount	**823**	**791**

Property SEK m	2018	2017
Cost of acquisition at beginning of year	2 313	2 261
New construction and conversion	63	76
Disposals and retirements	-25	-29
Foreign exchange effect	9	5
Cost of acquisition at end of year	**2 360**	**2 313**
Accumulated depreciation and impairment at beginning of year	-971	-940
Depreciation for the year according to plan	-37	-35
Disposals and retirements	4	4
Foreign exchange effect	-3	0
Accumulated depreciation and impairment at end of year	**-1 007**	**-971**
Carrying amount	**1 353**	**1 342**

G26 Other assets

SEK m	2018	2017
Claims on investment banking settlements	10 500	6 806
Other	6 380	3 909
Total	**16 880**	**10 715**

G27 Prepaid expenses and accrued income

SEK m	2018	2017
Accrued interest[1]		3 735
Other accrued income	2 646	2 081
Prepaid expenses	780	529
Total	**3 426**	**6 345**

[1] As of 2018, the presentation of accrued interest has been changed, see “Changed presentation of accrued interest, Group”.

G28 Due to credit institutions

SEK m	2018	2017
Due in Swedish kronor		
Banks	43 174	56 332
Other credit institutions	10 169	6 428
Total	**53 343**	**62 760**
Due in foreign currency		
Banks	140 680	111 965
Other credit institutions	59	95
Total	**140 739**	**112 060**
Total due to credit institutions	**194 082**	**174 820**
of which accrued interest expenses[1]	*204*	
of which repos	*-*	*126*

[1] As of 2018, the presentation of accrued interest has been changed, see “Changed presentation of accrued interest, Group”.

Average volumes SEK m	2018	2017
Due to credit institutions in Swedish kronor	69 225	64 606
Due to credit institutions in foreign currency	166 290	201 743
Total	**235 515**	**266 349**
of which repos	*237*	*321*

G29 Deposits and borrowing from the public

Deposits from the public SEK m	2018	2017
Deposits in Swedish kronor		
Households	351 519	323 084
Companies	221 077	215 870
National Debt Office	-	-
Total	**572 596**	**538 954**
Deposits in foreign currency		
Households	120 959	106 844
Companies	269 152	243 852
National Debt Office	-	-
Total	**390 111**	**350 696**
Total deposits from the public	**962 707**	**889 650**

Borrowing from the public SEK m	2018	2017
Borrowing in Swedish kronor	30 507	20 258
Borrowing in foreign currency	15 273	32 059
Total borrowing from the public	**45 780**	**52 317**
Total deposits and borrowing from the public	**1 008 487**	**941 967**
of which accrued interest expenses[1]	*780*	
of which repos	*-*	*-*
of which within insurance operations	*7 501*	*7 922*

[1] As of 2018, the presentation of accrued interest has been changed, see "Changed presentation of accrued interest, Group".

Average volumes SEK m	2018	2017
Deposits from the public		
Deposits from the public in Swedish kronor	561 093	516 192
Deposits from the public in foreign currency	398 432	354 483
Total	**959 525**	**870 675**
Borrowing from the public		
Borrowing in Swedish kronor	32 090	26 414
Borrowing in Swedish kronor, insurance operations	7 720	8 132
Borrowing in foreign currency	83 396	128 846
Total	**123 206**	**163 392**
of which repos	*12 239*	*7 889*

G30 Liabilities where the customer bears the value change risk

SEK m	2018	2017
Unit-linked and portfolio bond insurance liabilities	132 077	131 484
Other fund liabilities	4 225	4 124
Share of consolidated funds not owned	44	9
Total	**136 346**	**135 617**

G31 Issued securities

	2018		2017	
SEK m	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Commercial paper				
Commercial paper in Swedish kronor	11 049	11 556	2 369	2 147
of which amortised cost	*10 009*	*10 000*	*-*	*-*
of which fair value through profit or loss	*1 040*	*1 556*		
of which for trading (IAS 39)			*2 369*	*2 147*
Commercial paper in foreign currency	480 099	480 068	411 420	411 088
of which amortised cost	*478 889*	*478 871*	*409 164*	*409 158*
of which fair value through profit or loss	*1 210*	*1 197*		
of which for trading (IAS 39)			*2 256*	*1 930*
Total	**491 148**	**491 624**	**413 789**	**413 235**
Bonds				
Bonds in Swedish kronor	449 966	432 338	466 397	448 456
of which amortised cost	*449 966*	*432 338*	*466 397*	*448 456*
Bonds in foreign currency	453 533	452 605	396 409	396 950
of which amortised cost	*453 533*	*452 605*	*396 409*	*396 950*
Total	**903 499**	**884 943**	**862 806**	**845 406**
Total issued securities	**1 394 647**	**1 376 567**	**1 276 595**	**1 258 641**
of which accrued interest expenses[1]	*7 070*			

[1] As of 2018, the presentation of accrued interest has been changed, see “Changed presentation of accrued interest, Group”.

SEK m	2018	2017
Issued securities at beginning of year	1 276 595	1 261 765
Issued	1 116 122	1 207 398
Repurchased	-74 918	-55 656
Matured	-967 815	-1 098 438
Foreign exchange effect, etc.	44 663	-38 474
Issued securities at end of year	**1 394 647**	**1 276 595**

Average volumes SEK m	2018	2017
Swedish kronor	472 182	461 826
Foreign currency	913 966	823 371
Total	**1 386 148**	**1 285 197**

G32 Short positions

SEK m	2018	2017
Short positions at fair value		
Equities	1 731	659
Interest-bearing securities	4 432	1 413
Total	**6 163**	**2 072**
of which accrued interest expenses[1]	*32*	

Average volumes SEK m	2018	2017
Swedish kronor	13 683	11 269
Foreign currency	530	256
Total	**14 213**	**11 525**

[1] As of 2018, the presentation of accrued interest has been changed, see “Changed presentation of accrued interest, Group”.

G33 Insurance liabilities

SEK m	2018	2017
Liability for sickness annuities	157	173
Liability for life annuities	222	205
Liability for other unsettled claims	128	143
Liability for prepaid premiums	35	28
Total	**542**	**549**

G34 Taxes

Deferred tax assets SEK m	2018	2017
Hedging instruments	90	109
Intangible assets	3	5
Property and equipment	13	9
Pensions	930	273
Other	8	3
Total	**1 044**	**399**

Deferred tax liabilities SEK m	2018	2017
Loans to the public[1]	4 793	5 372
Hedging instruments	671	735
Intangible assets	166	244
Property and equipment	112	109
Pensions	-	312
Other	44	81
Total	**5 786**	**6 853**
Net deferred tax liabilities	**4 742**	**6 454**

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	4 655
Hedging instruments	626	-12	-33	-	581
Intangible assets	239	-59	1	-17	301
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**

Change in deferred taxes 2017 SEK m	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Foreign exchange effect	Closing balance
Loans to the public[1]	5 685	-313	-	-	5 372
Hedging instruments	1 479	-4	-849	-	626
Intangible assets	254	-16	-	1	239
Property and equipment	85	15	-	-	100
Pensions	-646	-179	864	-	39
Other	56	22	-	-	78
Total	**6 913**	**-475**	**15**	**1**	**6 454**

Tax expenses recognised in the income statement SEK m	2018	2017
Current tax		
Tax expense for the year	-5 444	-5 253
Adjustment of tax relating to prior years	-12	-145
Deferred tax		
Changes in temporary differences	800	475
Total	**-4 656**	**-4 923**
Tax at 22% of profits before tax	**-4 843**	**-4 626**
Difference	**187**	**-297**
The difference is explained by the following items		
Non-deductible expenses	-62	-41
Non-deductible interest on subordinated loans	-310	-283
Different tax rate in insurance operations	144	152
Non-taxable capital gains and dividends	214	75
Deviating tax rates in other countries	-92	-41
Remeasurement of deferred taxes due to change in tax rate	292	-
Other	1	-159
Total	**187**	**-297**

[1] Of which lease assets SEK 4,655m (5,372).

G35 Provisions

SEK m	Provision for off-balance sheet items[1]	Other provisions[2]	Total 2018	Total 2017
Provisions at year-end 2017	95	58	153	
Effect of transition to IFRS 9	101		101	
Provisions at beginning of year	**196**	**58**	**254**	**731**
Provisions during the year		55	55	50
Utilised		-27	-27	-610
Written back		-6	-6	-18
Change of expected credit losses, net	-54		-54	
Provisions at end of year	**142**	**80**	**222**	**153**

[1] The provision for off-balance sheet items relates to expected credit losses, see notes G10 and G42.
[2] The amounts allocated for future settlement of the claims on the Bank are presented under Other provisions.

G36 Other liabilities

SEK m	2018	2017
Liabilities on investment banking settlements	2 971	6 589
Other	10 013	9 274
Total	**12 984**	**15 863**

G37 Accrued expenses and deferred income

SEK m	2018	2017
Accrued interest expenses[1]		8 960
Other accrued expenses	2 401	2 277
Deferred income	1 464	1 481
Total	**3 865**	**12 718**

[1] As of 2018, the presentation of accrued interest has been changed, see “Changed presentation of accrued interest, Group”.

G38 Subordinated liabilities

SEK m	2018	2017
Subordinated loans in Swedish kronor	8 691	8 350
Subordinated loans in foreign currency	42 394	24 546
Total	**51 085**	**32 896**
of which accrued interest expenses[1]	*1 193*	

[1] As of 2018, the presentation of accrued interest has been changed, see "Changed presentation of accrued interest the Group".

Average volumes SEK m	2018	2017
Subordinated loans in Swedish kronor	8 758	8 177
Subordinated loans in foreign currency	35 428	24 637
Total	**44 186**	**32 814**

Specification, subordinated loans

Issuance/Maturity	Currency	Original nominal amount in each currency	Interest rate, %	Outstanding amount
In Swedish kronor				
Swedish subordinated loans[1]		10 825		8 691
Total				**8 691**
In foreign currency				
2014/fixed-term[2]	EUR	1 500	2.656	15 772
2015/perpetual[3]	USD	1 200	5.250	11 171
2018/fixed-term[2]	EUR	750	1.250	7 746
2018/fixed-term[2]	EUR	750	1.630	7 705
Total				**42 394**
Total subordinated liabilities				**51 085**

[1] Swedish subordinated loans are individually less than 10% of the total subordinated liabilities. The total includes one perpetual subordinated loan at a floating rate. The loan is a subordinated convertible loan of nominally SEK 3.2bn issued to the Group's employees on market terms. The loan does not have the status of regulatory capital but can be converted into Handelsbanken shares. The Bank has the right to demand conversion at any time, and the holder has the right to demand conversion between 1 May and 30 November 2019, at the adjusted conversion price of SEK 102.19. The initial conversion price has been adjusted for dividends and a split during the term of the loan. If the common equity tier 1 ratio for the Bank or calculated according to the consolidated situation falls below 7%, there will be automatic conversion. For information regarding other Swedish subordinated loans, see note G50.
[2] For further information about subordinated loans in EUR, see note G50.
[2] For further information about subordinated loans in USD, see note G50.

SEK m	2018	2017
Subordinated loans at beginning of year	32 896	33 400
Issued	15 498	2 994
Repurchased	0	-1
Matured	-	-2 989
Foreign exchange effect, etc.	2 691	-508
Subordinated loans at end of year	**51 085**	**32 896**

G39 Classification of financial assets and liabilities

2018

SEK m	Fair value through profit or loss: Mandatory	Fair value through profit or loss: Fair value option	Fair value through profit or loss: 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**	

2017 (IAS 39) SEK m	At fair value in income statement divided into Trading	Other[1]	Derivatives identified as hedge instruments	Loans and receivables	Financial assets available for sale	Other financial liabilities	Total carrying amount	Fair value
Assets								
Cash and balances with central banks				226 314			226 314	226 314
Other loans to central banks				38 920			38 920	38 920
Interest-bearing securities eligible as collateral with central banks	7 349	120 683			974		129 006	129 006
Loans to other credit institutions				20 250			20 250	20 081
Loans to the public		377		2 065 384			2 065 761	2 073 536
Value change of interest-hedged item in portfolio hedge				36			36	
Bonds and other interest-bearing securities	13 261	30 948			5 392		49 601	49 601
Shares	11 914	964			1 174		14 052	14 052
Assets where the customer bears the value change risk		135 563		54			135 617	135 617
Derivative instruments	12 572		43 498				56 070	56 070
Other assets	16			10 699			10 715	10 715
Prepaid expenses and accrued income	102	490		5 749	4		6 345	6 345
Total	**45 214**	**289 025**	**43 498**	**2 367 406**	**7 544**		**2 752 687**	**2 760 257**
Investments in associates							297	
Non-financial assets							13 993	
Total assets							**2 766 977**	
Liabilities								
Due to credit institutions						174 820	174 820	176 611
Deposits and borrowing from the public						941 967	941 967	941 975
Liabilities where the customer bears the value change risk		135 556				61	135 617	135 617
Issued securities	4 625					1 271 970	1 276 595	1 289 925
Derivative instruments	15 204		9 672				24 876	24 876
Short positions	2 072						2 072	2 072
Other liabilities	12					15 851	15 863	15 863
Accrued expenses and deferred income	13					12 705	12 718	12 718
Subordinated liabilities						32 896	32 896	33 889
Total	**21 926**	**135 556**	**9 672**			**2 450 270**	**2 617 424**	**2 633 546**
Non-financial liabilities							7 949	
Total liabilities							**2 625 373**	

[1] Classified to be measured at fair value.

G40 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	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**

Financial instruments at fair value 2017 (IAS 39)

SEK m	Level 1	Level 2	Level 3	Total
Assets				
Interest-bearing securities eligible as collateral with central banks				
Held for trading	7 212	137	-	7 349
Denominated at fair value	118 810	1 873	-	120 683
Available for sale	974	-	-	974
Loans to the public		364	13	377
Bonds and other interest-bearing securities				
Held for trading	12 360	901	-	13 261
Denominated at fair value	29 762	1 186	-	30 948
Available for sale	4 989	403	-	5 392
Shares				
Held for trading	7 955	3 959	-	11 914
Denominated at fair value	839	-	125	964
Available for sale	4	49	1 121	1 174
Assets where the customer bears the value change risk	135 099	-	464	135 563
Derivative instruments	364	55 793	-87	56 070
Total	**318 368**	**64 665**	**1 636**	**384 669**
Liabilities				
Liabilities where the customer bears the value change risk	135 092	-	464	135 556
Issued securities	-	4 625	-	4 625
Derivative instruments	377	24 587	-88	24 876
Short positions	2 013	59	-	2 072
Total	**137 482**	**29 271**	**376**	**167 129**

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 2017), 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, assets worth SEK 1,088 million for which the customer bears the value change risk and derivatives worth SEK 1 million were transferred from level 1 to level 2. Interest-bearing securities worth SEK 778 million, shares worth SEK 68 million and derivatives worth SEK 1 million were transferred from level 2 to level 1. On the liabilities side, liabilities worth SEK 1,088 million for which the customer bears the value change risk and derivatives worth SEK 8 million were transferred from level 1 to level 2. Derivatives worth SEK 12 million were moved from level 2 to level 1. 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, having been classified as available for sale until 31 December 2018. 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 27 million (61). This entire amount is included for calculation of the yield split in the insurance operations.

Change in holdings in financial instruments in level 3 2018

SEK m	Shares	Derivatives Assets[1]	Derivatives Liabilities[1]	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	1 246	-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**

Change in holdings in financial instruments in level 3 2017

SEK m	Shares	Derivatives Assets[1]	Derivatives Liabilities[1]	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	**1 837**	**-**	**-**	**17**	**762**	**-762**
Acquisitions	25	-	-	-		-
Repurchases/sales	-62	-	-	-	-318	318
Matured	-	-	-	-5	-	-
Unrealised value change in income statement	-77	-	-	-	20	-20
Unrealised value change in other comprehensive income	-477	-	-	-	-	-
Transfer from level 1 or 2	-	-87	88	1	-	-
Transfer to level 1 or 2	-	-	-	-	-	-
Carrying amount at end of year	**1 246**	**-87**	**88**	**13**	**464**	**-464**

[1] Derivatives recognised in level 3 constitute components of a main instrument. The classification of the main instrument determines whether the component is classified as an asset or liability. Components with a negative fair value are classified as an asset if the fair value of the main instrument is, as a whole, positive. Components with a positive fair value are classified as a liability if the fair value of the main instrument is, as a whole, negative.

Differences between the transaction price and the value measured by a valuation model
As stated in the accounting policies in note G1, 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 when applying a model to value derivatives. As a consequence of the application of this principle, SEK 158 million (144) 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 602 million (638).

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 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**

Fair value of financial instruments at cost or amortised cost 2017

SEK m	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	226 314	-	-	226 314
Other loans to central banks	31 368	7 552	-	38 920
Interest-bearing securities eligible as collateral with central banks	-	-	-	-
Loans to other credit institutions	9 004	10 616	461	20 081
Loans to the public	606	16 729	2 055 824	2 073 159
Bonds and other interest-bearing securities	-	-	-	-
Assets where the customer bears the value change risk	-	54	-	54
Total	**267 292**	**34 951**	**2 056 285**	**2 358 528**
Liabilities				
Due to credit institutions	52 105	124 506	-	176 611
Deposits and borrowing from the public	894 402	47 573	-	941 975
Liabilities where the customer bears the value change risk	-	61	-	61
Issued securities	774 071	511 229	-	1 285 300
Subordinated liabilities	-	33 889	-	33 889
Total	**1 720 578**	**717 258**	**-**	**2 437 836**

G41 Pledged assets, collateral received and transferred financial assets

Assets pledged for own debt SEK m	2018	2017
Cash	14 807	16 360
Government instruments and bonds	41 829	36 458
Loans to the public	651 155	660 805
Shares	947	1 495
Assets where the customer bears the value change risk	132 203	131 788
Other	9 427	9 866
Total	**850 368**	**856 772**
of which pledged assets that may be freely withdrawn by the Bank	*27 056*	*23 465*

Other pledged assets SEK m	2018	2017
Cash	1 326	183
Government instruments and bonds	40 632	26 618
Loans to the public	-	2 244
Shares	6 664	5 114
Other	0	6
Total	**48 622**	**34 165**
of which pledged assets that may be freely withdrawn by the Bank	*38 919*	*26 083*

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 28,592 million (25,659) at the end of the financial year, where collateral worth SEK 8,034 million (10,766) 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 predetermined 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. This item comprises 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	2018		2017	
SEK m	Carrying amount	Carrying amount associated liability	Carrying amount	Carrying amount associated liability
Shares, securities lending	7 115	486[1]	6 054	1 086[1]
Shares, other	-	-	-	-
Government instruments and bonds, repurchase agreements	7 141	-	5 172	126
Government instruments and bonds, other	262	-	263	-
Assets where the customer bears the value change risk	547	547	522	522
Total	**15 065**	**1 033**	**12 011**	**1 734**

[1] Received cash collateral.

G42 Contingent liabilities

SEK m	2018	2017
Contingent liabilities		
Guarantees, credits	10 319	10 177
Guarantees, other	75 290	57 878
Irrevocable letters of credit	4 680	6 057
Other	2 650	1 554
Total	**92 939**	**75 666**
of which subject to impairment testing according to IFRS 9	*92 939*	
Commitments		
Loan commitments	314 437	290 643
Unutilised part of granted overdraft facilities	123 744	131 121
Other	20 591	21 619
Total	**458 772**	**443 383**
of which subject to impairment testing according to IFRS 9	*335 115*	
Total contingent liabilities	**551 711**	**519 049**
Provision for expected credit losses reported as provisions, see note G35.	142	
Provision for probable credit losses reported as provisions (IAS 39), see note G35		95

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.

G43 Leases

Disclosures on gross investment and net investment SEK m	2018	2017
Gross investment	32 486	34 165
Unearned finance income	-384	-403
Net investment	32 102	33 762

Distribution by maturity SEK m	Within 1 year	Between 1 and 5 years	Later than 5 years	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**
2017				
Distribution of gross investment	4 462	16 356	13 347	**34 165**
Distribution of net investment	4 443	16 128	13 191	**33 762**

All leases where the Group is the lessor have been defined as finance leases. Lease agreements of this kind are accounted for as loans in the balance sheet, initially for an amount corresponding to the net investment.

Lease assets mainly consist of vehicles and machines. All leases have guaranteed residual values. The book value of the provision for impaired loans with respect to minimum lease payments is SEK 13,2m (0). The variable part of the lease fee included in this year’s profit is SEK 109m (88).

At the end of the year in the Group, there were five lease exposures each with an individual carrying amount exceeding SEK 1bn.

G44 Segment reporting

Segment reporting 2018

SEK m	Home markets									
	Sweden	UK	Denmark	Finland	Norway	The Netherlands	Capital Markets	Other	Adjustments and eliminations	Total
Net interest income	16 988	5 555	1 713	1 315	3 832	675	440	768		31 286
Net fee and commission income	3 995	704	478	502	413	160	3 971	24		10 247
Net gains/losses on financial transactions	626	210	103	45	88	21	805	-990		908
Risk result – insurance							106			106
Share of profit of associates								0		0
Other income	55	7	10	16	7	2	24	1 102		1 223
Total income	**21 664**	**6 476**	**2 304**	**1 878**	**4 340**	**858**	**5 346**	**904**		**43 770**
Staff costs	-3 512	-1 970	-782	-437	-824	-355	-2 278	-3 237	-70	-13 465
Other expenses	-1 104	-881	-214	-195	-250	-103	-1 027	-2 938		-6 712
Internal purchased and sold services	-3 473	-786	-364	-365	-460	-117	8	5 557		
Depreciation, amortisation and impairment of property, equipment and intangible assets	-65	-72	-8	-21	-17	-17	-127	-386		-713
Total expenses	**-8 154**	**-3 709**	**-1 368**	**-1 018**	**-1 551**	**-592**	**-3 424**	**-1 004**	**-70**	**-20 890**
Profit before credit losses	**13 510**	**2 767**	**936**	**860**	**2 789**	**266**	**1 922**	**-100**	**-70**	**22 880**
Net credit losses	-202	-125	5	-172	-413	14	10	2		-881
Gains/losses on disposal of property, equipment and intangible assets	5	-1	5	0	4	-	0	1		14
Operating profit	**13 313**	**2 641**	**946**	**688**	**2 380**	**280**	**1 932**	**-97**	**-70**	**22 013**
Profit allocation	1 883	32	70	183	127	2	-2 297			
Operating profit after profit allocation	**15 196**	**2 673**	**1 016**	**871**	**2 507**	**282**	**-365**	**-97**	**-70**	**22 013**
Internal income[1]	-631	-1 086	-209	-157	-2 572	-296	-2 741	7 692		
C/I ratio, %	34,6	57,0	57,6	49,4	34,7	68,8	112,3			47,7
Credit loss ratio, %	0,02	0,06	-0,01	0,14	0,17	-0,03	-0,02	-0,23		0,04
Assets	1 833 177	384 417	122 915	193 618	262 164	54 684	279 656	2 157 293	-2 309 750	2 978 174
Liabilities	1 751 892	370 369	116 748	187 243	245 500	52 941	275 448	2 157 293	-2 321 522	2 835 912
Allocated capital	81 285	14 048	6 168	6 376	16 664	1 743	4 208		11 769	142 261
Return on allocated capital, %	15,1	15,5	13,3	10,9	12,3	13,5	-6,6			12,8
The year's investments in non-financial non-current assets	106	145	4	1	12	42	417	473		1 200
The year's investments in associated companies								-		-
Average number of employees	4 084	2 230	615	518	697	300	1 582	2 281		12 307

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

The business segments are recognised in compliance 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, Denmark, Finland, Norway, the Netherlands and Capital Markets. Handelsbanken's branch operations, which provide universal banking services, were divided into 14 regional banks in 2018. 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 and also the cost of the provision to the Oktogonen profit-sharing scheme, which is SEK 827 million (768). 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

Segment reporting 2017	Home markets									
SEK m	Sweden	UK	Denmark	Finland	Norway	The Netherlands	Capital Markets	Other	Adjustments and eliminations	Total
Net interest income	16 694	4 659	1 714	1 203	3 666	557	472	801		29 766
Net fee and commission income	4 434	602	433	462	410	155	3 174	48		9 718
Net gains/losses on financial transactions	663	127	95	52	90	20	979	-755		1 271
Risk result – insurance							142			142
Share of profit of associates						2		12		14
Other income	49	3	15	18	14	1	26	637		763
Total income	**21 840**	**5 391**	**2 257**	**1 735**	**4 180**	**735**	**4 793**	**743**		**41 674**
Staff costs	-3 465	-1 828	-669	-396	-570	-289	-2 241	-2 818	-196	-12 472
Other expenses	-1 180	-549	-159	-180	-223	-85	-922	-2 591		-5 889
Internal purchased and sold services	-3 168	-595	-335	-303	-424	-98	52	4 871		
Depreciation, amortisation and impairment of property, equipment and intangible assets	-79	-63	-13	-19	-14	-13	-83	-282	-53	-619
Total expenses	**-7 892**	**-3 035**	**-1 176**	**-898**	**-1 231**	**-485**	**-3 194**	**-820**	**-249**	**-18 980**
Profit before credit losses	**13 948**	**2 356**	**1 081**	**837**	**2 949**	**250**	**1 599**	**-77**	**-249**	**22 694**
Net credit losses	-210	-739	-466	-57	-157	2	-56			-1 683
Gains/losses on disposal of property, equipment and intangible assets	2	-1	13	0	1	-	-1	0		14
Operating profit	**13 740**	**1 616**	**628**	**780**	**2 793**	**252**	**1 542**	**-77**	**-249**	**21 025**
Profit allocation	1 257	35	94	150	90	3	-1 629	-		
Operating profit after profit allocation	**14 997**	**1 651**	**722**	**930**	**2 883**	**255**	**-87**	**-77**	**-249**	**21 025**
Internal income[1]	601	-935	-237	-228	-2 196	-227	-2 735	5 957		
C/I ratio, %	34,2	55,9	50,0	47,6	28,8	65,7	100,9			45,5
Credit loss ratio (IAS 39), %	0,02	0,38	0,48	0,05	0,06	-0,01	0,12			0,08
Assets	1 716 334	366 440	114 495	188 330	247 576	47 478	284 454	1 943 297	-2 141 427	2 766 977
Liabilities	1 636 370	353 334	108 784	182 684	231 739	46 013	280 140	1 943 297	-2 156 988	2 625 373
Allocated capital	79 964	13 106	5 711	5 646	15 837	1 465	4 314		15 561	141 604
Return on allocated capital, %	15,3	10,2	9,7	12,8	14,1	14,3	-1,5			12,3
The year's investments in non-financial non-current assets	54	112	1	45	22	28	463	431		1 156
The year's investments in associated companies								76		76
Average number of employees	4 078	2 045	608	506	672	273	1 625	2 025		11 832

statements also include internal items in the 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	2018	2017
Household deposits and lending	15 448	15 206
Company deposits and lending	16 711	15 278
Payments	1 975	1 868
Asset management	4 735	4 281
Pension & insurance	631	702
Investment bank services	1 818	2 169
Other	2 468	2 170
Total	**43 786**	**41 674**

G45 Geographical information

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**

Income, expenses 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 segment reporting. 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.

Geographical information 2017

SEK m	Income	Operating profit	Tax	Assets
Sweden	26 156	15 405	-3 889	2 318 256
UK	5 331	1 325	-395	336 772
Norway	4 024	2 471	-586	264 918
Denmark	2 230	403	-91	134 060
Finland	1 994	906	-191	221 016
The Netherlands	740	216	-53	48 373
USA	461	207	4	310 693
China	223	112	-13	8 789
Luxembourg	195	51	-18	33 125
Singapore	111	-17	-2	10 112
Germany	87	-11	-28	10 569
France	55	3	-1	3 704
Poland	44	-23	-2	2 338
Estonia	14	-5	-	1 444
Latvia	4	-9	-	466
Austria	3	0	-	-
Lithuania	2	-9	-	128
Brazil	-	-	-	-
Eliminations	-	-	342	-937 786
Group	**41 674**	**21 025**	**-4 923**	**2 766 977**

G46 Assets and liabilities in currencies

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

Note G2 describes the Bank's view of exchange rate risks.

2017 SEK m	SEK	EUR	NOK	DKK	GBP	USD	Other currencies	Total
Assets								
Cash and balances with central banks	83	85 625	3 916	2 139	84 768	48 079	1 704	226 314
Other loans to central banks	6 683	-	7 170	24 198	492	-	377	38 920
Loans to other credit institutions	2 059	5 700	566	45	811	9 711	1 358	20 250
Loans to the public	1 287 467	200 448	235 215	94 108	213 208	28 186	7 129	2 065 761
of which companies	*481 250*	*133 080*	*145 245*	*33 661*	*143 347*	*27 955*	*6 324*	*970 862*
of which households	*806 217*	*67 368*	*89 970*	*60 447*	*69 861*	*231*	*805*	*1 094 899*
Interest-bearing securities eligible as collateral with central banks	100 576	6 853	-	12	-	20 804	761	129 006
Bonds and other interest-bearing securities	36 964	2 383	1 090	-	1 378	7 786	-	49 601
Other items not broken down by currency	237 125							237 125
Total assets	**1 670 957**	**301 009**	**247 957**	**120 502**	**300 657**	**114 566**	**11 329**	**2 766 977**
Liabilities								
Due to credit institutions	62 784	61 572	13 866	7 860	3 373	18 915	6 450	174 820
Deposits and borrowing from the public	559 212	104 453	57 429	39 416	146 293	29 973	5 191	941 967
of which companies	*221 345*	*86 046*	*36 994*	*22 164*	*98 176*	*27 633*	*4 666*	*497 024*
of which households	*337 867*	*18 407*	*20 435*	*17 252*	*48 117*	*2 340*	*525*	*444 943*
Issued securities	468 766	282 725	24 175	556	93 884	376 959	29 530	1 276 595
Subordinated liabilities	8 349	14 751	-	-	-	9 796	-	32 896
Other items not broken down by currency, incl. equity	340 699							340 699
Total liabilities and equity	**1 439 810**	**463 501**	**95 470**	**47 832**	**243 550**	**435 643**	**41 171**	**2 766 977**
Other assets and liabilities broken down by currency, net		162 627	-152 299	-72 590	-56 970	321 072	29 891	
Net foreign currency position		135	188	80	137	-5	49	584

G47 Related-party disclosures

Claims on and liabilities to related parties	Associated companies		Other related parties	
SEK m	2018	2017	2018	2017
Loans to the public	774	875	-	-
Other assets	43	51	4	7
Total	**817**	**926**	**4**	**7**
Deposits and borrowing from the public	104	298	252	406
Subordinated liabilities	-	-	654	668
Other liabilities	-	-	66	56
Total	**104**	**298**	**972**	**1 130**

Related parties – income and expenses	Associated companies		Other related parties	
SEK m	2018	2017	2018	2017
Interest income	8	9	0	0
Interest expenses	0	0	-72	-72
Fee and commission income	0	3	-	-
Fee and commission expenses	-257	-266	-33	-21
Net gains/losses on financial items at fair value	0	0	-	-
Other income	0	2	19	14
Other expenses	-53	-58	-51	-58
Total	**-302**	**-310**	**-137**	**-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 50m (57). 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 6,904m (6,145). Svenska Handelsbanken AB has requested compensation from Svenska Handelsbankens Pensionsstiftelse amounting to SEK 480m (545) regarding pension costs, SEK 455m (450) regarding special supplementary pension and from Svenska Handelsbankens Personalstiftelse amounting to SEK 25m (24) 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 Transition to IFRS 9

The table below shows reclassification of assets and liabilities due to the transition to IFRS 9 and the initial effect on equity at 1 January 2018.

SEK m	IAS 39 Classification 31 Dec 2017	IFRS 9 Classification 1 Jan 2018	IAS 39 Carrying amount 31 Dec 2017	IFRS 9 Carrying amount 1 Jan 2018	Effect on equity 1 Jan 2018	*of which remeasurement due to new rules for classification and measurement*	*of which remeasurement due to new rules for impairment*
Financial assets							
Cash and balances with central banks	Loans and receivables	Amortised cost	226 314	226 314			
Other loans to central banks	Loans and receivables	Amortised cost	38 920	38 920			
Interest-bearing securities eligible as collateral with central banks	Fair value in IS, trading	Fair value through P/L, mandatory	7 349	7 349			
Interest-bearing securities eligible as collateral with central banks	Fair value in IS, other	Fair value through P/L, fair value option	120 683	120 683			
Interest-bearing securities eligible as collateral with central banks	Financial assets available for sale	Fair value through other comprehensive income	201	201			
Interest-bearing securities eligible as collateral with central banks 1)	Financial assets available for sale	Amortised cost	773	773			
Loans to other credit institutions 2)	Loans and receivables	Amortised cost	20 250	20 245	-5		*-5*
Loans to the public 3)	Fair value in IS, other	Amortised cost	377	353	-24	*-24*	
Loans to the public 2)	Loans and receivables	Amortised cost	2 065 384	2 064 875	-509		*-509*
Value change of interest-hedged item in portfolio hedge	Loans and receivables	Amortised cost	36	36			
Bonds and other interest-bearing securities	Fair value in IS, trading	Fair value through P/L, mandatory	13 261	13 261			
Bonds and other interest-bearing securities	Fair value in IS, other	Fair value through P/L, fair value option	30 948	30 948			
Bonds and other interest-bearing securities	Financial assets available for sale	Fair value through other comprehensive income	5 392	5 392			
Shares	Fair value in IS, trading	Fair value through P/L, mandatory	11 914	11 914			
Shares 4)	Fair value in IS, other	Fair value through P/L, mandatory	964	964			
Shares 5)	Financial assets available for sale	Fair value through other comprehensive income	1 174	1 174			
Assets where the customer bears the value change risk 4)	Fair value in IS, other	Fair value through P/L, mandatory	135 563	135 563			
Assets where the customer bears the value change risk	Loans and receivables	Amortised cost	54	54			
Derivative instruments	Fair value in IS, trading	Fair value through P/L, mandatory	12 572	12 572			
Derivative instruments	Derivatives identified as hedge instruments	Derivatives identified as hedge instruments	43 498	43 498			
Other assets	Fair value in IS, trading	Fair value through P/L, mandatory	16	16			
Other assets	Loans and receivables	Amortised cost	10 699	10 699			
Prepaid expenses and accrued income	Fair value in IS, trading	Fair value through P/L, mandatory	102	102			
Prepaid expenses and accrued income	Fair value in IS, other	Fair value through P/L, fair value option	490	490			
Prepaid expenses and accrued income	Loans and receivables	Amortised cost	5 749	5 749			
Prepaid expenses and accrued income	Financial assets available for sale	Fair value through other comprehensive income	4	4			
Total financial assets			**2 752 687**	**2 752 149**	**-538**	*-24*	*-514*
Non-financial assets 6)			14 290	14 429	139	*4*	*135*
Total assets			**2 766 977**	**2 766 578**	**-399**	*-20*	*-379*
Financial liabilities							
Due to credit institutions	Other financial liabilities	Amortised cost	174 820	174 820			
Deposits and borrowing from the public	Other financial liabilities	Amortised cost	941 967	941 967			
Liabilities where the customer bears the value change risk	Fair value in IS, other	Fair value through P/L, fair value option	135 556	135 556			
Liabilities where the customer bears the value change risk	Other financial liabilities	Amortised cost	61	61			
Issued securities	Fair value in IS, trading	Fair value through P/L, mandatory	4 625	4 625			
Issued securities	Other financial liabilities	Amortised cost	1 271 970	1 271 970			
Derivative instruments	Fair value in IS, trading	Fair value through P/L, mandatory	15 204	15 204			
Derivative instruments	Derivatives identified as hedge instruments	Derivatives identified as hedge instruments	9 672	9 672			
Short positions	Fair value in IS, trading	Fair value through P/L, mandatory	2 072	2 072			
Other liabilities	Fair value in IS, trading	Fair value through P/L, mandatory	12	12			
Other liabilities	Other financial liabilities	Amortised cost	15 851	15 851			
Accrued expenses and deferred income	Fair value in IS, trading	Fair value through P/L, mandatory	13	13			
Accrued expenses and deferred income	Other financial liabilities	Amortised cost	12 705	12 705			
Subordinated liabilities	Other financial liabilities	Amortised cost	32 896	32 896			
Total financial liabilities 7)			**2 617 424**	**2 617 424**			
Provisions 8)			153	254	101		*101*
Other non-financial liabilities			7 796	7 796			
Total liabilities			**2 625 373**	**2 625 474**	**101**		*101*
Minority interest			11	11			
Share capital			3 013	3 013			
Share premium reserve			5 629	5 629			
Reserves 9)			8 106	8 107	1		*1*
Retained earnings 10)			108 746	108 245	-501	*-20*	*-481*
Profit for the year, attributable to shareholders in Svenska Handelsbanken AB			16 099	16 099			
Total equity			**141 604**	**141 104**	**-500**	*-20*	*-480*
Total liabilities and equity			**2 766 977**	**2 766 578**	**-399**	*-20*	*-379*

G49 Cont.

The table below shows the transition from the model for incurred credit losses in IAS 39 to the model for expected credit losses in IFRS 9 at the transition to IFRS 9 at 1 January 2018.

Specification of transition to IFRS 9, new rules for impairment

SEK m	IAS 39 Incurred credit losses 31 Dec 2017	IFRS 9 Expected credit losses 1 Jan 2018	*Effect on retained earnings due to new rules for impairment*
IAS 39			
Incurred credit losses 31 Dec 2017			
Collective provision for individually assessed loans	-463		*463*
Collective provision for off-balance sheet items	-95		*95*
Specific provision for individually assessed loans	-4 578		*4 578*
Provisions for collectively assessed homogeneous groups of loans with limited value	-118		*118*
IFRS 9			
Expected credit losses 1 Jan 2018			
Expected credit losses Stage 1, assets at amortised cost		-401	*-401*
Expected credit losses Stage 2, assets at amortised cost		-576	*-576*
Expected credit losses Stage 3, assets at amortised cost		-4 696	*-4 696*
Expected credit losses off-balance sheet items Stage 1		-110	*-110*
Expected credit losses off-balance sheet items Stage 2		-86	*-86*
Expected credit losses off-balance sheet items Stage 3		0	*0*
Expected credit losses on debt instruments at fair value through OCI Stage 1		-1	*-1*
Tax effect due to transition to IFRS 9		135	*135*
Total	**-5 254**	**-5 735**	*-481*

[1] According to IAS 39, certain bonds held for liquidity purposes were designated as financial assets available for sale. According to IFRS 9, these are designated at amortised cost because the business model for these holdings is for collection of contractual cash flows, and the cash flows solely represent payments of principal and interest.
[2] As a result of the IFRS 9 regulations for impairment, the provision for credit losses for assets measured at amortised cost has increased.
[3] According to IAS 39, certain loans were designated at fair value through profit or loss, using the fair value option. According to IFRS 9, these are designated at amortised cost because the business model for these holdings is for collection of contractual cash flows, and the cash flows solely represent payments of principal and interest.
[4] According to IAS 39, shares held within the insurance business and assets where the customer bears the value change risk were designated at fair value through profit or loss using the fair value option, since these were managed and the result measured on the basis of the fair values. According to IFRS 9, it is mandatory to designate these assets at fair value through profit or loss.
[5] Handelsbanken has chosen to categorise certain shareholdings that are not held for trading, at fair value through other comprehensive income. These shareholdings are long-term and of strategic importance to the banking operations in the Group. The holdings were previously classified as financial assets available for sale.
[6] Tax effect due to transition to IFRS 9.
[7] No financial liabilities have been subject to revaluation as a result of an amended classification in line with IFRS 9.
[8] As a result of the IFRS 9 regulations for impairment, the provision for credit losses on off-balance sheet items has increased.
[9] As a result of the IFRS 9 regulations for impairment, a provision for credit losses on debt instruments measured at fair value through other comprehensive income has been recognised.
[10] The total effect against retained earnings due to the transition to IFRS 9 is SEK -640m before tax, of which SEK -24m is due to the new rules for classification and measurement and SEK -616m to the new rules for impairment.

G50 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 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 2018, 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 the publication titled Handelsbanken's Risk and Capital – Information according to Pillar 3 (see handelsbanken.se/ireng).

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 TB40, 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 TB40, 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 own funds, 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 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 167, 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. An additional value adjustment must also be calculated and, when necessary, be made for prudent valuation of instruments at fair value. Institutions with permission to use internal ratings-based models must make a deduction for the difference between expected loan losses according to the IRB Approach and the provisions made for probable loan losses if the expected loan 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. Finally, a deduction must also be 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.

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 13.1 billion. Of this amount, additional tier 1 capital for SEK 10.7 billion was issued in 2015, which fulfils the requirements of CRR. However, the Bank's other outstanding additional tier 1 capital has been issued with permission in accordance with the previous regulations and is therefore included in the transitional rules in CRR. This amounts to SEK 2.4 billion and comprises enhanced capital contributions, which do not qualify for inclusion in own funds from 1 January 2019. For enhanced capital contributions, the Bank has the right to convert the instruments into equity at an earlier stage to avoid breaching regulatory requirements. In the case of liquidation, the instruments will be classified as liabilities, including the part that was previously converted into equity, and which will then have the same residual claim to the assets of the company. This claim is subordinate to the claims of all other creditors and only shareholders have a more subordinated claim to the assets of the company. For enhanced capital contributions, the Bank has an unconditional right to suspend coupon payments, in other words, payment of interest can be suspended at any time. If there are no distributable funds, coupon payments must be suspended for both types of instrument.

Tier 2 capital

The tier 2 capital consists of subordinated loans with a maturity of at least five years. Deductions

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are made for subordinated loan contributions to the insurance companies within the Group.

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 rules. 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 exposure amount. 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, Handelsbanken Finans (Shanghai) Financial Leasing Co. Ltd, 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, Finland and Denmark, 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. 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 (81) 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 of the Basel III capital adequacy regulations, CRR and CRD IV. In the tables, "CRR" means that the figures are based on the minimum capital requirements after the transitional rules have ceased to apply. The transitional rules ceased to apply after 31 December 2017.

Repos and securities loans are reported separately in the table Credit risk exposures approved for IRB approach, since they give rise to very low capital requirements, while the volumes vary considerably over time. The low capital requirements are due to the exposure being reported gross and being secured.

The total average risk weight for exposures approved for the IRB approach decreased during the year to 13.8 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, primarily sovereign exposures, 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 19.8 per cent.

Credit quality is good. Of Handelsbanken's corporate exposures, 98 per cent (97) 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 won approval 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 in the Bank's interim reports for 2018 and the publication Risk and Capital – Information according to Pillar 3.

Market risk

The capital requirements for market risk are 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 requirements for market risk, the standardised approach is applied.

Capital requirement for operational risk

Handelsbanken uses the standardised approach to calculate the capital requirements for operational risk. According to the standardised approach, the capital requirements are 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 risk for the consolidated situation was SEK 5,115 million (4,929) at the end of 2018.

CAPITAL ADEQUACY FOR THE FINANCIAL CONGLOMERATE

Under Regulation (EU) No 342/2014, financial conglomerates' reporting to their national financial supervisory authority must include the minimum capital requirement, the combined buffer requirement, and measures adopted pursuant to Articles 458 or 459 of the CRR. Their reports must also include the own funds requirement as determined by the Financial Supervisory Authority within the framework of the Authority's supervision and evaluation process for the banking group. Consequently, the Bank uses this approach to calculate the capital requirement for the consolidated situation (banking operations in the financial conglomerate). The capital requirement for Handelsbanken's consolidated situation has been supplemented with the solvency requirements pursuant to the transitional regulations for the insurance group. This corresponds to the financial conglomerate's capital requirement. This 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 write-down (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 2019 MREL amounts to 6.2 per cent (6.6) 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 will be subordinate to current senior debt instruments, but will rank more highly than own funds instruments as part of a resolution procedure. However, changes can be expected in the future and the Bank is monitoring the development of forthcoming regulations.

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Table TB40 (Pillar 3) Companies included in consolidated situation

Companies included in consolidated situation	Ownership share, %	Corporate identity number	Domicile
Handelsbanken AB (publ)[1]		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[1,3]	100	11305395	London
Heartwood Wealth Management Limited	100	4132340	London
Heartwood Nominees Limited (inactive)	100	2299877	London
Heartwood Second Nominees Limited (inactive)	100	3193458	London
Private Office Limited (inactive)	100	4332528	London
SIL (Nominees) Limited (inactive)	100	1932320	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	60	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
Bankomatcentralen AB	100	556197-2265	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	163096	Sheffield
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

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Table 84 (Pillar 3) Balance sheet

Balance sheet	2018		2017	
SEK m	Consolidated situation	Group	Consolidated situation	Banking group
ASSETS				
Cash and balances with central banks	317 217	317 217	226 314	226 314
Other loans to central banks	33 557	33 557	38 920	38 920
Interest-bearing securities available as collateral with central banks	118 929	122 260	125 898	129 006
Loans to other credit institutions	22 133	22 137	20 250	20 250
Loans to the public	2 190 223	2 189 092	2 066 890	2 065 761
Value change of interest-hedged item in portfolio hedge	33	33	36	36
Bonds and other interest-bearing securities	47 850	50 729	46 220	49 601
of which interest-bearing instruments classified as available for sale (carrying amount)	*5 373*	*5 373*	*5 393*	*5 393*
of which interest-bearing instruments classified as available for sale, accumulated value change	*-79*	*-79*	*-67*	*-67*
Shares and participating interests	13 168	13 821	13 088	14 052
of which shares classified as available for sale (carrying amount)	*1 841*	*1 841*	*1 174*	*1 174*
of which shares classified as available for sale, accumulated value change	*367*	*367*	*554*	*554*
Investments in associates	6 534	259	6 574	297
Assets where the customer bears the value change risk	5 345	136 346	5 023	135 617
Derivative instruments	58 041	58 041	56 070	56 070
of which cash flow hedges	*1 263*	*1 263*	*654*	*654*
Reinsurance assets	-	12	-	14
Intangible assets	10 322	10 455	9 720	9 861
Property and equipment	2 229	2 229	2 238	2 238
Current tax assets	615	617	238	242
Deferred tax assets	1 044	1 044	399	399
of which related to cash flow hedges	-	-	-	-
of which related to interest-bearing instruments classified as available for sale	*21*	*21*	*19*	*19*
Pension assets	-	-	1283	1239
Assets held for sale	19	19	-	-
Other assets	16 652	16 880	10 351	10 715
Prepaid expenses and accrued income	3 406	3 426	6 288	6 345
Total assets	**2 847 317**	**2 978 174**	**2 635 800**	**2 766 977**
LIABILITIES AND EQUITY				
Liabilities to credit institutions	194 033	194 082	174 795	174 820
Deposits and borrowing from the public	1 007 837	1 008 487	939 792	941 967
Liabilities where the customer bears the value change risk	5 345	136 346	5 023	135 617
Issued securities	1 394 647	1 394 647	1 276 595	1 276 595
Derivative instruments	17 361	17 360	24 877	24 876
of which cash flow hedges	-	-	-	-
Short positions	6 163	6 163	2 072	2 072
Insurance liabilities	-	542	-	549
Current tax liabilities	1 105	1 118	368	394
Deferred tax liabilities	5 746	5 786	6 813	6 853
of which related to cash flow hedges	*344*	*344*	*184*	*184*
of which related to interest-bearing instruments classified as available for sale	*6*	*6*	*7*	*7*
Provisions	213	222	143	153
Pension obligations	3 171	3 226	-	-
Liabilities related to assets held for sale	-	-	-	-
Other liabilities	12 694	12 984	15 580	15 863
Accrued expenses and deferred income	3 784	3 865	12 589	12 718
Subordinated liabilities	51 085	51 085	32 896	32 896
of which tier 1 capital loans	*13 053*	*13 053*	*12 146*	*12 146*
of which loans with remaining time to maturity > 5 yrs	*18 325*	*18 325*	*17 745*	*17 745*
of which loans with remaining time to maturity < 5 yrs	-	-	-	-
of which other loans	*18 514*	*18 514*	*3 004*	*3 004*
Total liabilities	**2 703 184**	**2 835 913**	**2 491 543**	**2 625 373**
Minority interest	12	12	11	11
Share capital	3 013	3 013	3 013	3 013
Holdings of own shares	*0*	*0*	-	-
Share premium reserve	5 629	5 629	5 629	5 629
of which equity from combined financial instruments	*466*	*466*	*466*	*466*
Other reserves	5 105	5 098	8 116	8 106
Retained earnings	113 799	111 155	112 210	108 746
Profit for the year (belonging to shareholders of Svenska Handelsbanken AB)	16 575	17 354	15 278	16 099
Total equity	**144 133**	**142 261**	**144 257**	**141 604**
Total liabilities and equity	**2 847 317**	**2 978 174**	**2 635 800**	**2 766 977**

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Table 85 (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		2018			2017	
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	8 177		26 (1), 27, 28, 29, EBA list 26 (3)	8 177	
	of which: share capital	8 177		EBA list 26 (3)	8 177	
	of which: convertible securities			EBA list 26 (3)	-	
2	Retained earnings	113 799		26 (1) (c)	112 210	
3	Accumulated other comprehensive income (and any other reserves, to include unrealised gains and losses according to the applicable accounting standards)	5 536		26 (1)	8 445	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	5 881		26 (2)	697	
6	**Common equity tier 1 (CET1) capital before regulatory adjustments**	**133 393**			**129 529**	
	Common equity tier 1 (CET1) capital: regulatory adjustments					
7	Additional value adjustments (negative amount)	-375		34, 105	-409	
8	Intangible assets (net of related tax liability) (negative amount)	-10 390		36 (1) (b), 37	-9 787	
11	Fair value reserves related to gains or losses on cash flow hedges	-1 263		33 (1) (a)	-654	
12	Negative amounts resulting from the calculation of expected loss amounts	-2 047		36 (1) (d), 40, 159	-2 357	
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)	-508		36 (1) (f), 42	-569	
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	-	
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**	**-14 583**			**-13 776**	
29	**Common equity tier 1 (CET1) capital**	**118 810**			**115 753**	
	Additional tier 1 (AT1) capital: instruments					
30	Capital instruments and the related share premium accounts	10 701		51, 52	9 794	
32	of which: classified as liabilities under applicable accounting standards	10 701			9 794	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	2 352	2 352	486 (3)	2 352	2 352
36	**Additional tier 1 (AT1) capital before regulatory adjustments**	**13 053**			**12 146**	

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Own funds		2018			2017	
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)	-400	-400	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**	**-400**			**-400**	
44	**Additional tier 1 (AT1) capital**	**12 653**			**11 746**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**131 463**			**127 499**	
	Tier 2 (T2) capital: instruments and provisions					
46	Capital instruments and the related share premium accounts	33 704		62 ,63	17 745	
50	Credit risk adjustments	0				
51	**Tier 2 (T2) capital before regulatory adjustments**	**33 704**			**17 745**	
	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)	-15 379		66 (d), 69, 79	-	
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**	**-16 508**			**-1 129**	
58	**Tier 2 (T2) capital**	**17 196**			**16 616**	
59	**Total capital (TC = T1 + T2)**	**148 659**			**144 115**	
60	**Total risk-weighted assets**	**707 579**			**509 032**	
	Capital ratios and buffers					
61	Common equity tier 1 capital (as a percentage of total risk exposure amount)	16.8		92 (2) (a)	22.7	
62	Tier 1 capital (as a percentage of total risk exposure amount)	18.6		92 (2) (b)	25.0	
63	Total capital (as a percentage of total risk exposure amount)	21.0		92 (2) (c)	28.3	
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)	7.0		CRD 128, 129, 130	6.7	
65	of which: capital conservation buffer requirement	2.5			2.5	
66	of which: countercyclical buffer requirement	1.5			1.2	
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)	12.3		CRD 128	18.2	

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Own funds SEK m		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	2018 Regulation (EU) No 575/2013 article reference	2017 Amount at disclosure date	2017 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	2	
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)	-960		36 (1) (c), 38, 48	-315	
	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	1 093		62	1 048	
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	3 247		62	2 090	
	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	58		484 (3), 486 (2) and (5)	116	
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	2 445		484 (4), 486 (3) and (5)	4 890	
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	1 481		484 (5), 486 (4) and (5)	2 963	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-		484 (5), 486 (4) and (5)	-	

Table AR:45 Capital adequacy financial conglomerate
The table shows the relationship between capital and capital requirement for the financial conglomerate. The levels are in line with the previous year.

Capital adequacy financial conglomerate SEK m	2018	2017
Own funds after reduction and adjustments	152 229	147 387
Capital requirement	139 687	135 655
Surplus	**12 542**	**11 732**

The Swedish Financial Supervisory Authority has changed the method applied to determine the risk weight floor for Swedish mortgages of 25%, which was previously a requirement in Pillar 2 but which is now, as of 31 December 2018, a requirement in Pillar 1 under article 458 CRR.

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Table 90 (Pillar 3) EU OV1 – Overview of RWAs

The table illustrates the risk-weighted exposure amounts (REA) for credit risk, counterparty risk, market risk and operational risk at year-end 2018 and year-end 2017. The amounts stated for credit risk are calculated for exposures subject 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 subject to the standardised approach. REA for credit risk has increased compared to the previous year. The Swedish Financial Supervisory Authority has changed the methodology for the Swedish risk weight floor of 25 per cent. This was previously a requirement under Pillar 2 but now, as of 31 December 2018, constitutes a Pillar 1 requirement pursuant to Article 458 of the CRR.

EU OV1 – Overview of risk-weighted exposure amounts			RWAs		Minimum capital requirements
SEK m			2018	2017	2018
	1	Credit risk (excluding CCR)	616 009	419 557	49 281
Article 438(c)(d)	2	Of which the standardised approach	87 147	83 473	6 972
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	53 978	48 496	4 318
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	467 474	282 520	37 398
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	7 410	5 068	593
Article 107 Article 438(c)(d)	6	CCR	12 603	12 640	1 008
Article 438(c)(d)	7	Of which mark to market	12 598	12 632	1 008
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	5	8	0
Article 438(c)(d)	12	CVA	5 219	4 890	417
Article 438 e	13	Settlement risk	0	0	0
Article 449(o)(i)	14	Securitisation exposures in the non-trading book (after the cap)	51	22	4
	15	Of which IRB Approach	51	22	4
	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	9 765	10 310	781
	20	Of which the standardised approach	9 765	10 310	781
	21	Of which IMA			
Article 438 e	22	Large exposures			
Article 438(f)	23	Operational risk	63 932	61 613	5 115
	24	Of which basic indicator approach			
	25	Of which standardised approach	63 932	61 613	5 115
	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**	**707 579**	**509 032**	**56 606**

Table 62 (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 2018.

EU MR1 – Market risk under the standardised approach	2018		2017	
	a	b	a	b
SEK m	REA	Capital requirements	REA	Capital requirements
Outright products				
Interest rate risk	9 552	764	10 089	808
of which general risk	*7 888*	*631*	*7 145*	*572*
of which specific risk	*1 664*	*133*	*2 944*	*236*
Equity risk	84	7	113	9
of which general risk	*27*	*2*	*34*	*3*
of which specific risk	*54*	*5*	*74*	*6*
of which CIUs	*3*	*0*	*5*	*0*
Foreign exchange risk	-	-	-	-
Commodity risk	85	7	60	5
Options				
Scenario approach	43	3	48	3
of which interest rate risk	*4*	*0*	*5*	*0*
of which equity risk	*39*	*3*	*43*	*3*
of which foreign exchange risk	-	-	-	-
of which commodity risk	*0*	*0*	*0*	*0*
Securitisation (specific risk)	-	-	-	-
Settlement risk	1	0	0	0
Total	**9 765**	**781**	**10 310**	**825**

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Table AR:47 Capital adequacy analysis
The table shows capital ratios. The total exposure has increased compared to the previous year.

Capital adequacy analysis %	2018	2017
Common equity tier 1 ratio, CRR	16.8	22.7
Tier 1 ratio, CRR	18.6	25.0
Total capital ratio, CRR	21.0	28.3
Total risk exposure amount, CRR, SEK m	707 579	509 032
Own funds in relation to capital requirement according to Basel I floor		142
Institution-specific buffer requirement	7.0	6.7
of which capital conservation buffer requirement	*2.5*	*2.5*
of which countercyclical capital buffer requirement	*1.5*	*1.2*
of which systemic risk buffer requirement	*3.0*	*3.0*
Common equity tier 1 capital available for use as a buffer	12.3	18.2

The yearly changes in capital ratios and risk exposure amount are due to the move of Pillar 2 requirements for risk weight floors regarding Swedish mortgages to Pillar 1.

Table AR:48 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. For 2018, Total liabilities and own funds is based on third quarter numbers.

SEK m	2018	2017
MREL requirement	159 211	162 062
Eligible liabilities and own funds	289 591	255 604
Total liabilities and own funds	2 900 642	2 582 586

%	2018	2017
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	*10.0*	*9.9*

Table 40 (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	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Sovereign exposures	**440 789**	**357 719**	**19 114**	**18 456**	**7 694**	**7 474**	**616**	**598**	**1.7**	**2.1**
Corporate exposures	**908 004**	**852 845**	**133 978**	**121 454**	**250 750**	**237 107**	**20 060**	**18 969**	**27.6**	**27.8**
Corporate lending	888 991	835 665	133 763	121 384	247 764	233 707	19 821	18 697	27.9	28.0
of which other lending, IRB Approach without own estimates of LGD and CCF	*125 126*	*109 608*	*72 146*	*62 936*	*37 526*	*32 467*	*3 002*	*2 598*	*30.0*	*29.6*
of which other lending, IRB Approach with own estimates of LGD and CCF	*763 865*	*726 057*	*61 617*	*58 448*	*210 238*	*201 240*	*16 819*	*16 099*	*27.5*	*27.7*
of which large corporates	*154 297*	*152 189*	*36 485*	*32 991*	*57 241*	*58 176*	*4 579*	*4 654*	*37.1*	*38.2*
of which medium-sized companies	*85 130*	*80 590*	*8 961*	*9 914*	*37 275*	*37 839*	*2 982*	*3 027*	*43.8*	*47.0*
of which property companies	*524 438*	*493 278*	*16 171*	*15 543*	*115 722*	*105 225*	*9 258*	*8 418*	*22.1*	*21.3*
Counterparty risk	19 013	17 180	215	70	2 986	3 400	239	272	15.7	19.8
Housing co-operative associations	**216 026**	**195 265**	**3 812**	**4 680**	**9 902**	**9 974**	**791**	**798**	**4.6**	**5.1**
Retail exposures	**1 079 337**	**1 026 668**	**55 531**	**51 744**	**85 185**	**72 574**	**6 815**	**5 806**	**7.9**	**7.1**
Private individuals	1 054 730	1 001 733	49 507	45 593	77 746	65 742	6 220	5 259	7.4	6.6
of which property loans	*991 558*	*925 491*	*29 601*	*21 280*	*62 459*	*51 092*	*4 997*	*4 087*	*6.3*	*5.5*
of which other	*63 172*	*76 242*	*19 906*	*24 313*	*15 287*	*14 650*	*1 223*	*1 172*	*24.2*	*19.2*
Small companies	24 607	24 935	6 024	6 151	7 438	6 832	595	547	30.2	27.4
of which property loans	*7 280*	*6 929*	*63*	*7*	*1 409*	*1 707*	*113*	*137*	*19.4*	*24.6*
of which other	*17 327*	*18 006*	*5 961*	*6 144*	*6 029*	*5 125*	*482*	*410*	*34.8*	*28.5*
Institutional exposures	**86 423**	**72 223**	**13 295**	**12 426**	**14 858**	**13 929**	**1 189**	**1 114**	**17.2**	**19.3**
Lending to institutions	17 559	16 332	6 014	6 195	5 640	5 232	452	418	32.1	32.0
Counterparty risk	68 864	55 891	7 281	6 231	9 218	8 697	737	696	13.4	15.6
of which repos and securities loans	*10 379*	*7 667*	*7 281*	*6 231*	*455*	*173*	*36*	*14*	*4.4*	*2.3*
of which derivatives	*58 485*	*48 224*	*-*	*-*	*8 763*	*8 524*	*701*	*682*	*15.0*	*17.7*
Equity exposures	**2 121**	**1 512**	**-**	**-**	**7 410**	**5 068**	**593**	**405**	**349.4**	**335.1**
of which listed equities	*545*	*661*	*-*	*-*	*1 581*	*1 916*	*126*	*153*	*290.0*	*290.0*
of which other equities	*1 576*	*851*	*-*	*-*	*5 829*	*3 152*	*467*	*252*	*370.0*	*370.0*
Non credit-obligation asset exposures	**2 239**	**2 238**	**-**	**-**	**2 239**	**2 238**	**179**	**179**	**100.0**	**100.0**
Securitisation positions	**22**	**20**	**-**	**-**	**51**	**22**	**4**	**2**	**229.2**	**106.0**
of which traditional securitisation	*22*	*20*	*-*	*-*	*51*	*22*	*4*	*2*	*229.2*	*106.0*
of which synthetic securitisation	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Total IRB Approach	**2 734 961**	**2 508 490**	**225 730**	**208 760**	**378 089**	**348 386**	**30 247**	**27 871**	**13.8**	**13.9**
Risk weight floor, Swedish mortgage loans**					**163 123**		**13 050**			
Total IRB Approach with impact of risk weight floor, Swedish mortgage loans	**2 734 961**	**2 508 490**	**225 730**	**208 760**	**541 212**	**348 386**	**43 297**	**27 871**	**19.8**	**13.9**

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Table 41 (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	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Sovereign and central banks	403	236	21	21	-	-	-	-	0.0	0.0
Municipalities	25	-	-	-	5	-	-	-	20.0	0.0
Multilateral development banks	183	568	-	1	-	-	-	-	0.0	0.0
International organisations	-	35	-	-	-	-	-	-	-	0.0
Institutions	9 570	7 290	490	498	897	506	72	40	9.4	6.9
Corporate	10 282	9 407	2 360	2 205	10 191	9 312	815	745	99.1	99.0
Retail	9 198	16 824	2 306	3 186	6 867	12 580	549	1 006	74.7	74.8
Property mortgages	125 107	106 316	7 126	6 426	46 682	38 158	3 735	3 053	37.3	35.9
Past due items	705	654	13	7	878	748	70	60	124.6	114.4
Funds	-	86	-	-	-	86	-	7	-	100.0
Equities	6 254	6 813	-	-	15 636	16 143	1 251	1 291	250.0	236.9
of which listed equities	-	-	-	-	-	-	-	-	-	-
of which other equities	*6 254*	*6 813*	-	-	*15 636*	*16 143*	*1 251*	*1 291*	*250.0*	*236.9*
Other items	6 604	6 780	26	-	6 295	6 300	504	505	95.3	92.9
Total standardised approach	**168 331**	**155 009**	**12 342**	**12 344**	**87 451**	**83 833**	**6 996**	**6 707**	**52.0**	**54.1**

[1] Details of capital requirements for exposure classes where there are exposures.

Table 93 (Pillar 3) LRCom: Leverage ratio common disclosure

The table shows the leverage ratio at year-end and the previous year. The exposures are specified for the categories on-balance, derivatives, securities finance and off-balance. The leverage ratio is calculated as tier 1 capital divided by the total exposures. The leverage ratio has decreased compared to the previous year. The change is due to the fact that the Bank's tier 1 capital has remained largly static while the balance sheet has expanded.

	LRCom: Leverage ratio common disclosure SEK m	**2018**	**2017**
	On balance sheet exposures (excluding derivatives and SFTs)		
1	On balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2 777 127	2 571 653
2	(Asset amounts deducted in determining Tier 1 capital)	-14 583	-13 775
3	**Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**2 762 544**	**2 557 878**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	8 183	10 962
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	31 001	28 379
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)	-5 418	-7 785
8	(Exempted CCP leg of client-cleared trade exposures)		-
9	Adjusted effective notional amount of written credit derivatives	5 774	7 766
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-366
11	**Total derivatives exposures (sum of lines 4 to 10)**	**39 540**	**38 955**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	12 149	8 077
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	3 850	2 176
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)**	**15 999**	**10 253**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	535 815	501 292
18	(Adjustments for conversion to credit equivalent amounts)	-343 827	-320 747
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**191 988**	**180 545**
	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	131 463	127 499
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	3 010 071	2 787 631
	Leverage ratio		
22	Leverage ratio	4.37%	4.6%
	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

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Table 94 (Pillar 3) LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

The table shows the summary reconciliation of accounting assets and leverage ratio exposures at year-end and the previous year. The leverage ratio total exposure measure has increased compared to the previous year.

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures SEK m		2018	2017
1	Total assets as per published financial statements	2 978 174	2 766 977
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-130 857	-131 176
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)	-	0
4	Adjustments for derivative financial instruments	-18 501	-17 115
5	Adjustments for securities financing transactions (SFTs)	3 850	2 176
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	191 988	180 545
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-	-
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	-14 583	-13 775
8	**Leverage ratio total exposure measure**	**3 010 071**	**2 787 631**

Table 95 (Pillar 3) LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

The table specifies on balance sheet exposures excluding derivatives, SFTs, and exposures exempt from the leverage ratio calculation at the end of 2017 and the previous year. The total exposure has increased compared to the previous year.

LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) SEK m		2018	2017
EU-1	Total on balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	2 757 336	2 550 077
EU-2	Trading book exposures	180 589	227 178
EU-3	Non-trading book exposures, of which:	2 576 747	2 322 899
EU-4	Covered bonds	5 372	4 953
EU-5	Exposures treated as sovereigns	419 788	291 874
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	25	0
EU-7	Institutions	8 476	6 269
EU-8	Secured by mortgages of immovable properties	1 843 389	1 703 244
EU-9	Retail exposures	64 218	80 834
EU-10	Corporate	211 962	212 566
EU-11	Exposures in default	4 797	4 607
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	18 720	18 553

Parent company

Administration report 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. 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 decreased by 13 per cent to SEK 17,528 million (20,233), chiefly owing to reduced dividends, as well as increased staff costs. Profit for the year decreased by 12 per cent to SEK 13,855 million (15,686). Net interest income increased by 6 per cent to SEK 17,234 million (16,326), and net fee and commission income decreased by 6 per cent to SEK 6,218 million (6,592). Dividends have been received amounting to SEK 11,023 million (13,705). Since the start of the year, the parent company's equity has increased to SEK 121,062 million (120,200). For the parent company's five-year overview, see pages 186–187.

Prior to 1 December 2018, the Bank's operations in the UK were conducted in the form of an international branch. Following the Brexit referendum, the Bank decided to form a subsidiary in the UK, which operates under the supervision of the Prudential Regulation Authority (PRA). Handelsbanken has a long-term commitment in the United Kingdom, and the formation of a subsidiary is a natural step in this development. Before any transactions related to this process were executed, the Bank obtained approval from the British court and was granted a licence by the PRA. On 1 December 2018, the majority of the UK branch office's business operations were transferred to the wholly owned subsidiary, Handelsbanken plc. At the same time, the shares in the wholly owned subsidiary Heartwood Wealth Management Limited were also transferred from the parent company to Handelsbanken plc. The Bank has maintained an ongoing dialogue with the tax authorities in both Sweden and the UK concerning the details of the transfer. Further-more, the Bank has received responses from the tax authorities to its queries regarding the tax implications of the transfer.

During the financial year, the majority of Handelsbanken Finans' operations in Sweden have been migrated to Svenska Handelsbanken AB, and Handelsbanken Finans has transferred its shares in the subsidiary Handelsbanken Rahoitus Oy to Svenska Handelsbanken AB.

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 56).

Recommended appropriation of profits

In accordance with the balance sheet for Handelsbanken, profits totalling SEK 112,870 million are at the disposal of the Annual General Meeting.

The Board recommends that the profit be distributed as follows:

Dividend per share paid to the shareholders SEK 5.50 (SEK 7.50 for 2017, of which SEK 5.50 in ordinary dividend)	10,693
Balance carried forward to the next year	102,177
Total allocated	**112,870**

The Board's assessment is that the amount of the proposed dividend, totalling SEK 10,693 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 2,862 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 regulation (EU) 575/2013 and directive 2013/36/EU and other relevant requirements which the authorities have established for the Bank.

The Handelsbanken share

Shares divided into share classes
31 December 2018

Share class	Number	% of capital	% of votes
Class A	1 908 923 831	98.19	99.82
Class B	35 251 329	1.81	0.18
Total	**1 944 175 160**	**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 43.

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 48.

At the AGM in March 2018, the Board received a mandate to repurchase a maximum of 120 million shares during the period until the AGM in March 2019. This mandate was not used in 2018. More detailed information on this can be found on pages 42–43.

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 16.

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's working method and staff development, see pages 14–15.

Financial reports Parent company

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Income statement Parent company

SEK m		2018	2017
Interest income	*Note P3*	30 745	24 228
Lease income	*Note P3*	724	538
Interest expenses	*Note P3*	-14 235	-8 440
Dividends received	*Note P4*	11 023	13 705
Fee and commission income	*Note P5*	8 206	8 595
Fee and commission expenses	*Note P5*	-1 988	-2 003
Net gains/losses on financial transactions	*Note P6*	1 020	1 339
Other operating income	*Note P7*	2 805	1 690
Total operating income		**38 300**	**39 652**
General administrative expenses			
Staff costs	*Note P8*	-12 255	-10 938
Other administrative expenses	*Note P9*	-6 332	-5 702
Depreciation, amortisation and impairment of property, equipment, lease and intangible assets	*Note P20, P21*	-1 350	-1 094
Total expenses before credit losses		**-19 937**	**-17 734**
Profit before credit losses		**18 363**	**21 918**
Net credit losses	*Note P10*	-835	-1 685
Impairment loss on financial fixed assets		-	-
Operating profit		**17 528**	**20 233**
Appropriations	*Note P11*	332	115
Profit before taxes		**17 860**	**20 348**
Taxes	*Note P28*	-4 005	-4 662
Profit for the year		**13 855**	**15 686**

Statement of comprehensive income Parent company

SEK m	2018	2017
Profit for the year	13 855	15 686
Other comprehensive income		
Items that will not be reclassified to the income statement		
Equity instruments measured at fair value through other comprehensive income	-188	
Tax on items that will not be reclassified to the income statement	1	
of which equity instruments measured at fair value through other comprehensive income	*1*	
Total items that will not be reclassified to the income statement	**-187**	
Items that may subsequently be reclassified to the income statement		
Cash flow hedges	829	41
Debt instruments measured at fair value through other comprehensive income	-12	
Available-for-sale instruments (IAS 39)		-470
Translation difference for the year	41	-2 261
of which hedges of net assets in foreign operations	*-848*	*-1 476*
Tax on items that may subsequently be reclassified to the income statement	19	311
of which cash flow hedges	*-178*	*-9*
of which debt instruments measured at fair value through other comprehensive income		
of which available-for-sale instruments (IAS 39)	*3*	*-5*
of which hedges of net assets in foreign operations	*194*	*325*
Total items that may subsequently be reclassified to the income statement	**877**	**-2 379**
Total other comprehensive income	**690**	**-2 379**
Total comprehensive income for the year	**14 545**	**13 307**

The year's reclassifications to the income statement are presented in the Statement of changes in equity.

Balance sheet Parent company

SEK m		2018	2017
ASSETS			
Cash and balances with central banks		243 824	226 314
Interest-bearing securities eligible as collateral with central banks	*Note P14*	118 918	125 887
Loans to credit institutions	*Note P12*	841 085	664 018
Loans to the public	*Note P13*	611 699	795 691
Bonds and other interest-bearing securities	*Note P14*	50 993	46 220
Shares	*Note P15*	13 156	13 073
Shares in subsidiaries and investments in associates	*Note P16*	72 267	47 302
Assets where the customer bears the value change risk		5 240	5 005
Derivative instruments	*Note P17*	59 109	59 767
Intangible assets	*Note P20*	2 772	2 610
Property, equipment and lease assets	*Note P21*	5 434	2 822
Current tax assets		531	191
Deferred tax assets	*Note P28*	285	283
Other assets	*Note P22*	25 910	18 807
Prepaid expenses and accrued income	*Note P23*	2 476	4 886
Total assets	*Note P34*	**2 053 699**	**2 012 876**
LIABILITIES AND EQUITY			
Due to credit institutions	*Note P24*	261 735	193 822
Deposits and borrowing from the public	*Note P25*	839 835	941 401
Liabilities where the customer bears the value change risk		5 240	5 005
Issued securities, etc.	*Note P26*	716 531	654 637
Derivative instruments	*Note P17*	36 226	41 771
Short positions	*Note P27*	6 163	2 072
Current tax liabilities		-	-
Deferred tax liabilities	*Note P28*	528	582
Provisions	*Note P29*	109	146
Other liabilities	*Note P30*	12 044	12 746
Accrued expenses and deferred income	*Note P31*	2 255	6 915
Subordinated liabilities	*Note P32*	51 085	32 896
Total liabilities	*Note P34*	**1 931 751**	**1 891 993**
Untaxed reserves	*Note P33*	**886**	**683**
Share capital		3 013	3 013
Share premium		5 629	5 629
Other funds		8 285	7 320
Retained earnings		90 280	88 552
Profit for the year		13 855	15 686
Total equity		**121 062**	**120 200**
Total liabilities and equity		**2 053 699**	**2 012 876**

Balance sheet Parent company, cont.

Changed presentation of accrued interest, Parent company

SEK m		Carrying amount 31 Dec 2018	Changed presentation of accrued interest	Amount without changed presentation of accrued interest
Assets				
Cash and balances with central banks		243 824	84	243 740
Interest-bearing securities eligible as collateral with central banks	*Note P14*	118 918	314	118 604
Loans to credit institutions	*Note P12*	841 085	1 072	840 013
Loans to the public	*Note P13*	611 699	1 038	610 661
Bonds and other interest-bearing securities	*Note P14*	50 993	203	50 790
Prepaid expenses and accrued income	*Note P23*	2 476	-2 711	5 187
Total		**1 868 995**	**-**	**1 868 995**
Liabilities				
Due to credit institutions	*Note P24*	261 735	212	261 523
Deposits and borrowing from the public	*Note P25*	839 835	767	839 068
Issued securities	*Note P26*	716 531	2 250	714 281
Short positions	*Note P27*	6 163	32	6 131
Subordinated liabilities	*Note P32*	51 085	1 193	49 892
Accrued expenses and deferred income	*Note P31*	2 255	-4 454	6 709
Total		**1 877 604**	**-**	**1 877 604**

As of 2018, Handelsbanken presents contractual accrued interest on financial assets and financial liabilities as part of the carrying amount for the asset or liability on the balance sheet. The size of the total balance sheet has not been affected. The presentation of historical comparison figures has not been changed. Previous periods, contractual interest on financial assets and financial liabilities will continue to be presented under Prepaid expenses and accrued income and Accrued expenses and deferred income.

The table above shows the effect on the affected balance sheet lines at 31 December 2018 if the changed presentation of accrued interest had not been implemented.

Statement of changes in equity Parent company

	Restricted equity			Non-restricted equity					
SEK m	Share capital	Statutory reserve	Fund for internally developed software	Share premium	Hedge reserve[1]	Fair value reserve[1]	Translation reserve[1]	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**
Reclassification 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**

	Restricted equity			Non-restricted equity					
SEK m	Share capital	Statutory reserve	Fund for internally developed software	Share premium	Hedge reserve[1]	Fair value reserve[1]	Translation reserve[1]	Retained earnings incl. profit for the year	Total
Opening equity 2017	3 013	2 682	1 766	5 628	-119	974	3 939	98 759	116 642
Profit for the year								15 686	15 686
Other comprehensive income					32	-475	-1 936		-2 379
Total comprehensive income for the year					**32**	**-475**	**-1 936**	**15 686**	**13 307**
Dividend								-9 721	-9 721
Group contributions provided								-37	-37
Tax effect on Group contributions								8	8
Effects of convertible subordinated loans	0			1					1
Fund for internally developed software			457					-457	
Closing equity 2017	**3 013**	**2 682**	**2 223**	**5 629**	**-87**	**499**	**2 003**	**104 238**	**120 200**

[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 2018, convertibles for a nominal value of SEK 0m (1) relating to subordinated convertible bonds have been converted into 1 609 class A shares (22,151). At the end of the financial year, the number of Handelsbanken shares in the trading book was 0 (0).

Statement of changes in equity Parent company, cont.

Specification of changes in equity

Change in hedge reserve SEK m	2018	2017
Hedge reserve at beginning of year	-87	-119
Cash flow hedges		
Effective part of change in fair value		
Interest rate risk	-442	
Foreign exchange risk	1 271	
Unrealised value changes		32
Reclassified to the income statement[1]	-	-
Tax	-178	
Hedge reserve at end of year	**564**	**-87**

Change in fair value reserve SEK m	2018	2017
Fair value reserve at the end of 2017	**499**	**974**
Effect of transition to IFRS 9	1	
Fair value reserve at beginning of year	**500**	
Unrealised value change – equity instruments	-187	
Realised value change – equity instruments	5	
Unrealised value change – debt instruments	-10	
Change in reserve expected credit losses – debt instruments	1	
Unrealised market value change for remaining and new holdings (IAS 39)		-472
Reclassified to retained earnings – equity instruments	-5	
Reclassified to the income statement – debt instruments[2]	-	
Reclassified to the income statement – equity instruments (IAS 39)		-3
Fair value reserve at end of year	**304**	**499**

Change in translation reserve SEK m	2018	2017
Translation reserve at beginning of year	2 003	3 939
Change in translation difference	1 424	-1 937
Reclassified to the income statement[3]	2	1
Reclassified to retained earnings[4]	-1 191	
Translation reserve at end of year	**2 238**	**2 003**

[1] Tax reclassified to the income statement pertaining to this item SEK -m.
[2] Tax reclassified to the income statement pertaining to this item SEK -m.
[3] Tax reclassified to the income statement pertaining to this item SEK 0m (1).
[4] Tax reclassified to the retain earnings pertaining to this item SEK -335m.

Cash flow statement Parent company

SEK m	2018	2017
OPERATING ACTIVITIES		
Operating profit	17 528	20 233
of which paid-in interest	*28 226*	*24 130*
of which paid-out interest	*-9 853*	*-9 344*
of which paid-in dividends	*11 023*	*13 705*
Adjustment for non-cash items in profit/loss		
Credit losses	937	1 827
Unrealised changes in value	1 385	861
Depreciation, amortisation and impairment	1 350	1 094
Group contribution to be received	-10 104	-11 814
Paid income tax	-4 386	-5 064
Changes in the assets and liabilities of operating activities		
Loans to credit institutions	-177 047	-70 893
Loans to the public	182 800	-33 734
Interest-bearing securities and shares	1 138	-13 113
Due to credit institutions	69 415	5 228
Deposits and borrowing from the public	-103 068	113 066
Issued securities	61 893	5 660
Derivative instruments, net positions	-4 781	14 954
Short positions	4 178	646
Claims and liabilities on investment banking settlements	-7 684	-33
Other	-13 409	-43
Cash flow from operating activities	**20 145**	**28 875**
INVESTING ACTIVITIES		
Acquisitions of and contributions to associates	-25 432	-926
Sales of shares	542	2
Acquisitions of property and equipment	-5 484	-1 749
Disposals of property and equipment	1 926	863
Acquisitions of intangible assets	-658	-645
Disposals of intangible assets	137	-
Cash flow from investing activities	**-28 969**	**-2 455**
FINANCING ACTIVITIES		
Issued subordinated loans	15 449	-
Dividend paid	-14 581	-9 721
Dividends received from Group companies	11 814	12 257
Cash flow from financing activities	**12 682**	**2 536**
of which exchange rate differences	*3 936*	*-504*
Cash flow for the year	**3 858**	**28 956**
Liquid funds at beginning of year	226 314	199 362
Cash flow from operating activities	20 145	28 875
Cash flow from investing activities	-28 969	-2 455
Cash flow from financing activities	12 682	2 536
Foreign exchange difference on liquid funds	13 652	-2 004
Liquid funds at end of year	**243 824**	**226 314**

Five-year overview Parent company

Income statement SEK m	2018	2017	2016	2015	2014
Net interest income	17 234	16 326	15 011	15 250	16 082
Dividends received	11 023	13 705	17 045	11 978	9 664
Net fee and commission income	6 218	6 592	6 509	6 778	6 112
Net gains/losses on financial transactions	1 020	1 339	3 076	2 349	1 117
Other operating income	2 805	1 690	1 647	1 644	2 188
Total operating income	**38 300**	**39 652**	**43 288**	**37 999**	**35 163**
General administrative expenses					
Staff costs	-12 255	-10 938	-10 427	-10 904	-10 441
Other administrative expenses	-6 332	-5 702	-5 224	-5 040	-5 006
Depreciation, amortisation and impairment of property, equipment, lease and intangible assets	-1 350	-1 094	-591	-507	-478
Total expenses before credit losses	**-19 937**	**-17 734**	**-16 242**	**-16 451**	**-15 925**
Profit before credit losses	**18 363**	**21 918**	**27 046**	**21 548**	**19 238**
Net credit losses	-835	-1 685	-1 730	-1 614	-1 825
Impairment loss on financial fixed assets	-	-	-20	-15	-
Operating profit	**17 528**	**20 233**	**25 296**	**19 919**	**17 413**
Appropriations	332	115	-193	100	111
Profit before tax	**17 860**	**20 348**	**25 103**	**20 019**	**17 524**
Taxes	-4 005	-4 662	-4 503	-4 176	-3 823
Profit for the year	**13 855**	**15 686**	**20 600**	**15 843**	**13 701**
Dividend for the year	10 693[1]	14 581	9 721	11 442	11 124

[1] As proposed by the Board.

Statement of comprehensive income SEK m	2018	2017	2016	2015	2014
Profit for the year	13 855	15 686	20 600	15 843	13 701
Other comprehensive income					
Items that will not be reclassified to the income statement					
Equity instruments measured at fair value through other comprehensive income	-188				
Tax on items that will not be reclassified to the income statement	1				
of which equity instruments measured at fair value through other comprehensive income	*1*				
Total items that will not be reclassified to the income statement	**-187**				
Items that may subsequently be reclassified to the income statement					
Cash flow hedges	829	41	-1 882	195	3 249
Debt instruments measured at fair value through other comprehensive income	-12				
Available-for-sale instruments (IAS 39)		-470	-1 152	694	295
Translation difference for the year	41	-2 261	387	-1 155	5 634
of which hedges of net assets in foreign operations	*-848*	*-1 476*	*-65*	*-444*	*2 675*
Tax on items that may subsequently be reclassified to the income statement	19	311	538	73	-1 311
of which cash flow hedges	*-178*	*-9*	*414*	*-43*	*-709*
of which debt instruments measured at fair value through other comprehensive income	*3*				
of which available-for-sale instruments (IAS 39)		*-5*	*110*	*18*	*-14*
of which hedges of net assets in foreign operations	*194*	*325*	*14*	*98*	*-588*
Total items that may subsequently be reclassified to the income statement	**877**	**-2 379**	**-2 109**	**-193**	**7 867**
Total other comprehensive income	**690**	**-2 379**	**-2 109**	**-193**	**7 867**
Total comprehensive income for the year	**14 545**	**13 307**	**18 491**	**15 650**	**21 568**

Balance sheet SEK m	2018	2017	2016	2015	2014
Assets					
Loans to the public	611 699	795 691	763 567	733 988	737 483
Loans to credit institutions	841 085	664 018	593 125	596 441	568 589
Interest-bearing securities	169 911	172 107	154 547	112 410	134 014
Other assets	431 004	381 060	383 465	397 219	695 709
Total assets	**2 053 699**	**2 012 876**	**1 894 704**	**1 840 058**	**2 135 795**
Liabilities and equity					
Deposits and borrowing from the public	839 835	941 401	827 753	755 066	1 020 962
Due to credit institutions	261 735	193 822	189 176	173 533	210 099
Issued securities	716 531	654 637	648 977	676 950	633 128
Subordinated liabilities	51 085	32 896	33 400	34 216	30 289
Other liabilities	62 565	69 237	77 963	92 611	138 033
Untaxed reserves	886	683	793	570	699
Equity	121 062	120 200	116 642	107 112	102 585
Total liabilities and equity	**2 053 699**	**2 012 876**	**1 894 704**	**1 840 058**	**2 135 795**

Key figures	2018	2017	2016	2015	2014
Impaired loans reserve ratio, %		65.7	60.1	54.3	46.6
Proportion of impaired loans, %		0.18	0.23	0.30	0.36
Common equity tier 1 ratio, % according to CRR	16.6	21.4	23.4	19.9	18.5
Tier 1 ratio, % according to CRR	18.6	23.9	26.3	22.6	20.2
Total capital ratio, % according to CRR	21.3	27.5	30.0	26.1	23.9
Return on capital employed, %	0.63	0.74	0.99	0.74	0.70

For definitions of alternative key figures, see page 250 and, for the calculation of these key figures, see the Fact Book which is available at handelsbanken.se/ireng.

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
With the exception of the changes applied in the Group, the parent company's accounting policies correspond, in all material respects, to those applied for the 2017 financial year.

Changes in IFRS not yet applied
IFRS 16 Leases
IFRS 16 Leases has been adopted by the EU and is to be applied as of the 2019 financial year. The main change arising due to the new standard is that all lease contracts (with the exception of short-term lease contracts and lease contracts of lesser 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 attributable to 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 will 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, which are reported in the consolidated balance sheet under Other loans to central banks, are reported as Loans to credit institutions in the parent company's balance sheet.
- 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/expense.
- Untaxed reserves that are split into equity share and tax liability in the Group are reported as a separate balance sheet item in the parent company.

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 for impairment at each balance sheet date. 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.

Lease assets
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.

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 dividend is 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 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 2018 SEK m		Sweden	UK	Norway	Denmark	Finland	The Netherlands	USA	Other countries	Total
Balance sheet items										
Cash and balances with central banks		55	-	3 549	505	129 633	3 096	105 730	1 256	243 824
Loans to credit institutions	*Note P12*	763 204	-	5 312	28 145	36 123	10	3 951	4 340	841 085
Loans to the public	*Note P13*	230 846	-	173 161	58 010	77 760	47 319	4 559	20 044	611 699
Interest-bearing securities eligible as collateral with central banks	*Note P14*	93 532	-	-	-	-	-	24 567	819	118 918
Bonds and other interest-bearing securities	*Note P14*	43 959	-	-	-	-	-	7 034	-	50 993
Derivative instruments[1]	*Note P17*	58 820	-	-	10	-	-	254	25	59 109
Total		**1 190 416**	**-**	**182 022**	**86 670**	**243 516**	**50 425**	**146 095**	**26 484**	**1 925 628**
Off-balance sheet items										
Contingent liabilities	*Note P37*	396 292	-	65 239	32 105	43 508	7 233	27 780	22 357	594 514
of which guarantee commitments		*64 437*	-	*7 131*	*9 462*	*15 432*	*186*	*15 431*	*10 901*	*122 980*
of which obligations		*331 855*	-	*58 108*	*22 643*	*28 076*	*7 047*	*12 349*	*11 456*	*471 534*
Total		**396 292**	**-**	**65 239**	**32 105**	**43 508**	**7 233**	**27 780**	**22 357**	**594 514**
Total on and off-balance sheet items		**1 586 708**	**-**	**247 261**	**118 775**	**287 024**	**57 658**	**173 875**	**48 841**	**2 520 142**

Credit risk exposures Geographical breakdown 2017 SEK m		Sweden	UK	Norway	Denmark	Finland	The Netherlands	USA	Other countries	Total
Balance sheet items										
Cash and balances with central banks		82	84 766	3 918	2 150	84 925	397	48 025	2 051	226 314
Loans to credit institutions	*Note P12*	579 960	961	11 797	29 644	36 786	9	2 439	2 422	664 018
Loans to the public	*Note P13*	226 256	213 847	166 011	56 131	67 515	40 352	4 528	21 051	795 691
Interest-bearing securities eligible as collateral with central banks	*Note P14*	104 385	-	-	-	-	-	20 741	761	125 887
Bonds and other interest-bearing securities	*Note P14*	38 443	-	-	-	-	-	7 777	-	46 220
Derivative instruments[1]	*Note P17*	59 474	26	0	9	13	-	235	10	59 767
Total		**1 008 600**	**299 600**	**181 726**	**87 934**	**189 239**	**40 758**	**83 745**	**26 295**	**1 917 897**
Off-balance sheet items										
Contingent liabilities	*Note P37*	362 850	54 783	59 766	32 519	40 200	6 095	25 110	19 928	601 251
of which guarantee commitments		*61 062*	*6 200*	*6 847*	*8 560*	*13 183*	*126*	*14 395*	*10 280*	*120 653*
of which obligations		*301 788*	*48 583*	*52 919*	*23 959*	*27 017*	*5 969*	*10 715*	*9 648*	*480 598*
Total		**362 850**	**54 783**	**59 766**	**32 519**	**40 200**	**6 095**	**25 110**	**19 928**	**601 251**
Total on and off-balance sheet items		**1 371 450**	**354 383**	**241 492**	**120 453**	**229 439**	**46 853**	**108 855**	**46 223**	**2 519 148**

Geographical breakdown refers to the countries in which the exposures are recognised.
[1] Refers to the sum total of positive market values. If legally enforceable master netting agreements are included, exposure amounts to SEK 46,505m (42,929).

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**

P2 Cont.

Loans to the public, breakdown by sector 2017 (IAS 39) SEK m	2017 Loans before deduction of provisions	Provisions for probable loan losses	Loans after deduction of provisions
Private individuals	177 318	-531	176 787
Housing co-operative associations	33 720	-7	33 713
Property management	395 204	-521	394 683
Manufacturing			
Retail	19 671	-201	19 470
Hotel and restaurant	7 530	-35	7 495
Passenger and goods transport by sea	7 709	-1 325	6 384
Other transport and communication	8 449	-25	8 424
Construction	17 077	-693	16 384
Electricity, gas and water	13 162	-128	13 034
Agriculture, hunting and forestry	4 289	-46	4 243
Other services	18 972	-215	18 757
Holding, investment, insurance companies, mutual funds etc.	54 002	-248	53 754
Sovereigns and municipalities	2 343	0	2 343
Other corporate lending	15 952	-53	15 899
Total loans to the public before collective provisions	**800 632**	**-4 499**	**796 133**
Collective provisions for individually assessed loans			-442
Total loans to the public			**795 691**

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[5]	*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
Bonds and other interest-bearing securities	*Note P14*									50 993
Derivative instruments	*Note P17*	101	65	2 372	68	43 709	-	-	12 794	59 109
Total		**167 166**	**192 308**	**304 829**	**23 094**	**108 604**	**8 932**	**15 240**	**935 544**	**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 789,082m, and for off-balance sheet items to SEK 95,825m.
[5] Credit risk exposure to the new subsidiary in the UK, Handelsbanken plc, amounts to SEK 105,995m, of which SEK 43,953 is secured with financial collateral.

Credit risk exposures Breakdown by type of collateral 2017 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				226 314						226 314
Loans to credit institutions	*Note P12*	-	-	36 945	-	1 403	-	-	625 670	664 018
Loans to the public	*Note P13*	262 116	257 388	19 592	22 463	15 152	2 953	17 297	198 730	795 691
Interest-bearing securities eligible as collateral with central banks	*Note P14*									125 887
Bonds and other interest-bearing securities	*Note P14*									46 220
Derivative instruments	*Note P17*	475	493	3 024	175	32 497	-	9	23 094	59 767
Total		**262 591**	**257 881**	**285 875**	**22 638**	**49 052**	**2 953**	**17 306**	**847 494**	**1 917 897**
Off-balance sheet items										
Contingent liabilities	*Note P37*	52 700	47 334	58 965	14 811	14 948	5 436	5 858	401 199	601 251
of which guarantee commitments		*5 710*	*2 360*	*21 446*	*6 998*	*1 206*	*5 419*	*582*	*76 932*	*120 653*
of which obligations		*46 990*	*44 974*	*37 519*	*7 813*	*13 742*	*17*	*5 276*	*324 267*	*480 598*
Total		**52 700**	**47 334**	**58 965**	**14 811**	**14 948**	**5 436**	**5 858**	**401 199**	**601 251**
Total on and off-balance sheet items		**315 291**	**305 215**	**344 840**	**37 449**	**64 000**	**8 389**	**23 164**	**1 248 693**	**2 519 148**

[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 609,826m, and for off-balance sheet items to SEK 80,445m.

Market risks

Market risks SEK m	2018	2017
Interest rate risk	831	433
Exchange rate risk[1]	11	48
Equity price risk	174	93
Commodity risk	4	3

[1] Worst outcome in the case of +/- 5% change in SEK.

P2 Cont.

Liquidity risk

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	**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 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 investment banking settlement debts	*2 913*	-	-	-	-	-	-	*2 913*
Total	**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 commitments	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**

Maturity analysis for financial assets and liabilities 2017 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	265 238	-	-	-	-	-	-	265 238
Interest-bearing securities eligible as collateral with central banks[1]	126 165	-	-	-	-	-	-	126 165
Bonds and other interest-bearing securities[2]	46 498	-	-	-	-	-	-	46 498
Loans to credit institutions	57 035	125 527	104 468	152 011	170 106	25 932	95	635 174
of which reverse repos	*1 340*	-	-	-	-	-	-	*1 340*
Loans to the public	45 370	135 574	102 436	111 263	228 701	198 565	-	821 909
of which reverse repos	*6 607*	-	-	-	-	-	-	*6 607*
Other	17 080	-	-	-	-	-	137 666	154 746
of which shares and participating interests	*13 073*	-	-	-	-	-	-	*13 073*
of which claims on investment banking settlements	*4 007*	-	-	-	-	-	-	*4 007*
Total	**557 386**	**261 101**	**206 904**	**263 274**	**398 807**	**224 497**	**137 761**	**2 049 730**
Due to credit institutions	90 935	50 371	3 545	358	1 651	6 475	43 884	197 219
of which repos	*126*	-	-	-	-	-	-	*126*
of which central banks	*34 337*	*26 311*	*555*	-	-	-	*1 496*	*62 699*
Deposits and borrowing from the public	14 358	29 246	4 678	3 173	521	106	889 632	941 714
of which repos	*0*	-	-	-	-	-	-	*0*
Issued securities[3]	57 740	273 303	107 235	78 593	150 068	4 946	-	671 885
of which covered bonds	-	-	-	-	-	-	-	*0*
of which certificates and other securities with original maturity of less than one year	*55 690*	*241 017*	*66 379*	-	-	-	-	*363 086*
of which senior bonds and other securities with original maturity of more than one year	*2 050*	*32 286*	*40 856*	*78 593*	*150 068*	*4 946*	-	*308 799*
Subordinated liabilities	392	781	25	21 316	13 984	-	-	36 498
Other	6 238	-	-	-	-	-	183 895	190 133
of which short positions	*2 085*	-	-	-	-	-	-	*2 085*
of which investment banking settlement debts	*4 153*	-	-	-	-	-	-	*4 153*
Total	**169 663**	**353 701**	**115 483**	**103 440**	**166 224**	**11 527**	**1 117 411**	**2 037 449**
Off-balance sheet items								
Financial guarantees and unutilised commitments	480 598							

Derivatives 2017 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	271 992	408 083	70 685	148 840	320 954	78 313	1 298 867
Total derivatives outflow	270 267	402 839	69 877	142 727	311 855	77 088	1 274 653
Net	**1 725**	**5 244**	**808**	**6 113**	**9 099**	**1 225**	**24 214**

[1] SEK 72,611m (88,522) of the amount (excl. interest) has a residual maturity of less than one year.
[2] SEK 7,047m (15,402) of the amount (excl. interest) has a residual maturity of less than one year.
[3] SEK 480,492m (431,409) 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	2018	2017
Interest income		
Loans to credit institutions and central banks	6 478	5 181
Loans to the public	19 897	18 144
Interest-bearing securities eligible as collateral with central banks	386	188
Bonds and other interest-bearing securities	810	676
Derivative instruments	1 816	-949
Other interest income	1 165	1 212
Total	**30 552**	**24 452**
Interest income reported in net gains/losses on financial transactions	-193	224
Total interest income	**30 745**	**24 228**
of which interest income according to effective interest method and interest on derivatives for hedging	*29 915*	*23 792*
Leasing income	**724**	**538**
Interest expenses		
Due to credit institutions and central banks	-1 428	-1 332
Deposits and borrowing from the public	-1 775	-1 554
Issued securities	-12 827	-9 124
Derivative instruments	5 250	6 307
Subordinated liabilities	-1 542	-1 411
Other interest expenses	-2 214	-1 721
Total	**-14 536**	**-8 835**
Interest expenses reported in net gains/losses on financial transactions	-301	-395
Total interest expenses	**-14 235**	**-8 440**
of which interest expenses according to effective interest method and interest on derivatives for hedging	*-12 528*	*-7 086*
Net interest income	**17 234**	**16 326**
Depreciation according to plan for financial leases[1]	-651	-480
Total net interest income including depreciation according to plan for financial leases	16 583	15 846

[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	2018	2017
Dividends on shares	372	686
Dividends from associates	2	5
Dividends from Group companies	545	1 200
Group contributions received	10 104	11 814
Total	**11 023**	**13 705**

P5 Net fee and commission income

SEK m	2018	2017
Brokerage and other securities commissions	657	861
Mutual funds	1 227	1 955
Custody and other asset management fees	709	437
Advisory services	170	186
Payments	3 526	3 314
Loans and deposits	1 007	957
Guarantees	387	381
Other	523	504
Total fee and commission income	**8 206**	**8 595**
Securities	-303	-462
Payments	-1 626	-1 489
Other	-59	-52
Total fee and commission expenses	**-1 988**	**-2 003**
Net fee and commission income	**6 218**	**6 592**

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	2018	2017
Amortised cost	200	163
of which loans	*200*	*163*
of which interest-bearing securities	*0*	
of which issued securities	*0*	*0*
Fair value through other comprehensive income	0	
of which expected credit losses	*-1*	
Financial instruments available for sale (IAS 39)		8
Fair value through profit or loss, fair value option	-129	
of which interest-bearing securities	*-129*	
Other financial instruments at fair value through profit/loss (IAS 39)		-554
of which interest-bearing securities		*-524*
of which loans		*-30*
Fair value through profit or loss, mandatory including FX effects	991	
Trading, derivatives, FX effects, etc. (IAS 39)		1 757
Hedge accounting	-42	-35
of which net gains/losses on fair value hedges	*-3*	*-8*
of which cash flow hedge ineffectiveness	*-39*	*-27*
Total	**1 020**	**1 339**

P7 Other operating income

SEK m	2018	2017
Rental income	24	22
Other operating income	2 781	1 668
Total	**2 805**	**1 690**

P8 Staff costs

SEK m	2018	2017
Salaries and fees	-7 968	-7 734
Social security costs	-1 900	-1 861
Pension costs[1]	-1 236	-369
Provision to profit-sharing foundation	-794	-727
Other staff costs	-357	-247
Total	**-12 255**	**-10 938**

[1] Information about pension costs is presented in note P38.

Salaries and fees SEK m	2018	2017
Officers in an executive position[2], 23 persons (23)	-95	-93
Others	-7 873	-7 641
Total	**-7 968**	**-7 734**

[2] Executive Directors and Board members.

Gender distribution	2018		2017	
%	Men	Women	Men	Women
Board	64	36	55	45
Executive Directors	62	38	64	36

Average number of employees	2018	Men	Women	2017	Men	Women
Sweden	6 803	3 258	3 545	6 519	3 132	3 387
UK	1 998	1 160	838	2 021	1 184	837
Norway	762	407	355	738	398	340
Denmark	654	325	329	644	327	317
Finland	576	248	328	573	239	334
The Netherlands	271	178	93	248	165	83
USA	59	39	20	59	39	20
China	75	28	47	71	27	44
Luxembourg	52	30	22	49	30	19
Singapore	33	11	22	36	9	27
Germany	42	21	21	42	21	21
Poland	36	14	22	38	13	25
Other countries	44	18	26	49	16	33
Total	**11 405**	**5 737**	**5 668**	**11 087**	**5 600**	**5 487**

Note G8 provides information about the principles for remuneration to executive officers in the parent company.

P9 Other administrative expenses

SEK m	2018	2017
Property and premises	-1 425	-1 379
External IT costs	-2 121	-1 874
Communication	-311	-285
Travel and marketing	-259	-271
Purchased services	-1 536	-1 258
Supplies	-163	-163
Other administrative expenses	-517	-472
Total	**-6 332**	**-5 702**
of which expenses for operating leases		
Minimum lease fee	*-995*	*-638*
Variable fee	*-80*	*-408*
Total	**-1 075**	**-1 046**

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	2018	2017
Within 1 year	-898	-941
Between 1 and 5 years	-2 872	-2 900
Over 5 years	-3 587	-4 800
Total	**-7 357**	**-8 641**

Remuneration to auditors and audit companies	Ernst & Young AB		PricewaterhouseCoopers AB		KPMG
SEK m	2018	2017	2018	2017	2017
Audit assignment	-13	-11	-4	-5	-2
Audit operations outside the audit assignment	-2	0	-	-	0
Tax advice	-	-	-	-1	
Other services	-	-	-	-	

P10 Credit losses

SEK m	2018
Expected credit losses on balance sheet items	
The year's provision Stage 3	-1 058
Reversal of Stage 3 provisions to Stage 1 or Stage 2	246
Total expected credit losses in Stage 3	**-812**
The year's net provision Stage 2	85
The year's net provision Stage 1	58
Total expected credit losses in Stage 1 and Stage 2	**143**
Total expected credit losses on balance sheet items	**-669**
Expected credit losses on off-balance sheet items	
The year's net provision Stage 3	0
The year's net provision Stage 2	26
The year's net provision Stage 1	25
Total expected credit losses on off-balance sheet items	**51**
Write-offs	
Actual credit losses for the year[1]	-2 985
Utilised share of previous provisions in Stage 3	2 667
Total write-offs	**-318**
Recoveries	101
Net credit losses	**-835**
of which loans to the public	*-833*

[1] Of the year's actual credit losses, SEK 376m is subject to enforcement activities.

P10 Cont.

(IAS 39) SEK m	2017
Specific provision for individually assessed loans	
The year's provision	-1 788
Reversal of previous provisions	209
Total	**-1 579**
Collective provision	
The year's net provision for individually assessed loans	-119
The year's net provision for homogeneous loans	-
Total	**-119**
Off-balance sheet items	
Losses on off-balance sheet items	-12
Reversal of previous losses on off-balance sheet items	14
Change in collective provision for off-balance sheet items	-27
Total	**-25**
Write-offs	
Actual credit losses for the year	-1 185
Utilised share of previous provisions	1 091
Recoveries	132
Total	**38**
Net credit losses	**-1 685**

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 738m.

Key figures, credit losses Loans to the public	2018
Credit loss ratio, acc., %	0.10
Total reserve ratio, %	0.48
Reserve ratio Stage 1, %	0.03
Reserve ratio Stage 2, %	1.20
Reserve ratio Stage 3, %	45.42
Proportion of loans in Stage 3, %	0.48

P10 Cont.

Impaired loans etc. (IAS 39) SEK m	2017
Impaired loans	7 526
Specific provisions for individually assessed loans	-4 499
Provisions for collectively assessed homogeneous groups of loans with limited value	-
Collective provisions for individually assessed loans	-442
Net impaired loans	**2 585**
Total impaired loans reserve ratio, %	65.7
Proportion of impaired loans, %	0.18
Impaired loans reserve ratio excl. collective provisions, %	59.8
Loans past due >60 days, which are not impaired	728
Impaired loans reclassified as normal loans during the year	13

CHANGE ANALYSIS

Change in provision for expected credit losses, balance sheet items that are subject to impairment testing 2018

SEK m	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	-258	-519	-4 499	-5 276
Derecognised assets	74	136	264	474
Write-offs	0	25	2 642	2 667
Remeasurements due to changes in credit risk	-62	-579	-29	-670
Changes due to update in the methodology for estimation	29	156	0	185
Foreign exchange effect, etc.	-4	-20	-35	-59
Purchased or originated assets	-31	-30	-11	-72
Transfer to Stage 1	-8	21	0	13
Transfer to Stage 2	51	-126	1	-74
Transfer to Stage 3	56	597	-805	-152
Provision at end of year	**-153**	**-339**	**-2 472**	**-2 964**

Change in provision for expected credit losses, loans to the public 2018

SEK m	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	-254	-516	-4 499	-5 269
Derecognised assets	73	135	264	472
Write-offs	0	25	2 642	2 667
Remeasurements due to changes in credit risk	-59	-577	-29	-665
Changes due to update in the methodology for estimation	28	155	0	183
Foreign exchange effect, etc.	-3	-20	-35	-58
Purchased or originated assets	-29	-29	-11	-69
Transfer to Stage 1	-8	20	0	12
Transfer to Stage 2	47	-121	1	-73
Transfer to Stage 3	56	597	-805	-152
Provision at end of year	**-149**	**-331**	**-2 472**	**-2 952**

Change in provision for expected credit losses, off-balance sheet items that are subject to impairment testing 2018

SEK m	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	-67	-71	0	-138
Derecognised assets	9	13	0	22
Write-offs	-	-	-	-
Remeasurements due to changes in credit risk	6	-20	-	-14
Changes due to update in the methodology for estimation	18	23	-	41
Foreign exchange effect, etc.	-1	-1	-	-2
Purchased or originated assets	-9	-1	-	-10
Transfer to Stage 1	-3	7	-	4
Transfer to Stage 2	7	-20	-	-13
Transfer to Stage 3[1]	4	27	-	31
Provision at end of year	**-36**	**-43**	**-**	**-79**

[1] Contingent liabilities and obligations 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.

The calculation material has been supplemented during 2018, which has affected the calculated results, with these effects recognised under “Changes due to update in the methodology for estimation”.

No material updates in the methodology for estimation have been implemented during the period. The anticipated effects of changes planned in the methodology for estimation during 2019 have been taken into account in the provision during the period, through the application of a model-based manual adjustment of the provision for corporate exposures in Stage 1 and Stage 2. Until such time as the change is implemented, the effect is recognised under “Remeasurements due to changes in credit risk” together with other adjustments. The explanatory items are identified at customer level by lender and country.

P10 Cont.

Change in provision for probable credit losses 2017 (IAS 39)

SEK m	Provision for individually assessed loans	Collective provision for individually assessed loans	Provision for collectively assessed homogeneous loans	Total provision for probable credit losses
Provision at beginning of year	-4 107	-328	-	-4 435
The year's provision	-1 788	-119	-	-1 907
Reversal of previous provisions	209	-	-	209
Utilised for actual credit losses	1 091	-	-	1 091
Foreign exchange effect, etc.	96	5	-	101
Provision at end of year	**-4 499**	**-442**	**-**	**-4 941**

Change in gross volume, balance sheet items that are subject to impairment testing 2018

SEK m	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	1 667 693	23 611	8 627	1 699 931
Derecognised assets	-380 230	-10 617	-1 304	-392 151
Write-offs	-11	-37	-2 892	-2 940
Remeasurements due to changes in credit risk	246 418	6 354	-897	251 875
Changes due to update in the methodology for estimation	-	-	-	-
Foreign exchange effect, etc.	27 867	670	89	28 626
Purchased or originated assets	116 989	3 750	58	120 797
Transfer to Stage 1	14 704	-14 517	-187	-
Transfer to Stage 2	-20 719	21 056	-337	-
Transfer to Stage 3	-369	-1 917	2 286	-
Volume at end of year	**1 672 342**	**28 353**	**5 443**	**1 706 138**

Change in gross volume, loans to the public 2018

SEK m	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	768 640	23 483	8 486	800 609
Derecognised assets	-281 423	-10 567	-1 304	-293 294
Write-offs	-11	-37	-2 892	-2 940
Remeasurements due to changes in credit risk	-833	6 085	-753	4 499
Changes due to update in the methodology for estimation	-	-	-	-
Foreign exchange effect, etc.	10 604	658	89	11 351
Purchased or originated assets	90 684	3 688	54	94 426
Transfer to Stage 1	14 424	-14 238	-186	-
Transfer to Stage 2	-20 464	20 801	-337	-
Transfer to Stage 3	-369	-1 917	2 286	-
Volume at end of year	**581 252**	**27 956**	**5 443**	**614 651**

Change in gross volume, off-balance sheet items that are subject to impairment testing 2018

SEK m	Stage 1	Stage 2	Stage 3	Total
Volume at beginning of year	468 905	7 752	936	477 593
Derecognised assets	-78 738	-3 167	-19	-81 924
Write-offs	0	0	-45	-45
Remeasurements due to changes in credit risk	24 220	5 558	-571	29 207
Changes due to update in the methodology for estimation	-	-	-	-
Foreign exchange effect, etc.	4 783	396	12	5 191
Purchased or originated assets	40 319	515	1	40 835
Transfer to Stage 1	13 312	-13 294	-18	-
Transfer to Stage 2	-9 631	9 651	-20	-
Transfer to Stage 3	-42	-107	149	-
Volume at end of year	**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, macro scenarios

The calculation of expected credit losses pursuant to IFRS 9 applies forward-looking information in the form of macro scenarios. 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 70%, while the two alternative scenarios, reflecting an upturn and downturn in the economy, respectively, are each assigned a weighting of 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 2018.

Macro factors	Minimum			Average			Maximum		
	Downturn	Base case	Upturn	Downturn	Base case	Upturn	Downturn	Base case	Upturn
GDP growth									
Sweden	-0.40	1.60	1.70	1.89	2.00	2.11	2.50	2.20	3.20
Norway	0.10	1.50	1.20	1.60	1.69	1.81	2.21	2.40	3.30
Denmark	-0.90	0.70	1.10	1.39	1.48	1.59	1.81	1.81	2.50
Finland	-0.70	1.20	1.10	1.56	1.66	1.77	1.95	1.95	3.10
The Netherlands and the rest of Europe	-0.40	1.30	1.00	1.20	1.32	1.42	1.70	1.63	2.80
USA	0.80	1.30	1.80	1.95	1.98	2.02	2.50	2.35	2.44
Other countries	2.90	3.00	3.00	3.10	3.13	3.15	3.50	3.52	3.61
Unemployment rate									
Sweden	6.30	6.30	5.90	6.80	6.66	6.58	7.70	6.70	6.70
Norway	3.50	3.40	2.80	3.61	3.50	3.39	4.30	3.53	3.53
Denmark	4.50	4.50	4.30	5.60	5.44	5.31	6.70	5.50	5.50
Finland	6.90	6.90	6.20	7.09	6.93	6.82	8.35	7.23	7.23
The Netherlands and the rest of Europe	7.80	7.80	7.10	8.02	7.85	7.72	9.50	8.20	7.93
USA	3.70	3.70	3.70	4.65	4.61	4.57	5.60	5.30	5.00
Other countries	5.59	5.59	5.59	6.01	5.99	5.97	6.35	6.10	6.00
Policy interest rate									
Sweden	0.00	0.21	0.21	2.55	2.72	2.82	3.30	3.30	3.30
Norway	0.50	1.21	1.21	2.48	2.67	2.78	3.10	3.10	3.10
Denmark	0.00	0.14	0.14	2.38	2.53	2.61	3.20	3.20	3.20
Finland	0.00	0.00	0.00	2.38	2.53	2.61	3.20	3.20	3.20
The Netherlands and the rest of Europe	0.00	0.00	0.00	2.38	2.53	2.61	3.20	3.20	3.20
USA	2.08	2.38	2.58	2.89	2.92	2.94	3.10	3.10	3.10
Other countries	3.00	3.09	3.09	3.74	3.75	3.76	4.10	4.10	4.10
Office property price growth									
Sweden	-8.72	-6.13	-9.55	-1.47	-1.43	-1.33	7.71	9.52	12.34
Norway	-9.49	-8.21	-9.28	-1.82	-1.70	-1.51	4.19	6.29	8.67
Denmark	-9.21	-7.55	-6.79	-2.24	-2.05	-1.84	3.13	4.22	5.33
Finland	-7.89	-6.27	-5.73	-1.06	-0.98	-0.86	7.99	5.14	6.23
The Netherlands and the rest of Europe	-5.95	-3.61	-6.51	0.64	0.48	0.49	2.73	4.07	5.85
USA	1.30	-3.98	1.30	1.98	0.60	1.98	2.35	2.00	2.35
Other countries	-0.40	1.30	1.00	1.20	1.32	1.42	1.70	1.63	2.80
Residential property price growth									
Sweden	-2.63	-0.72	-0.14	2.00	2.10	2.18	4.64	2.99	3.55
Norway	-1.70	1.00	1.73	2.60	2.68	2.76	3.80	3.00	3.00
Denmark	-1.90	1.50	1.00	2.28	2.37	2.47	2.70	2.60	4.20
Finland	-1.50	0.75	0.80	2.10	2.18	2.25	2.70	2.50	2.80
The Netherlands and the rest of Europe	0.20	1.50	1.60	2.28	2.37	2.45	2.50	3.10	4.00
USA	0.20	1.50	1.60	2.28	2.37	2.45	2.50	3.10	4.00
Other countries	0.20	1.50	1.60	2.28	2.37	2.45	2.50	3.10	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 2018, which arises when a probability of 100% is assigned to the negative and positive scenarios, respectively.

%	Increase in the provision in a negative scenario, expressed as a percentage	Decrease in the provision in a positive scenario, expressed as a percentage
Sweden	3.55	-3.05
Norway	1.78	-1.97
Denmark	1.40	-1.45
Finland	2.72	-2.54
The Netherlands	0.14	-0.13
USA	0.52	-0.51
Other	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 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".

Threshold value	Change in the total provision in Stage 1 and Stage 2, %
2	3.53
2.5	0.00
3	-3.31

CREDIT EXPOSURE BY PD RANGE

Balance sheet items by PD range 2018

	Gross volume, SEK m		
PD value[1]	Stage 1	Stage 2	Stage 3
0.00 to <0.15	1 431 555	5 612	-
0.15 to <0.25	99 433	2 032	-
0.25 to <0.50	65 134	2 129	-
0.50 to <0.75	25 118	968	-
0.75 to <2.50	42 614	6 580	-
2.50 to <10.00	7 795	8 419	-
10.00 to <100	693	2 613	-
100 (default)	-	-	5 443
Total	**1 672 342**	**28 353**	**5 443**

Loans to the public by PD range 2018

	Gross volume, SEK m		
PD value[1]	Stage 1	Stage 2	Stage 3
0.00 to <0.15	497 561	5 534	-
0.15 to <0.25	34 560	2 004	-
0.25 to <0.50	22 639	2 099	-
0.50 to <0.75	8 730	954	-
0.75 to <2.50	14 812	6 488	-
2.50 to <10.00	2 709	8 301	-
10.00 to <100	241	2 576	-
100 (default)	-	-	5 443
Total	**581 252**	**27 956**	**5 443**

Off-balance sheet items by PD range 2018

	Gross volume, SEK m		
PD value[1]	Stage 1	Stage 2	Stage 3
0.00 to <0.15	400 362	3 209	-
0.15 to <0.25	24 240	430	-
0.25 to <0.50	16 858	458	-
0.50 to <0.75	7 667	143	-
0.75 to <2.50	12 477	1 088	-
2.50 to <10.00	1 476	1 432	-
10.00 to <100	48	544	-
100 (default)	-	-	425
Total	**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	2018	2017
Property	46	96
Movable property	0	-
Shares	0	-
Carrying amount	**46**	**96**

P11 Appropriations

SEK m	2018	2017
Change in accelerated depreciation, machinery, equipment and lease assets	210	-
Change in accelerated depreciation, goodwill on the acquisition of net assets	122	115
Total	**332**	**115**

P12 Loans to credit institutions

SEK m	2018	2017
Loans in Swedish kronor		
Banks	12 047	8 493
Other credit institutions	528 146	468 582
Total	**540 193**	**477 075**
Loans in foreign currency		
Banks	34 861	44 940
Other credit institutions	266 042	142 003
Total	**300 903**	**186 943**
Provision for expected credit losses	-11	
Provision for probable credit losses (IAS 39)		-
Total loans to credit institutions	**841 085**	**664 018**
of which accrued interest income[1]	*1 072*	
of which reverse repos	*3 286*	*4 911*
of which subordinated	*21 719*	*21 718*

[1] As of 2018, the presentation of accrued interest has been changed, see "Changed presentation of accrued interest, Parent company".

Average volumes SEK m	2018	2017
Loans to credit institutions in Swedish kronor	531 180	508 434
Loans to credit institutions in foreign currency	223 313	176 595
Total	**754 493**	**685 029**
of which reverse repos	*7 497*	*9 890*

P13 Loans to the public

SEK m	2018	2017
Loans in Swedish kronor		
Households	34 943	38 354
Companies	165 370	161 268
National Debt Office	120	1 831
Total	**200 433**	**201 453**
Loans in foreign currency		
Households	105 324	163 361
Companies	308 894	435 818
National Debt Office	-	-
Total	**414 218**	**599 179**
Provision for expected credit losses	-2 952	
Provision for probable credit losses (IAS 39)		-4 941
Total loans to the public	**611 699**	**795 691**
of which accrued interest income[1]	*1 038*	
of which reverse repos	*9 050*	*6 607*
of which subordinated	*1 221*	*1 197*

[1] As of 2018, the presentation of accrued interest has been changed, see "Changed presentation of accrued interest, Parent company".

Average volumes, excl. National Debt Office SEK m	2018	2017
Loans to the public in Swedish kronor	208 299	209 972
Loans to the public in foreign currency	633 910	579 857
Total	**842 209**	**789 829**
of which reverse repos	*13 648*	*12 295*

P14 Interest-bearing securities

	2018			2017		
SEK m	Carrying amount	Fair value	Nominal amount	Carrying amount	Fair value	Nominal amount
Interest-bearing securities eligible as collateral with central banks	118 918	118 918	117 680	125 887	125 887	124 379
of which accrued interest income[1]	*314*					
Bonds and other interest-bearing securities	50 993	50 993	45 324	46 220	46 220	43 857
of which accrued interest income[1]	*203*					
Total	**169 911**	**169 911**	**163 004**	**172 107**	**172 107**	**168 236**
of which subordinated	*20*	*20*		*30*	*30*	

[1] As of 2018, the presentation of accrued interest has been changed, see "Changed presentation of accrued interest, Parent company".

Interest-bearing securities broken down by issuer	2018			2017		
SEK m	Carrying amount	Fair value	Nominal amount	Carrying amount	Fair value	Nominal amount
Government	118 918	118 918	117 680	125 887	125 887	124 379
Credit institutions	12 972	12 972	12 265	18 533	18 533	17 811
Mortgage institutions	32 981	32 981	28 979	26 460	26 460	24 799
Other	5 040	5 040	4 080	1 227	1 227	1 247
Total	**169 911**	**169 911**	**163 004**	**172 107**	**172 107**	**168 236**

Interest-bearing securities that are subject to impairment testing in accordance with IFRS 9 SEK m	2018
Interest-bearing securities eligible as collateral with central banks	
Fair value through other comprehensive income	405
Amortised cost	819
Total gross volumes	**1 224**
Provision for expected credit losses on instruments measured at amortised cost	0
Total carrying amount	**1 224**
Provision for expected credit losses recognised in the fair value reserve in equity	0
Bonds and other interest-bearing securities	
Fair value through other comprehensive income	5 373
Total carrying amount	**5 373**
Provision for expected credit losses recognised in the fair value reserve in equity	-1

Average volumes SEK m	2018	2017
Interest-bearing securities	206 191	181 917

P15 Shares

SEK m	2018	2017
Fair value through profit or loss, mandatory	11 316	
Held for trading (IAS 39)		11 903
Fair value through other comprehensive income	1 840	
Available for sale (IAS 39)		1 170
Total shares	**13 156**	**13 073**

Holdings at fair value through other comprehensive income/Available for sale (IAS 39) SEK m	2018	2017
Asiakastieto Group Oy	545	-
BEC	432	393
Euroclear plc	381	349
Visa Inc	207	18
Visa Sweden Ekonomisk Förening	-	147
Other holdings	275	263
Total	**1 840**	**1 170**

Handelsbanken classifies the shareholdings above as measured at fair value through other comprehensive income, as these holdings are not held for trading. In 2018, Handelsbanken received dividends only on shares still held at the end of the reporting period. These dividends total SEK 218m and are recognised in the income statement under Other dividend income. During the year, the Bank has divested its holdings in DLR Kredit, Swift and Chaps Clearing Company Ltd, amounting to SEK 5m. 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 during 2018 on equity instruments measured at fair value through other comprehensive income, refer to the Statement of changes in equity for the Group. Prior to 1 January 2018, these holdings were recognised as available-for-sale financial assets, see notes G1 and P34.

P16 Shares in subsidiaries and investments in associates

Shares in subsidiaries and investments in associates SEK m	2018	2017
Associates, unlisted	213	193
Subsidiaries, unlisted	72 054	47 109
Total	**72 267**	**47 302**

Associates	Corporate identity number	Domicile	Number of shares	Ownership share, %	Carrying amount, SEK m 2018	Carrying amount, SEK m 2017
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	
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
Upplysningscentralen UC AB	556137-5113	Stockholm				1
USE Intressenter AB	559161-9464	Stockholm	2 448	24.48	0	
Total					**213**	**193**

Subsidiaries	Corporate identity number	Domicile	Number of shares	Ownership share, %	Carrying amount, SEK m 2018	Carrying amount, SEK m 2017
Handelsbanken Finans AB[1]	556053-0841	Stockholm	1 550 000	100	11 672	11 672
Kredit-Inkasso AB[2]	556069-3185	Stockholm				
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	
Heartwood Wealth Management Limited[3]	04132340	London	1 319 206	100		489
Optimix Vermogensbeheer N.V.	33194359	Amsterdam	10 209	100	655	629
Add Value Fund Management BV	19196768	Amsterdam		80		
Other subsidiaries						
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	104	104
Handelsbanken Markets Securities, Inc.[1]	11-3257438	New York	1 000	100	82	37
Handelsbanken Rahoitus Oy[4]	0112308-8	Helsinki	37 026 571	100	1 276	
Handelsbanken Skadeförsäkrings AB	516401-6767	Stockholm	1 500	100	31	31
Lokalbolig A/S	78488018	Hillerød	540 000	57.45	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
Total					**72 054**	**47 109**

The list of Group companies contains directly owned subsidiaries and large subsidiaries of these companies.
[1] Credit institution.
[2] Company sold during 2018.
[3] Direct subsidiaries of Handelsbanken AB until December 2018.
[4] Subsidiary of Handelsbanken Finans AB until May 2018.

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	2018	2017	2018	2017	2018	2017
Derivatives held for trading									
Interest rate-related contracts									
Options	10 507	33 376	2 805	46 688	60 159	160	382	225	436
FRA/futures	1 196 540	267 593	0	1 464 133	1 426 258	85	179	462	72
Swaps	549 218	1 483 603	438 610	2 471 431	2 452 914	26 689	30 782	27 700	31 584
Currency-related contracts									
Options	41 762	1 141	33	42 936	81 944	238	346	344	410
Futures	100 400	6 651	1 662	108 713	97 015	1 188	1 087	792	1 004
Swaps	566 010	207 310	41 774	815 094	715 214	18 046	16 541	16 565	17 539
Equity-related contracts									
Options	8 379	4 666	94	13 139	25 560	534	1 541	779	1 800
Futures	1 217	0	0	1 217	1 141	5	1	0	5
Swaps	9 817	5 516	52	15 385	14 891	742	122	587	465
Commodity-related contracts									
Options	1 637	701	39	2 377	386	178	8	324	201
Futures	13 715	3 404	0	17 119	13 014	671	557	1 016	537
Credit-related contracts									
Swaps	485	4 258	1 355	6 098	8 183	252	288	246	115
Total	**2 499 687**	**2 018 219**	**486 424**	**5 004 330**	**4 896 679**	**48 788**	**51 834**	**49 040**	**54 168**
Derivatives for fair value hedges									
Interest rate-related contracts									
Swaps	15 141	56 946	2 323	74 410	73 506	25	43	241	125
Total	**15 141**	**56 946**	**2 323**	**74 410**	**73 506**	**25**	**43**	**241**	**125**
Derivatives for cash flow hedges									
Interest rate-related contracts									
Swaps	72 501	263 307	28 076	363 884	306 156	5 861	6 323	2 360	2 193
Currency-related contracts									
Swaps	63 178	176 848	14 168	254 194	362 660	25 485	22 389	2 405	5 196
Total	**135 679**	**440 155**	**42 244**	**618 078**	**668 816**	**31 346**	**28 712**	**4 765**	**7 389**
Total derivative instruments	**2 650 507**	**2 473 515**	**530 991**	**5 696 818**	**5 639 001**	**80 159**	**80 589**	**54 046**	**61 682**
of which exchange traded derivatives				*1 060 603*	*1 069 100*	*745*	*492*	*1 127*	*1 075*
of which OTC derivatives settled by CCP				*2 335 104*	*2 055 920*	*17 488*	*14 717*	*14 121*	*15 574*
of which OTC derivatives not settled by CCP				*2 301 111*	*2 513 981*	*61 926*	*65 380*	*38 798*	*45 033*
Amounts offset				-2 241 073	-2 071 229	-21 050	-20 822	-17 820	-19 911
Net amount				**3 455 745**	**3 567 772**	**59 109**	**59 767**	**36 226**	**41 771**
Currency breakdown of market values									
SEK						-111 747	-97 301	40 309	37 883
USD						296 695	113 350	-48 975	-167 553
EUR						156 637	208 058	63 778	113 574
Others						-261 426	-143 518	-1 066	77 778
Total						**80 159**	**80 589**	**54 046**	**61 682**

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 not yet recognised day 1 profit amounted to SEK 602m (638) at year-end.

P18 Hedge accounting

Derivatives which constitute hedging instruments for interest rate and foreign exchange risk in cash flow hedges as at 31 December 2018

Risk category and type of hedge accounting SEK m	Up to 1 year	1–5 years	Over 5 years
Cash flow hedges			
Interest rate risk			
Interest rate swaps, fixed interest paid and variable interest received			
Nominal amount	9 829	67 520	14 160
Average fixed interest %	1.22	0.85	0.99
Interest rate swaps, variable interest paid and fixed interest received			
Nominal amount	62 672	195 787	13 916
Average fixed interest %	2.73	2.50	1.98
Foreign exchange risk			
Foreign exchange derivatives, EUR/NOK			
Nominal amount	-	40 184	-
Average exchange rate EUR/NOK	-	0.1172	-
Foreign exchange derivatives, USD/GBP			
Nominal amount	6 012	29 252	879
Average exchange rate USD/GBP	1.6033	1.3913	1.3157
Foreign exchange derivatives, USD/NOK			
Nominal amount	16 220	43 356	368
Average exchange rate USD/NOK	0.1561	0.1289	0.1326
Foreign exchange derivatives, USD/SEK			
Nominal amount	20 868	15 952	-
Average exchange rate USD/SEK	0.1135	0.1201	-
Foreign exchange derivatives, AUD/USD			
Nominal amount	4 740	8 949	796
Average exchange rate AUD/USD	1.0819	1.3823	1.3928
Foreign exchange derivatives, other currency pair			
Nominal amount	15 338	39 155	12 125
Total	**135 679**	**440 155**	**42 244**

Amounts attributable to hedging instruments and ineffectiveness in the hedge accounting as at 31 December 2018

Risk category and type of hedge accounting		Carrying amount hedging instrument							
SEK m	Nominal amount hedging instrument	Assets	Liabilities	Balance sheet item in which the hedging instrument is included	Change in fair value used to calculate ineffectiveness for 2018	Change in the value of the hedging instrument recognised in other comprehensive income	Ineffectiveness recognised in the income statement	Income statement items which include the ineffectiveness	Reclassified from the hedge reserve to the income statement
Cash flow hedges									
Interest rate risk									
Interest rate swaps, fixed interest paid and variable interest received	91 509	579	792	Derivatives	-21	-21	-	Net gains/losses on financial transactions	-
Interest rate swaps, variable interest paid and fixed interest received	272 375	5 282	1 568	Derivatives	-421	-421	-	Net gains/losses on financial transactions	-
Foreign exchange risk[1]									
Foreign exchange derivatives, EUR/DKK	3 797	4	12	Derivatives	45	45	-	Net gains/losses on financial transactions	-
Foreign exchange derivatives, EUR/GBP	12 331	1 333	-	Derivatives	75	75	-	Net gains/losses on financial transactions	-
Foreign exchange derivatives, EUR/NOK	40 184	4 625	-	Derivatives	-53	-44	-9	Net gains/losses on financial transactions	-
Foreign exchange derivatives, USD/GBP	36 143	4 007	-	Derivatives	240	246	-6	Net gains/losses on financial transactions	-
Foreign exchange derivatives, USD/NOK	59 944	8 922	-	Derivatives	320	320	-	Net gains/losses on financial transactions	-
Foreign exchange derivatives, USD/SEK	36 820	2 104	14	Derivatives	115	115	-	Net gains/losses on financial transactions	-
Foreign exchange derivatives, AUD/USD	14 485	-	1 548	Derivatives	-22	-22	-	Net gains/losses on financial transactions	-
Foreign exchange derivatives, other currency pairs	50 490	4 490	831	Derivatives	512	536	-24	Net gains/losses on financial transactions	-
Total	**618 078**	**31 346**	**4 765**		**790**	**829**	**-39**		**-**

[1] When analyses are conducted 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.

P18 Cont.

Hedged items as at 31 December 2018

Risk category and type of hedge accounting SEK m	Change in fair value used to calculate ineffectiveness for 2018	Hedge reserve	Amounts remaining in the hedge reserve from hedging relationships for which hedge accounting is no longer applied
Cash flow hedges			
Interest rate risk			
Issued variable-interest securities	21	-377	-
Variable-interest loans to the public	421	2 171	-
Foreign exchange risk			
Securities issued in EUR and internal loans in DKK, GBP and NOK	-276	-644	-
Securities issued in USD and internal loans in GBP and NOK	-700	181	-
Securities issued in AUD	-5	-9	-
Securities issued and internal loans in other currencies	-290	-605	-
Total	**-829**	**717**	**-**

Derivatives which constitute hedging instruments for interest rate risk in fair value hedges as at 31 December 2018

Risk category and type of hedge accounting SEK m	Up to 1 year	1–5 years	Over 5 years
Fair value hedges			
Interest rate risk			
Interest rate swaps, fixed interest paid and variable interest received			
Nominal amount	15 141	56 946	2 323
Average fixed interest %	-0.22	0.12	0.62

Derivatives which constitute hedging instruments and ineffectiveness in the hedge accounting as at 31 December 2018

Risk category and type of hedge accounting		Carrying amount hedging instrument					
SEK m	Nominal amount hedging instrument	Assets	Liabilities	Balance sheet item in which the hedging instrument is included	Change in fair value used to calculate ineffectiveness for 2018	Ineffectiveness recognised in the income statement	Income statement items which include the ineffectiveness
Fair value hedges							
Interest rate risk							
Interest rate swaps, fixed interest paid and variable interest received	74 410	25	241	Derivatives	-131	-4	Net gains/losses on financial transactions

Hedged items as at 31 December 2018

Risk category and type of hedge accounting	Carrying amount hedged item		Accumulated fair value adjustment included in the carrying amount of the hedged item				
SEK m	Assets	Liabilities	Assets	Liabilities	Balance sheet item in which the hedged item is included	Change in value used to calculate ineffectiveness for 2018	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
Fair value hedges							
Interest rate risk							
Fixed-interest loans to the public	74 652		191		Loans to the public	127	-

P19 Offsetting of financial instruments

2018 SEK m	Derivatives	Repurchase agreements, securities lending	Total
Financial fixed 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**

2017 SEK m	Derivatives	Repurchase agreements, securities lending	Total
Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements			
Gross amount	80 589	22 178	102 767
Amounts offset	-20 822	-9 309	-30 131
Carrying amount on the balance sheet	**59 767**	**12 869**	**72 636**
Related amounts not offset on the balance sheet			
Financial instruments, netting arrangements	-16 838	-	-16 838
Financial assets received as collateral	-30 023	-12 869	-42 892
Total amounts not offset on the balance sheet	**-46 861**	**-12 869**	**-59 730**
Net amount	**12 906**	**-**	**12 906**
Financial liabilities subject to offsetting, enforceable master netting arrangements and similiar agreements			
Gross amount	61 682	9 435	71 117
Amounts offset	-19 911	-9 309	-29 220
Carrying amount on the balance sheet	**41 771**	**126**	**41 897**
Related amounts not offset on the balance sheet			
Financial instruments, netting arrangements	-16 838	-	-16 838
Financial assets pledged as collateral	-2 974	-126	-3 100
Total amounts not offset on the balance sheet	**-19 812**	**-126**	**-19 938**
Net amount	**21 959**	**-**	**21 959**

P20 Intangible assets

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**

In 2018, development costs amounting to SEK 1,609 m (1,503) have been recognised as expenses.

2017 SEK m	Acquisition assets	Internally developed software	Total 2017
Cost of acquisition at beginning of year	2 281	2 231	4 512
Cost of acquisition of additional intangible assets	-	645	645
Disposals and retirements	-	-56	-56
Foreign exchange effect	17	-1	16
Cost of acquisition at end of year	**2 298**	**2 819**	**5 117**
Accumulated amortisation and impairment at beginning of year	-1 779	-465	-2 244
Disposals and retirements	-	56	56
Amortisation for the year according to plan	-121	-177	-298
Impairment for the year	-	-9	-9
Foreign exchange effect	-12	0	-12
Accumulated amortisation and impairment at end of year	**-1 912**	**-595**	**-2 507**
Carrying amount	**386**	**2 224**	**2 610**

P21 Property, equipment and lease assets

Property, equipment and lease assets SEK m	2018	2017
Equipment	545	765
Property	140	130
Lease assets	4 704	1 831
Property repossessed for protection of claims	45	96
Total	**5 434**	**2 822**

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 45m (96). Unrealised value changes on these properties had an impact of SEK 0m (-1) 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 43m (96) 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 (1) 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 (-1). The year's sale of properties which are regularly measured at fair value amounts to SEK 49m (246) of which SEK 1m (7) was classified as level 3 before the sale. The value of new properties added during the year is SEK 2m (2), with SEK 0m (0) of this classified as level 3.

Equipment SEK m	2018	2017
Cost of acquisition at beginning of year	2 032	1 896
Cost of additional acquisition for the year	342	388
Changes due to business combination during the year	-531	0
Disposals and retirements	-275	-238
Foreign exchange effect	49	-14
Cost of acquisition at end of year	**1 617**	**2 032**
Accumulated depreciation and impairment at beginning of year	-1 267	-1 215
Accumulated depreciation due to business combinations during the year	270	0
Depreciation for the year according to plan	-316	-301
Disposals and retirements	272	230
Foreign exchange effect	-31	19
Accumulated depreciation and impairment at end of year	**-1 072**	**-1 267**
Carrying amount	**545**	**765**

P21 Cont.

Property SEK m	2018	2017
Cost of acquisition at beginning of year	221	210
New construction and conversion	17	11
Cost of acquisition at end of year	**238**	**221**
Accumulated depreciation and impairment at beginning of year	-91	-85
Depreciation for the year according to plan	-7	-6
Accumulated depreciation and impairment at end of year	**-98**	**-91**
Carrying amount	**140**	**130**

Lease assets SEK m	2018	2017
Cost of acquisition at beginning of year	3 276	3 289
Changes due to business transfer during the year	-64	-
Acquired through business combination during the year	4 628	104
Cost of additional acquisition for the year	1 283	648
Disposals and retirements	-841	-625
Foreign exchange effect	101	-140
Cost of acquisition at end of year	**8 383**	**3 276**
Accumulated depreciation and impairment at beginning of year	-1 445	-1 468
Accumulated depreciation due to business transfer during the year	44	-
Accumulated depreciation due to business combination during the year	-1 735	-58
Depreciation for the year according to plan	-1 166	-464
Impairments for the year	-10	0
Disposals and retirements	677	504
Foreign exchange effect	-44	41
Accumulated depreciation and impairment at end of year	**-3 679**	**-1 445**
Carrying amount	**4 704**	**1 831**

Distribution of future minimum lease payments by maturity SEK m	Within 1 yr	Between 1 and 5 yrs	Over 5 yrs	Total
2018				
Distribution of future minimum lease payments	1 236	3 109	595	**4 940**
2017				
Distribution of future minimum lease payments	209	1 424	574	**2 207**

Lease assets mainly consist of vehicles and machines. Lease assets are depreciated during the term of the lease agreement according to the annuity method. The variable part of the lease fee included in this year's profit is SEK 44m (44).

P22 Other assets

SEK m	2018	2017
Claims on investment banking settlements	10 451	4 007
Other	15 459	14 800
Total	**25 910**	**18 807**

P23 Prepaid expenses and accrued income

SEK m	2018	2017
Accrued interest[1]		2 867
Other accrued income	1 811	1 452
Prepaid expenses	665	566
Total	**2 476**	**4 885**

[1] As of 2018, the presentation of accrued interest has been changed, see "Changed presentation of accrued interest, Parent company".

P24 Due to credit institutions

SEK m	2018	2017
Due in Swedish kronor		
Banks	43 174	56 321
Other credit institutions	30 409	19 256
Total	**73 583**	**75 577**
Due in foreign currency		
Banks	140 403	111 944
Other credit institutions	47 749	6 301
Total	**188 152**	**118 245**
Total due to credit institutions	**261 735**	**193 822**
of which accrued interest expenses[1]	*212*	
of which repos	-	-

[1] As of 2018, the presentation of accrued interest has been changed, see “Changed presentation of accrued interest, Parent company”.

Average volumes SEK m	2018	2017
Due to credit institutions in Swedish kronor	78 728	138 874
Due to credit institutions in foreign currency	176 224	119 924
Total	**254 952**	**258 798**
of which repos	*237*	*321*

P25 Deposits and borrowing from the public

Deposits from the public SEK m	2018	2017
Deposits in Swedish kronor		
Households	351 450	323 066
Companies	229 046	222 451
National Debt Office	-	-
Total	**580 496**	**545 517**
Deposits in foreign currency		
Households	64 995	106 844
Companies	163 678	244 645
National Debt Office	-	-
Total	**228 673**	**351 489**
Total deposits from the public	**809 169**	**897 006**

Borrowing from the public SEK m	2018	2017
Borrowing in Swedish kronor	21 306	12 336
Borrowing in foreign currency	9 360	32 059
Total borrowing from the public	**30 666**	**44 395**
Total deposits and borrowing from the public	**839 835**	**941 401**
of which accrued interest expenses[1]	*767*	
of which repos	-	-

[1] As of 2018, the presentation of accrued interest has been changed, see “Changed presentation of accrued interest, Parent company”.

P25 Cont.

Average volumes SEK m	2018	2017
Deposits from the public		
Deposits from the public in Swedish kronor	568 313	522 219
Deposits from the public in foreign currency	385 349	355 294
Total	**953 662**	**877 513**
Borrowing from the public		
Borrowing from the public in Swedish kronor	31 863	26 414
Borrowing from the public in foreign currency	82 674	128 846
Total	**114 537**	**155 260**
of which repos	*12 239*	*7 889*

P26 Issued securities

	2018		2017	
SEK m	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Commercial paper				
Commercial paper in Swedish kronor	1 040	1 556	2 369	2 147
of which amortised cost	-	-	-	-
of which fair value through profit or loss	*1 040*	*1 556*		
of which for trading (IAS 39)			*2 369*	*2 147*
Commercial paper in foreign currency	426 314	426 284	411 420	411 088
of which amortised cost	*425 104*	*425 087*	*409 164*	*409 158*
of which fair value through profit or loss	*1 210*	*1 197*		
of which for trading (IAS 39)			*2 256*	*1 930*
Total	**427 354**	**427 840**	**413 789**	**413 235**
Bonds				
Bonds in Swedish kronor	11 107	10 688	15 752	15 791
of which amortised cost	*11 107*	*10 688*	*15 752*	*15 791*
Bonds in foreign currency	278 070	276 714	225 096	225 259
of which amortised cost	*278 070*	*276 714*	*225 096*	*225 259*
Total	**289 177**	**287 402**	**240 848**	**241 050**
Total issued securities	**716 531**	**715 242**	**654 637**	**654 285**
of which accrued interest expenses[1]	*2 250*			

[1] As of 2018, the presentation of accrued interest has been changed, see "Changed presentation of accrued interest, Parent company".

SEK m	2018	2017
Issued securities at beginning of year	654 637	648 977
Issued	938 857	1 061 752
Repurchased	-2 954	-4 356
Matured	-855 460	-1 022 230
Transferred	-54 838	
Foreign exchange effect, etc.	36 289	-29 506
Issued securities at end of year	**716 531**	**654 637**

Average volumes SEK m	2018	2017
Swedish kronor	15 296	19 996
Foreign currency	728 635	657 830
Total	**743 931**	**677 826**

P27 Short positions

SEK m	2018	2017
Short positions at fair value		
Equities	1 731	659
Interest-bearing securities	4 432	1 413
Total	**6 163**	**2 072**
of which accrued interest expenses[1]	*32*	

[1] As of 2018, the presentation of accrued interest has been changed, see “Changed presentation of accrued interest, Parent company”.

Average volumes SEK m	2018	2017
Swedish kronor	13 683	11 269
Foreign currency	530	256
Total	**14 213**	**11 525**

P28 Taxes

Deferred tax assets SEK m	2018	2017
Property and equipment	2	5
Hedging instruments	84	84
Other	199	194
Total	**285**	**283**

Deferred tax liabilities SEK m	2018	2017
Property and equipment	19	18
Hedging instruments	500	525
Other	9	39
Total	**528**	**582**
Net deferred tax liabilities	**243**	**299**

Change in deferred taxes 2018 SEK m	Opening balance	Recognised in income statement	Recognised in other compre-hensive income	Closing balance
Property and equipment	13	4	-	17
Hedging instruments	441	-10	-16	415
Other	-155	-34	-	-189
Total	**299**	**-40**	**-16**	**243**

Change in deferred taxes 2017 SEK m	Opening balance	Recognised in income statement	Recognised in other compre-hensive income	Closing balance
Property and equipment	5	8	-	13
Hedging instruments	762	-5	-316	441
Other	-126	-29	-	-155
Total	**641**	**-26**	**-316**	**299**

P28 Cont.

Tax expenses recognised in the income statement SEK m	2018	2017
Current tax		
Tax expense for the year	-4 029	-4 550
Adjustment of tax relating to prior years	-16	-138
Deferred tax		
Changes in temporary differences	40	26
Total	**-4 005**	**-4 662**
Tax at 22% of profits before tax	**-3 929**	**-4 477**
Difference	**-76**	**-185**
The difference is explained by the following items		
Non-deductible expenses	-59	-37
Non-deductible interest on subordinated loans	-310	-283
Non-taxable capital gains and dividends	346	340
Deviating tax rates in other countries	-93	-28
Other	40	-177
Total	**-76**	**-185**

P29 Provisions

SEK m	Provision for off-balance sheet items[1]	Other provisions[2]	Total 2018	Total 2017
Provisions at year-end 2017	95	51	146	
Effect of transition to IFRS 9	43		43	
Provisions at beginning of year	**138**	**51**	**189**	**429**
Provisions during the year		10	10	298
Utilised		-22	-22	-567
Written back		-9	-9	-14
Change of expected credit losses, net	-59		-59	
Provisions at end of year	**79**	**30**	**109**	**146**

[1] The provision for off-balance sheet items relates to expected credit losses, see notes P10 and P37.
[2] The amounts allocated for future settlement of the claims on the Bank are presented under Other provisions

P30 Other liabilities

SEK m	2018	2017
Liabilities on investment banking settlements	2 913	4 153
Other	9 131	8 593
Total	**12 044**	**12 746**

P31 Accrued expenses and deferred income

SEK m	2018	2017
Accrued interest expenses[1]		3 902
Other accrued expenses	1 670	1 903
Deferred income	585	1 110
Total	**2 255**	**6 915**

[1] As of 2018, the presentation of accrued interest has been changed, see "Changed presentation of accrued interest, Parent company".

P32 Subordinated liabilities

SEK m	2018	2017
Subordinated loans in Swedish kronor	8 691	8 350
Subordinated loans in foreign currency	42 394	24 546
Total	**51 085**	**32 896**
of which accrued interest expenses[1]	*1 193*	

[1] As of 2018, the presentation of accrued interest has been changed, see “Changed presentation of accrued interest, Parent company”.

Average volumes SEK m	2018	2017
Subordinated loans in Swedish kronor	8 758	8 177
Subordinated loans in foreign currency	35 428	24 637
Total	**44 186**	**32 814**

Specification, subordinated loans **Issuance/Maturity**	**Currency**	**Original nominal amount in each currency**	**Interest rate, %**	**Outstanding amount**
In Swedish kronor				
Swedish subordinated loans[1]		10 825		8 691
Total				**8 691**
In foreign currency				
2014/fixed-term[2]	EUR	1 500	2.656	15 772
2015/perpetual[3]	USD	1 200	5.250	11 171
2018/fixed-term[2]	EUR	750	1.250	7 746
2018/fixed-term[2]	EUR	750	1.630	7 705
Total				**42 394**
Total subordinated liabilities				**51 085**

[1] Swedish subordinated loans are individually less than 10% of the total subordinated liabilities. The total includes one perpetual subordinated loan at a floating rate. The loan is a subordinated convertible loan of nominally SEK 3.2bn issued to the Group’s employees on market terms. The loan does not have the status of regulatory capital but can be converted into Handelsbanken shares. The Bank has the right to demand conversion at any time, and the holder has the right to demand conversion between 1 May and 30 November 2019, at the adjusted conversion price of SEK 102.19. The initial conversion price has been adjusted for dividends and a split during the term of the loan. If the common equity tier 1 ratio for the Bank or calculated according to the consolidated situation falls below 7%, there will be automatic conversion. For information regarding other Swedish subordinated loans, see note G50.

[2] For further information about subordinated loans in EUR, see note G50.

[3] For further information about subordinated loans in USD, see note G50.

SEK m	2018	2017
Subordinated loans at beginning of year	32 896	33 400
Issued	15 498	2 994
Repurchased	0	-1
Matured	-	-2 989
Foreign exchange effect etc.	2 691	-508
Subordinated loans at end of year	**51 085**	**32 896**

P33 Untaxed reserves

SEK m	2018	2017
Accumulated accelerated depreciation, machinery, equipment and lease assets	627	318
Accumulated accelerated depreciation, goodwill on the acquisition of net assets	259	365
Total	**886**	**683**

P34 Classification of financial assets and liabilities

2018 SEK m	Fair value through profit or loss 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**	

2017 (IAS 39) SEK m	At fair value in income statement divided into Trading	 Other[1]	Derivatives identified as hedging instruments	Loans and receivables	Financial assets available for sale	Other financial liabilities	Total carrying amount	Fair value
Assets								
Cash and balances with central banks				226 314			226 314	226 314
Interest-bearing securities eligible as collateral with central banks	7 349	117 575			963		125 887	125 887
Loans to credit institutions				664 018			664 018	672 737
Loans to the public		377		795 314			795 691	796 728
Bonds and other interest-bearing securities	13 261	27 566			5 393		46 220	46 220
Shares	11 903				1 170		13 073	13 073
Assets where the customer bears the value change risk		4 951		54			5 005	5 005
Derivative instruments	33 163		26 604				59 767	59 767
Other assets	16			18 791			18 807	18 809
Prepaid expenses and accrued income	102	450		4 330	4		4 886	4 886
Total	**65 794**	**150 919**	**26 604**	**1 708 821**	**7 530**		**1 959 668**	**1 969 426**
Shares in subsidiaries and investments in associates							47 302	
Non-financial assets							5 906	
Total assets							**2 012 876**	
Liabilities								
Due to credit institutions						193 822	193 822	195 613
Deposits and borrowing from the public						941 401	941 401	939 956
Liabilities where the customer bears the value change risk		4 951				54	5 005	5 005
Issued securities	4 625					650 012	654 637	660 468
Derivative instruments	35 796		5 975				41 771	41 771
Short positions	2 072						2 072	2 072
Other liabilities	12					12 734	12 746	12 747
Accrued expenses and deferred income	13					6 902	6 915	6 915
Subordinated liabilities						32 896	32 896	33 887
Total	**42 518**	**4 951**	**5 975**			**1 837 821**	**1 891 265**	**1 898 434**
Non-financial liabilities							728	
Total liabilities							**1 891 993**	

[1] Classified to be measured at fair value.

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	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.

Financial instruments at fair value 2017 (IAS 39) SEK m	Level 1	Level 2	Level 3	Total
Assets				
Interest-bearing securities eligible as collateral with central banks				
Held for trading	7 212	137	-	7 349
Denominated at fair value	117 575	-	-	117 575
Available for sale	963	-	-	963
Loans to the public	-	364	13	377
Bonds and other interest-bearing securities				
Held for trading	12 360	901	-	13 261
Denominated at fair value	27 566	-	-	27 566
Available for sale	4 990	403	-	5 393
Shares				
Held for trading	7 944	3 959	-	11 903
Denominated at fair value	-	-	-	-
Available for sale	-	49	1 121	1 170
Assets where the customer bears the value change risk	4 487	-	464	4 951
Derivative instruments	364	59 490	-87	59 767
Total	**183 461**	**65 303**	**1 511**	**250 275**
Liabilities				
Liabilities where the customer bears the value change risk	4 487	-	464	4 951
Issued securities	-	4 625	-	4 625
Derivative instruments	377	41 482	-88	41 771
Short positions	2 013	59	-	2 072
Total	**6 877**	**46 166**	**376**	**53 419**

The principles applied are described in note G40.

P35 Cont.

Change in holdings in financial instruments in level 3 2018

SEK m	Shares	Derivative assets[1]	Derivative liabilities[1]	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
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**

Change in holdings in financial instruments in level 3 2017

SEK m	Shares	Derivative assets[1]	Derivative liabilities[1]	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	**1 575**	**-**	**-**	**17**	**762**	**-762**
Acquisitions	24	-	-	-	-	-
Repurchases/sales	-1	-	-	-	-318	318
Matured	-	-	-	-5	-	-
Unrealised value change in income statement	-	-	-	-	20	-20
Unrealised value change in other comprehensive income	-477	-	-	-	-	-
Transfer from level 1 or 2	-	-87	88	1	-	-
Transfer to level 1 or 2	-	-	-	-	-	-
Carrying amount at end of year	**1 121**	**-87**	**88**	**13**	**464**	**-464**

[1] Derivatives recognised in level 3 constitute components of a main instrument. The classification of the main instrument determines whether the component is classified as an asset or liability. Components with a negative fair value are classified as an asset if the fair value of the main instrument is, as a whole, positive. Components with a positive fair value are classified as a liability if the fair value of the main instrument is, as a whole, negative.

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**

Fair value of financial instruments at cost or amortised cost 2017

SEK m	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	226 314	-	-	226 314
Interest-bearing securities eligible as collateral with central banks	-	-	-	-
Loans to credit institutions	40 347	630 272	2 118	672 737
Loans to the public	606	18 211	777 534	796 351
Bonds and other interest-bearing securities	-	-	-	-
Assets where the customer bears the value change risk	-	54	-	54
Total	**267 267**	**648 537**	**779 652**	**1 695 456**
Liabilities				
Due to credit institutions	54 753	140 860	-	195 613
Deposits and borrowing from the public	895 153	44 803	-	939 956
Liabilities where the customer bears the value change risk	-	54	-	54
Issued securities	205 060	450 783	-	655 843
Subordinated liabilities	-	33 887	-	33 887
Total	**1 154 966**	**670 387**	**-**	**1 825 353**

P36 Pledged assets, collateral received and transferred financial assets

Assets pledged for own debt SEK m	**2018**	**2017**
Cash	5 797	7 845
Government instruments and bonds	35 641	29 968
Loans to the public	-	-
Shares	451	940
Other	509	473
Total	**42 398**	**39 226**
of which pledged assets that may be freely withdrawn by the Bank	*27 056*	*23 465*

Other pledged assets SEK m	**2018**	**2017**
Cash	480	183
Government instruments and bonds	40 632	26 618
Loans to the public	-	2 244
Shares	6 664	5 114
Other	241	248
Total	**48 017**	**34 407**
of which pledged assets that may be freely withdrawn by the Bank	*38 919*	*26 083*

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 29,122m (29,232) at the end of the financial year, where assets worth SEK 8,034m (13,716) had been sold or repledged to a third party.

Transferred financial assets reported on the balance sheet	**2018**		**2017**	
SEK m	**Carrying amount**	**Carrying amount associated liability**	**Carrying amount**	**Carrying amount associated liability**
Shares, securities lending	7 115	486[1]	6 054	1 086[1]
Shares, other	-	-	-	-
Government instruments and bonds, repurchase agreements	7 141	-	5 172	126
Government instruments and bonds, other	262	-	263	-
Assets where the customer bears the value change risk	547	547	522	522
Total	**15 065**	**1 033**	**12 011**	**1 734**

[1] Received cash collateral.

P37 Contingent liabilities

SEK m	**2018**	**2017**
Contingent liabilities		
Guarantees, credits	37 860	50 552
Guarantees, other	80 454	64 023
Irrevocable letters of credit	4 645	6 057
Other	21	21
Total	**122 980**	**120 653**
of which subject to impairment testing according to IFRS 9	*122 980*	
Commitments		
Loan commitments	271 214	287 706
Unutilised part of granted overdraft facilities	116 947	131 159
Other[1]	83 373	61 733
Total	**471 534**	**480 598**
of which subject to impairment testing according to IFRS 9	*347 877*	
Total contingent liabilities	**594 514**	**601 251**
Provision for expected credit losses reported as provisions, see note P29	79	
Provision for probable credit losses reported as provisions (IAS 39), see note P29		95

[1] "Other" includes internal liquidity guarantees to subsidiaries amounting to SEK 63,594m (39,649).

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.

P38 Pension obligations

SEK m	2018	2017
Fair value of plan assets	26 868	28 838
Pension obligations	31 712	30 978
Net pensions[1]	**-4 844**	**-2 140**

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 in 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 6,904m (6,145) in the Bank's pension fund (Pensionskassan SHB, Försäkringsförening) and the market value of the assets is SEK 12,132m (13,000). The surplus value in Pensionskassan SHB, Försäkringsförening is thus SEK 5,228m (6,855).

SEK 10,458m (10,897) 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 7,919m (8,265), 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 2018.

Pension costs SEK m	2018	2017
Pensions paid	-522	-483
Pension premiums[2]	-663	-382
Social security costs	-38	7
Compensation from pension foundation	480	545
Provisions to pension foundation	-492	-56
Total pension costs	**-1 235**	**-369**

The expected pensions to be paid next year for defined benefit pension plans is SEK 687m.
The costs for pension premiums include premiums to the BTPK plan (defined contribution pension) of SEK 89m (85).

Plan assets SEK m	2018	2017
Opening balance	28 838	27 051
Return	-1 982	2 276
Payments to own pension trusts	492	56
Compensation from own pension trust	-480	-545
Closing balance	**26 868**	**28 838**
Percentage return on plan assets	-7%	8%

Pension obligations SEK m	2018	2017
Opening balance	30 978	30 689
Technical fee	1 199	962
Interest	203	333
Indexation	444	119
Early retirement	48	165
Pensions paid	-595	-661
Changed assumptions[2]	603	341
Value change conditional obligation[2]	-346	-387
Effect of change of plan	-30	-801
Portfolio movement	-571	-
Other change in capital value	-222	218
Closing balance	**31 712**	**30 978**

Allocation of plan assets SEK m	2018	2017
Shares	25 180	28 066
Interest-bearing securities	1 801	1 070
Other plan assets[2]	-112	-298
Total	**26 868**	**28 838**

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 the UK, the defined benefit pension plan was terminated on 28 February 2018, with all new pension earnings after this date being put into a defined contribution plan.

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] Other plan assets include a liability regarding compensation that has not yet been paid out.

P39 Assets and liabilities in currencies

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

Note G2 describes the Bank's view of exchange rate risks.

2017 SEK m	SEK	EUR	NOK	DKK	GBP	USD	Other currencies	Total
Assets								
Cash and balances with central banks	83	85 625	3 916	2 139	84 768	48 079	1 704	226 314
Loans to credit institutions	473 660	49 356	60 787	67 386	1 299	9 671	1 859	664 018
Loans to the public	200 197	141 086	154 696	51 324	213 212	28 183	6 993	795 691
of which companies	*162 059*	*96 721*	*125 022*	*33 201*	*143 351*	*27 952*	*6 188*	*594 494*
of which households	*38 138*	*44 365*	*29 674*	*18 123*	*69 861*	*231*	*805*	*201 197*
Interest-bearing securities eligible as collateral with central banks	97 468	6 853	-	1	-	20 804	761	125 887
Bonds and other interest-bearing securities	33 582	2 383	1 090	-	1 378	7 787	-	46 220
Other items not broken down by currency	154 746							154 746
Total assets	**959 736**	**285 303**	**220 489**	**120 850**	**300 657**	**114 524**	**11 317**	**2 012 876**
Liabilities								
Due to credit institutions	75 576	64 785	14 435	10 299	3 401	18 899	6 427	193 822
Deposits and borrowing from the public	557 852	104 787	57 635	39 561	146 397	29 977	5 192	941 401
of which companies	*222 992*	*86 380*	*37 200*	*22 309*	*98 280*	*27 637*	*4 667*	*499 465*
of which households	*334 860*	*18 407*	*20 435*	*17 252*	*48 117*	*2 340*	*525*	*441 936*
Issued securities	18 121	179 340	1 132	556	90 063	335 895	29 530	654 637
Subordinated liabilities	8 350	14 751	-	-	-	9 795	-	32 896
Other items not broken down by currency, incl. equity	190 120							190 120
Total liabilities and equity	**850 019**	**363 663**	**73 202**	**50 416**	**239 861**	**394 566**	**41 149**	**2 012 876**
Other assets and liabilities broken down by currency, net		78 497	-147 090	-70 354	-60 659	280 037	29 880	
Net foreign currency position		137	197	80	137	-5	48	594

P40 Related-party disclosures

Claims on and liabilities to related parties	Subsidiaries		Associated companies		Other related parties	
SEK m	2018	2017	2018	2017	2018	2017
Loans to credit institutions	786 883	604 978	-	-	-	-
Loans to the public	1 131	1 151	774	875	-	-
Derivatives	1 068	3 697	-	-	-	-
Other assets	10 263	12 591	43	51	4	7
Total	**799 345**	**622 417**	**817**	**926**	**4**	**7**
Due to credit institutions	72 068	23 694	-	-	-	-
Deposits and borrowing from the public	9 159	7 457	98	298	252	406
Derivatives	18 867	16 895	-	-	-	-
Subordinated liabilities	0	0	-	-	654	668
Other liabilities	126	90	-	-	66	56
Total	**100 220**	**48 136**	**98**	**298**	**972**	**1 130**
Contingent liabilities	28 578	43 433	-	-	6 904	6 145
Derivatives, nominal amount	372 757	433 986	-	-	-	-

Related parties – income and expenses	Subsidiaries		Associated companies		Other related parties	
SEK m	2018	2017	2018	2017	2018	2017
Interest income	3 472	3 052	8	9	0	0
Interest expenses	-268	-207	0	0	-72	-72
Fee and commission income	0	12	0	3	-	-
Fee and commission expenses	0	-	-248	-258	-	-
Net gains/losses on financial items at fair value	0	-	0	0	-	-
Other income	1 805	1 568	1	1	19	14
Other expenses	-308	-303	-54	-57	-	-
Total	**4 701**	**4 122**	**-293**	**-302**	**-53**	**-58**

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 6,904m (6,145). Svenska Handelsbanken AB has requested compensation from Svenska Handelsbankens Pensionsstiftelse amounting to SEK 480m (545) regarding pension costs, SEK 455m (450) regarding special supplementary pension and from Svenska Handelsbankens Personalstiftelse amounting to SEK 25m (24) 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 7.50 for 2017 of which 5.50 in ordinary dividend). The Board's recommended appropriation of profits is shown on page 177.

P42 Share information

31 December 2018

Share class	Number	% of capital	% of votes	Share capital	Quotient value
Class A	1 908 923 831	98.19	99.82	2 958 831 938	1,55
Class B	35 251 329	1.81	0.18	54 639 560	1,55
	1 944 175 160	**100.00**	**100.00**	**3 013 471 498**	

P43 Events after the balance sheet date

No significant events have occurred after the balance sheet date.

P44 Formation of UK subsidiary

Prior to 1 December 2018, the Bank's operations in the UK were conducted in the form of an international branch. Following the Brexit vote, the Bank decided to form a wholly owned subsidiary in the UK, Handelsbanken plc. On 1 December 2018, the majority of the UK branch's business operations were transferred to Handelsbanken plc. The 'Pro forma' column in the table below shows what the comparative figures would have been on 31 December if the subsidiary had acquired the assets and assumed the liabilities of the branch prior to year-end 2017. In the pro forma figures, the accounting items of the UK branch have been excluded and the parent company is assumed to hold shares in the UK subsidiary. Furthermore, all intragroup items have reverted to external items. Balance sheet items which have changed materially due to the transfer are specified in notes with Pro forma figures (see below).

Balance sheet Parent company SEK m	2018	Pro forma 2017	Published 2017
ASSETS			
Cash and balances with central banks	243 824	141 547	226 314
Interest-bearing securities eligible as collateral with central banks	118 918	125 887	125 887
Loans to credit institutions	841 085	755 268	664 018
Loans to the public	611 699	581 863	795 691
Bonds and other interest-bearing securities	50 993	46 220	46 220
Shares	13 156	13 073	13 073
Shares in subsidiaries and investments in associates	72 267	69 077	47 302
Assets where the customer bears the value change risk	5 240	5 005	5 005
Derivative instruments	59 109	59 780	59 767
Intangible assets	2 772	2 452	2 610
Property and equipment	5 434	2 554	2 822
Current tax assets	531	258	191
Deferred tax assets	285	283	283
Other assets	25 910	17 991	18 807
Prepaid expenses and accrued income	2 476	4 397	4 886
Total assets	**2 053 699**	**1 825 655**	**2 012 876**
LIABILITIES AND EQUITY			
Due to credit institutions	261 735	233 239	193 822
Deposits and borrowing from the public	839 835	780 733	941 401
Liabilities where the customer bears the value change risk	5 240	5 005	5 005
Issued securities, etc.	716 531	590 528	654 637
Derivative instruments	36 226	41 775	41 771
Short positions	6 163	2 072	2 072
Current tax liabilities	-	-	-
Deferred tax liabilities	528	582	582
Provisions	109	118	146
Other liabilities	12 044	11 803	12 746
Accrued expenses and deferred income	2 255	6 021	6 915
Subordinated liabilities	51 085	32 896	32 896
Total liabilities	**1 931 751**	**1 704 772**	**1 891 993**
Untaxed reserves	**886**	**683**	**683**
Share capital	3 013	3 013	3 013
Share premium	5 629	5 629	5 629
Other funds	8 272	7 725	7 320
Retained earnings	90 293	88 147	88 552
Profit for the year	13 855	15 686	15 686
Total equity	**121 062**	**120 200**	**120 200**
Total liabilities and equity	**2 053 699**	**1 825 655**	**2 012 876**

P44 Cont.

LOANS TO THE PUBLIC

SEK m	2018	Pro forma 2017	Published 2017
Loans in Swedish kronor			
Households	34 943	37 920	38 354
Companies	165 370	161 261	161 268
National Debt Office	120	1 831	1 831
Total	**200 433**	**201 012**	**201 453**
Loans in foreign currency			
Households	105 324	93 349	163 361
Companies	308 894	291 575	435 818
National Debt Office	-	-	-
Total	**414 218**	**384 924**	**599 179**
Provision for expected credit losses	-2 952		
Provision for probable credit losses (IAS 39)		-4 073	-4 941
Total loans to the public	**611 699**	**581 863**	**795 691**
of which accrued interest income[1]	*1 038*		
of which reverse repos	*9 050*	*6 607*	*6 607*
of which subordinated	*1 221*	*1 197*	*1 197*

[1] As of 2018, the presentation of accrued interest has been changed, see "Changed presentation of accrued interest, Parent company".

Average volumes, excl. National Debt Office SEK m	2018	Pro forma 2017	Published 2017
Loans to the public in Swedish kronor	208 299	209 564	209 972
Loans to the public in foreign currency	633 910	378 195	579 857
Total	**842 209**	**587 759**	**789 829**
of which reverse repos	*13 648*	*12 295*	*12 295*

DEPOSITS AND BORROWING FROM THE PUBLIC

Deposits from the public SEK m	2018	Pro forma 2017	Published 2017
Deposits in Swedish kronor			
Households	351 450	323 042	323 066
Companies	229 046	222 379	222 451
National Debt Office	-	-	-
Total	**580 496**	**545 421**	**545 517**
Deposits in foreign currency			
Households	64 995	58 547	106 844
Companies	163 678	146 620	244 645
National Debt Office	-	-	-
Total	**228 673**	**205 167**	**351 489**
Total deposits from the public	**809 169**	**750 588**	**897 006**

Borrowing from the public SEK m	2018	Pro forma 2017	Published 2017
Borrowing in Swedish kronor	21 306	12 336	12 336
Borrowing in foreign currency	9 360	17 809	32 059
Total borrowing from the public	**30 666**	**30 145**	**44 395**
Total deposits and borrowing from the public	**839 835**	**780 733**	**941 401**
of which accrued interest expenses[1]	*767*		
of which repos	-	-	-

[1] As of 2018, the presentation of accrued interest has been changed, see "Changed presentation of accrued interest, Parent company".

P44 Cont.

Average volumes SEK m	2018	Pro forma 2017	Published 2017
Deposits from the public			
Deposits from the public in Swedish kronor	568 313	522 137	522 219
Deposits from the public in foreign currency	385 349	218 755	355 294
Total	**953 662**	**740 892**	**877 513**
Borrowing from the public			
Borrowing from the public in Swedish kronor	31 863	26 414	26 414
Borrowing from the public in foreign currency	82 674	112 300	128 846
Total	**114 537**	**138 714**	**155 260**
of which repos	*12 239*	*7 889*	*7 889*

P45 Transition to IFRS 9

The table below shows reclassification of assets and liabilities due to the transition to IFRS 9 and the initial effect on equity at 1 January 2018.

SEK m		IAS 39 Classification 31 Dec 2017	IFRS 9 Classification 1 Jan 2018	IAS 39 Carrying amount 31 Dec 2017	IFRS 9 Carrying amount 1 Jan 2018	Effect on equity 1 Jan 2018	*of which remeasurement due to new rules for classification and measurement*	*of which remeasurement due to new rules for impairment*
Financial assets								
Cash and balances with central banks		Loans and receivables	Amortised cost	226 314	226 314			
Interest-bearing securities eligible as collateral with central banks		Fair value in IS, trading	Fair value through P/L, mandatory	7 349	7 349			
Interest-bearing securities eligible as collateral with central banks		Fair value in IS, other	Fair value through P/L, fair value option	117 575	117 575			
Interest-bearing securities eligible as collateral with central banks		Financial assets available for sale	Fair value through other comprehensive income	201	201			
Interest-bearing securities eligible as collateral with central banks	1)	Financial assets available for sale	Amortised cost	762	762			
Loans to credit institutions	2)	Loans and receivables	Amortised cost	642 300	642 295	-5		*-5*
Loans to credit institutions	3)	Loans and receivables	Fair value through P/L, mandatory	21 718	21 755	37	*37*	
Loans to the public	4)	Fair value in IS, other	Amortised cost	377	353	-24	*-24*	
Loans to the public	2)	Loans and receivables	Amortised cost	795 314	794 986	-328		*-328*
Bonds and other interest-bearing securities		Fair value in IS, trading	Fair value through P/L, mandatory	13 261	13 261			
Bonds and other interest-bearing securities		Fair value in IS, other	Fair value through P/L, fair value option	27 566	27 566			
Bonds and other interest-bearing securities		Financial assets available for sale	Fair value through other comprehensive income	5 393	5 393			
Shares		Fair value in IS, trading	Fair value through P/L, mandatory	11 903	11 903			
Shares	6)	Financial assets available for sale	Fair value through other comprehensive income	1 170	1 170			
Assets where the customer bears the value change risk	5)	Fair value in IS, other	Fair value through P/L, mandatory	4 951	4 951			
Assets where the customer bears the value change risk		Loans and receivables	Amortised cost	54	54			
Derivative instruments		Fair value in IS, trading	Fair value through P/L, mandatory	33 163	33 163			
Derivative instruments		Derivatives identified as hedge instruments	Derivatives identified as hedge instruments	26 604	26 604			
Other assets		Fair value in IS, trading	Fair value through P/L, mandatory	16	16			
Other assets		Loans and receivables	Amortised cost	18 791	18 791			
Prepaid expenses and accrued income		Fair value in IS, trading	Fair value through P/L, mandatory	102	102			
Prepaid expenses and accrued income		Fair value in IS, other	Fair value through P/L, fair value option	450	450			
Prepaid expenses and accrued income		Loans and receivables	Amortised cost	4 330	4 330			
Prepaid expenses and accrued income		Financial assets available for sale	Fair value through other comprehensive income	4	4			
Total financial assets				**1 959 668**	**1 959 348**	**-320**	***13***	***-333***
Property, equipment and lease assets	2)			2 822	2 819	-3		*-3*
Other non-financial assets	7)			50 386	50 467	81	*-3*	*84*
Total assets				**2 012 876**	**2 012 634**	**-242**	***10***	***-252***
Financial liabilities								
Due to credit institutions		Other financial liabilities	Amortised cost	193 822	193 822			
Deposits and borrowing from the public		Other financial liabilities	Amortised cost	941 401	941 401			
Liabilities where the customer bears the value change risk		Fair value in IS, other	Fair value through P/L, fair value option	4 951	4 951			
Liabilities where the customer bears the value change risk		Other financial liabilities	Amortised cost	54	54			
Issued securities		Fair value in IS, trading	Fair value through P/L, mandatory	4 625	4 625			
Issued securities		Other financial liabilities	Amortised cost	650 012	650 012			
Derivative instruments		Fair value in IS, trading	Fair value through P/L, mandatory	35 796	35 796			
Derivative instruments		Derivatives identified as hedge instruments	Derivatives identified as hedge instruments	5 975	5 975			
Short positions		Fair value in IS, trading	Fair value through P/L, mandatory	2 072	2 072			
Other liabilities		Fair value in IS, trading	Fair value through P/L, mandatory	12	12			
Other liabilities		Other financial liabilities	Amortised cost	12 734	12 734			
Accrued expenses and deferred income		Fair value in IS, trading	Fair value through P/L, mandatory	13	13			
Accrued expenses and deferred income		Other financial liabilities	Amortised cost	6 902	6 902			
Subordinated liabilities		Other financial liabilities	Amortised cost	32 896	32 896			
Total financial liabilities	8)			**1 891 265**	**1 891 265**			
Provisions	9)			146	188	42		*42*
Other non-financial liabilities				582	582			
Total liabilities				**1 891 993**	**1 892 035**	**42**		***42***
Untaxed reserves				**683**	**683**			
Share capital				3 013	3 013			
Share premium reserve				5 629	5 629			
Other funds	10)			7 320	7 321	1		*1*
Retained earnings	11)			88 552	88 267	-285	*10*	*-295*
Profit for the year				15 686	15 686			
Total equity				**120 200**	**119 916**	**-284**	***10***	***-294***
Total liabilities and equity				**2 012 876**	**2 012 634**	**-242**	***10***	***-252***

P45 Cont.

The table below shows the transition from the model for incurred credit losses in IAS 39 to the model for expected credit losses in IFRS 9 at the transition to IFRS 9 at 1 January 2018.

Specification of transition to IFRS 9, new rules for impairment

SEK m	IAS 39 Incurred credit losses 31 Dec 2017	IFRS 9 Expected credit losses 1 Jan 2018	*Effect on retained earnings due to new rules for impairment*
IAS 39			
Incurred credit losses 31 Dec 2017			
Collective provision for individually assessed loans	-442		*442*
Collective provision for off-balance sheet items	-95		*95*
Specific provision for individually assessed loans	-4 499		*4 499*
IFRS 9			
Expected credit losses 1 Jan 2018			
Expected credit losses Stage 1, assets at amortised cost		-258	-258
Expected credit losses Stage 2, assets at amortised cost		-519	*-519*
Expected credit losses Stage 3, assets at amortised cost		-4 499	*-4 499*
Expected credit losses off-balance sheet items Stage 1		-67	*-67*
Expected credit losses off-balance sheet items Stage 2		-71	*-71*
Expected credit losses off-balance sheet items Stage 3		0	*0*
Expected credit losses on debt instruments at fair value through OCI Stage 1		-1	*-1*
Tax effect due to transition to IFRS 9		84	*84*
Total	**-5 036**	**-5 331**	***-295***

[1] According to IAS 39, certain bonds held for liquidity purposes were designated as financial assets available for sale. According to IFRS 9, these are designated at amortised cost because the business model for these holdings is for collection of contractual cash flows, and the cash flows solely represent payments of principal and interest.
[2] As a result of the IFRS 9 regulations for impairment, the provision for credit losses for assets measured at amortised cost has increased.
[3] According to IAS 39, certain subordinated loans were designated at amortised cost. According to IFRS 9, it is mandatory to designate these at fair value through profit or loss, because the business model for these holdings is not for collection of contractual cash flows, and the cash flows are not solely payments of principal and interest.
[4] According to IAS 39, certain loans were designated at fair value through profit or loss, using the fair value option. According to IFRS 9, these are designated at amortised cost because the business model for these holdings is for collection of contractual cash flows, and the cash flows solely represent payments of principal and interest.
[5] According to IAS 39, assets where the customer bears the value change risk were classified at fair value through profit or loss, using the fair value option because these were managed and the result measured on the basis of fair values. According to IFRS 9, it is mandatory to designate these assets at fair value through profit or loss.
[6] Handelsbanken has chosen to categorise certain shareholdings that are not held for trading, at fair value through other comprehensive income. These shareholdings are long-term and of strategic importance to the banking operations in the Group. The holdings were previously classified as financial assets available for sale.
[7] Tax effect due to transition to IFRS 9.
[8] No financial liabilities have been subject to revaluation as a result of an amended classification in line with IFRS 9.
[9] As a result of the IFRS 9 regulations for impairment, the provision for credit losses on off-balance sheet items has increased.
[10] As a result of the IFRS 9 regulations for impairment, a provision for credit losses on debt instruments measured at fair value through other comprehensive income has been recognised.
[11] The total effect against retained earnings due to the transition to IFRS 9 is SEK -366m before tax, of which SEK 13m is due to the new rules for classification and measurement and SEK -379m to the new rules for impairment.

P46 Capital adequacy

The Handelsbanken Group's capital adequacy is described in Note G50. Specific disclosures regarding capital adequacy for the parent company are presented below.
For definitions, please refer to page 250.
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		2018			2017	
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	8 177		26 (1), 27, 28, 29, EBA list 26 (3)	8 177	
	of which: share capital	8 177		EBA list 26 (3)	8 177	
	of which: convertible securities			EBA list 26 (3)		
2	Retained earnings	95 457		26 (1) (c)	93 456	
3	Accumulated other comprehensive income (and any other reserves, to include unrealised gains and losses according to the applicable accounting standards)	3 539		26 (1)	2 745	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	3 161		26 (2)	1 104	
6	**Common equity tier 1 (CET1) capital before regulatory adjustments**	**110 334**			**105 482**	
	Common equity tier 1 (CET1) capital: regulatory adjustments					
7	Additional value adjustments (negative amount)	-193		34, 105	-150	
8	Intangible assets (net of related tax liability) (negative amount)	-2 514		36 (1) (b), 37	-2 245	
11	Fair value reserves related to gains or losses on cash flow hedges	-564		33 (1) (a)	87	
12	Negative amounts resulting from the calculation of expected loss amounts	-3 068		36 (1) (d), 40, 159	-1 823	
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)	-508		36 (1) (f), 42	-569	
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	-	
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)**	**-6 847**			**-4 700**	
29	**Common equity tier 1 (CET1) capital**	**103 487**			**100 782**	

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Transitional own funds	2018			2017	
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	10 701		51, 52	9 794	
32 of which: classified as liabilities under applicable accounting standards	10 701			9 794	
33 Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	2 352	2 352	486 (3)	2 352	2 352
36 Additional tier 1 (AT1) capital before regulatory adjustments	**13 053**			**12 146**	
Additional tier 1 (AT1) capital: regulatory adjustments					
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-400	-400	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	**-400**			**-400**	
44 Additional tier 1 (AT1) capital	**12 653**			**11 746**	
45 Tier 1 capital (T1 = CET1 + AT1)	**116 140**			**112 528**	
Tier 2 (T2) capital: instruments and provisions					
46 Capital instruments and the related share premium accounts	33 704		62, 63	17 745	
50 Credit risk adjustments	0				
51 Tier 2 (T2) capital before regulatory adjustments	**33 704**			**17 745**	
Tier 2 (T2) capital: regulatory adjustments					
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-15 379		63 (b) (i), 66 (a), 67	-	
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	**-16 508**			**-1 129**	
58 Tier 2 (T2) capital	**17 196**			**16 616**	
59 Total capital (TC = T1 + T2)	**133 336**			**129 144**	
60 **Total risk weighted assets**	**624 981**			**470 353**	
Capital ratios and buffers					
61 Common equity tier 1 capital (as a percentage of total risk exposure amount)	16.6		92 (2) (a)	21.4	
62 Tier 1 (as a percentage of total risk exposure amount)	18.6		92 (2) (b)	23.9	
63 Total capital (as a percentage of total risk exposure amount)	21.3		92 (2) (c)	27.5	
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)	4.0		CRD 128, 129, 130	3.7	
65 of which: capital conservation buffer requirement	2.5			2.5	
66 of which: countercyclical buffer requirement	1.5			1.2	
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)	12.1		CRD 128	16.9	

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Transitional own funds		2018			2017	
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	2	
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)	-202		36 (1) (c), 38, 48	-200	
	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	1 085		62	1 796	
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	2 885		62	1 614	
	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	58		484 (3), 486 (2) and (5)	116	
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	2 445		484 (4), 486 (3) and (5)	4 890	
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	1 481		484 (5), 486 (4) and (5)	2 963	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-		484 (5), 486 (4) and (5)	-	

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EU OV1 – Overview of RWAs			RWAs		Minimum capital requirements
SEK m			2018	2017	T
	1	Credit risk (excluding CCR)	554 678	400 077	44 374
Article 438(c)(d)	2	Of which the standardised approach	86 460	143 334	6 917
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	46 138	44 818	3 690
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	171 461	200 793	13 717
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	250 619	11 132	20 050
Article 107 Article 438(c)(d)	6	CCR	12 603	12 640	1 008
Article 438(c)(d)	7	Of which mark to market	12 598	12 632	1 008
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	5	8	0
Article 438(c)(d)	12	CVA	5 218	4 891	418
Article 438 e	13	Settlement risk	0	0	0
Article 449(o)(i)	14	Securitisation exposures in the non-trading book (after the cap)	51	22	4
	15	Of which IRB approach	51	22	4
	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	9 765	10 310	781
	20	Of which the standardised approach	9 765	10 310	781
	21	Of which IMA			
Article 438 e	22	Large exposures			
Article 438(f)	23	Operational risk	42 666	42 413	3 413
	24	Of which basic indicator approach			
	25	Of which standardised approach	42 666	42 413	3 413
	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**	**624 981**	**470 353**	**49 998**

Market risk under the standardised approach	2018		2017	
	a	b	a	b
SEK m	REA	Capital requirements	REA	Capital requirements
Outright products				
Interest rate risk	9 552	764	10 089	808
of which general risk	*7 888*	*631*	*7 145*	*572*
of which specific risk	*1 664*	*133*	*2 944*	*236*
Equity risk	84	7	113	9
of which general risk	*27*	*2*	*34*	*3*
of which specific risk	*54*	*5*	*74*	*6*
of which CIUs	*3*	*0*	*5*	*0*
Foreign exchange risk	-	-	-	-
Commodity risk	85	7	60	5
Options				
Scenario approach	43	3	48	3
of which interest rate risk	*4*	*0*	*5*	*0*
of which equity risk	*39*	*3*	*43*	*3*
of which foreign exchange risk	-	-	-	-
of which commodity risk	*0*	*0*	*0*	*0*
Securitisation (specific risk)	-	-	-	-
Settlement risk	1	0	0	0
Total	**9 765**	**781**	**10 310**	**825**

P46 Cont.

Capital adequacy analysis %	2018	2017
Common equity tier 1 ratio, CRR	16.6	21.4
Tier 1 ratio, CRR	18.6	23.9
Total capital ratio, CRR	21.3	27.5
Total risk exposure amount, CRR, SEK m	624 981	470 353
Own funds in relation to capital requirement according to Basel I floor		249
Institution-specific buffer requirement	4.0	3.7
of which capital conservation buffer requirement	*2.5*	*2.5*
of which countercyclical capital buffer requirement	*1.5*	*1.2*
of which systemic risk buffer requirement		
Common equity tier 1 capital available for use as a buffer	12.1	16.9

Credit risk exposures approved for IRB Approach	Exposure amount		Risk-weighted exposure amount		Capital requirement		Average risk weight, %	
SEK m	2018	2017	2018	2017	2018	2017	2018	2017
Sovereign exposures	**342 337**	**330 648**	**5 288**	**5 355**	**423**	**428**	**1.5**	**1.6**
Corporate exposures	**552 532**	**686 291**	**171 687**	**208 680**	**13 735**	**16 694**	**31.1**	**30.4**
Corporate lending	533 519	669 111	168 701	205 280	13 496	16 422	31.6	30.7
of which other lending, IRB approach without own estimates of LGD and CCF	*116 583*	*108 923*	*33 721*	*32 154*	*2 698*	*2 572*	*28.9*	*29.5*
of which other lending, IRB approach with own estimates of LGD and CCF	*416 936*	*560 188*	*134 980*	*173 126*	*10 798*	*13 850*	*32.4*	*30.9*
of which large corporates	*142 949*	*152 484*	*52 874*	*58 121*	*4 230*	*4 650*	*37.0*	*38.1*
of which medium-sized companies	*51 024*	*67 891*	*27 091*	*34 780*	*2 167*	*2 782*	*53.1*	*51.2*
of which property companies	*222 963*	*339 813*	*55 015*	*80 225*	*4 401*	*6 418*	*24.7*	*23.6*
Counterparty risk	19 013	17 180	2 986	3 400	239	272	15.7	19.8
Housing co-operative associations	**24 861**	**24 422**	**3 873**	**4 580**	**310**	**366**	**15.6**	**18.8**
Retail exposures	**159 262**	**152 864**	**28 252**	**24 357**	**2 260**	**1 949**	**17.7**	**15.9**
Private individuals	141 311	134 301	21 795	18 663	1 744	1 493	15.4	13.9
of which property loans	*96 137*	*76 003*	*13 353*	*9 942*	*1 068*	*795*	*13.9*	*13.1*
of which other	*45 174*	*58 298*	*8 442*	*8 720*	*676*	*698*	*18.7*	*15.0*
Small companies	17 951	18 563	6 457	5 694	516	456	36.0	30.7
Institutional exposures	**85 987**	**72 223**	**14 726**	**13 929**	**1 178**	**1 114**	**17.1**	**19.3**
Lending to institutions	17 123	16 332	5 508	5 232	441	419	32.2	32.0
Counterparty risk	68 864	55 891	9 218	8 697	737	696	13.4	15.6
of which repos and securities loans	*10 379*	*7 667*	*455*	*173*	*36*	*14*	*4.4*	*2.3*
of which derivatives	*58 485*	*48 224*	*8 763*	*8 524*	*701*	*682*	*15.0*	*17.7*
Equity exposures	**67 853**	**3 010**	**250 619**	**11 132**	**20 050**	**891**	**369.4**	**369.9**
of which listed equities	*545*	*4*	*1 581*	*13*	*126*	*1*	*290.0*	*290.0*
of which other equities	*67 308*	*3 006*	*249 038*	*11 119*	*19 924*	*890*	*370.0*	*370.0*
Non credit-obligation asset exposures	**741**	**990**	**741**	**990**	**59**	**79**	**100.0**	**100.0**
Securitisation positions	**22**	**20**	**51**	**22**	**4**	**2**	**229.2**	**106.0**
of which traditional securitisation	*22*	*20*	*51*	*22*	*4*	*2*	*229.2*	*106.0*
of which synthetic securitisation	-	-	-	-	-	-	-	-
Total IRB Approach	**1 233 595**	**1 270 468**	**475 237**	**269 045**	**38 019**	**21 524**	**38.5**	**21.2**
Risk weight floor, Swedish mortgage loans**			**5 331**		**426**			
Total IRB Approach with impact of risk weight floor, Swedish mortgage loans	**1 233 595**		**480 568**		**38 445**		**39.0**	

Credit risk exposures according to standardised approach[1]	Exposure amount		Risk-weighted exposure amount		Capital requirement		Average risk weight, %	
SEK m	2018	2017	2018	2017	2018	2017	2018	2017
Sovereign and central banks	353	196	0	-	0	-	0.0	0.0
Municipalities	25	-	5	-	0	-	20.0	0.0
Multilateral development banks	183	568	0	-	0	-	0.0	0.0
International organisations	-	35	-	-	-	-	-	0.0
Institutions	749 317	611 949	13 811	938	1 105	75	1.8	0.2
Corporate	8 919	9 348	8 828	9 252	706	740	99.0	99.0
Retail	4 100	16 675	3 044	12 469	244	997	74.2	74.8
Property mortgages	51 383	106 316	18 459	38 158	1 477	3 053	35.9	35.9
Past due items	268	350	279	420	22	34	103.8	119.8
Equities	27 973	67 185	37 354	76 515	2 988	6 121	133.5	113.9
of which listed equities	-	-	-	-	-	-	-	-
of which other equities	*27 973*	*67 185*	*37 354*	*76 515*	*2 988*	*6 121*	*133.5*	*113.9*
Other items	5 300	6 411	4 984	5 942	399	476	94.0	92.7
Total standardised approach	**847 821**	**819 033**	**86 764**	**143 694**	**6 941**	**11 496**	**10.2**	**17.5**

[1] Details of capital requirements for exposure classes where there are exposures.

P46 Cont.

Minimum requirement for eligible liabilities (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, the Swedish National Debt Office, in consultation with the Swedish Financial Supervisory Authority. For 2018, Total liabilities and own funds is based on third quarter numbers.

SEK m	2018	2017
MREL requirement	95 601	101 636
Eligible liabilities and own funds	274 268	240 633
Total liabilities and own funds	2 268 389	1 971 672

%	2018	2017
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	*12.1*	*12.2*

LRCom: Leverage ratio common disclosure SEK m	2018	2017
On-balance sheet exposures (excluding derivatives and securities financing transactions)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets)	1 981 911	1 941 459
Asset amounts deducted in determining Tier 1 capital	-6 847	-4 699
Total on-balance sheet exposures (excluding derivatives, securities financing transactions and fiduciary assets)	**1 975 064**	**1 936 759**
Derivative exposures		
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	8 183	10 963
Add-on amounts for potential future exposure associated with all derivatives transactions (mark-to-market method)	33 835	31 302
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	-5 418	-7 785
Exempted central counterparty leg of client-cleared trade exposures		-
Adjusted effective notional amount of written credit derivatives	5 774	7 766
Adjusted effective notional offsets and add-on deductions for written credit derivatives	-	-366
Total derivative exposures	**42 374**	**41 879**
Securities financing transaction exposures		
Gross securities financing transaction assets (with no recognition of netting), after adjusting for sales accounting transactions	12 679	11 650
Netted amounts of cash payables and cash receivables of gross securities financing transaction assets	-	-
Counterparty credit risk exposure for securities financing transaction assets	3 850	2 199
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	**16 529**	**13 849**
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	517 183	542 726
Adjustments for conversion to credit equivalent amounts	-335 815	-351 822
Other off-balance sheet exposures	**181 368**	**190 904**
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)	-699 237	-626 486
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	116 140	112 528
Total leverage ratio exposures	1 516 097	1 556 905
Leverage ratio		
Leverage ratio	7.66%	7.20%
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	-	0

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures SEK m	2018	2017
Total assets as per published financial statements	2 053 699	2 012 876
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	0
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	-	0
Adjustments for derivative financial instruments	-16 735	-17 888
Adjustments for securities financing transactions (SFTs)	3 850	2 199
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	181 368	190 904
Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013	-699 237	-626 486
Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013	-	-
Other adjustments	-6 847	-4 699
Total leverage ratio exposure	**1 516 098**	**1 556 905**

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 5 FEBRUARY 2019

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
Board Member

Ole Johansson
Board Member

Lise Kaae
Board Member

Bente Rathe
Board Member

Charlotte Skog
Board Member

Anders Bouvin
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 2018. The annual accounts and consolidated accounts of the company are included on pages 6–233 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, 2018 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, 2018 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 matter. 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 87. 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 76. 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, 2018 lending to the public amounts to 2 189 092 (611 699) SEK m for the group (parent). The total credit risk exposure, including off-balance commitments, amounts to 3 344 744 (2 520 142) SEK m. Provision for expected credit losses on lending to the public amounts to 3 801 (2 952) SEK m for which 864 (480) SEK m is based on model based calculations (Stages 1 and 2) and 2 937 (2 472) SEK m is based on individual assessments (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 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.

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 P34 for the parent company. Relevant accounting principles for the group are described in note G1, section 9 on page 76. 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 64 926 (83 273) SEK m and 20 476 (38 524) SEK m respectively. Financial assets and liabilities in level 3 amounts to 1 443 (1 365) SEK m and 308 (308) 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 4–5 and 239–252. 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 error.

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 error, 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 error 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 scepticism 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 2018 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 scepticism 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.

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 21, 2018 and has been the company's auditor since April 28, 1998.

PricewaterhouseCoopers AB, Torsgatan 21, 113 97 Stockholm, was appointed auditor of Svenska Handelsbanken AB by the general meeting of the shareholders on March 21, 2018 and has been the company's auditor since March, 29 2017.

Stockholm February 15, 2019

Ernst & Young AB	PricewaterhouseCoopers AB
Jesper Nilsson Authorised Public Accountant	Johan Rippe Authorised Public Accountant


Handelsbanken

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Agneta Marell Umeå
Anna Mattsson Luleå, (E)*

Head
Magnus Ericson Umeå

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Arvidsjaur **Therese Scott**
Bjurholm **Sofie Jakobsson**
Boden **Ellinor Lundström**
Bredbyn **Kari Pessa**
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Burträsk **Anton Olofsson**
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Gällivare **Johan Larsson**
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Haparanda **Maria Mörk**
Hede **Mattias Sundt**
Holmsund **Oscar Nordin**
Hudiksvall **Thony Nylund**
Husum **Veronica Egnor**
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- Storgatan **Jimmy Vikström**
- Örnäset **Petter Eriksson**

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Malå **Therese Scott**
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- City **Anders Sundström**
- Teg **Catharina Olsson**
- Västra **Henrik Lundström**

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Vindeln **Sofie Jakobsson**
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Morgan Särnblad Orsa, (E)*
Pontus Åhlund Gävle

Head
Pontus Åhlund Gävle

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Bollnäs **Thomas Frykberg**
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Bålsta **Susanne Lund**
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Eskilstuna **Johan Gustavsson**
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Falun **Henrik Ragnarsson**
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Kopparberg **Lena Ragnarsson Vöks**
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Kungsör **Marco Crantz**
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Leksand **Anders Ekström**
Lima **Lena Eggens**
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Ludvika **Andreas Abraham**
Malung **Sofie Stafås**
Mockfjärd **Jenny Åkerström**
Mora **Jürgen Smolle**
Norberg **Håkan Bjurling**
Norrtälje **Mats Sagström**
Ockelbo **Johan Björk**
Orsa **Anette Skoglund**
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Rättvik **Maria Holmberg**
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- Boländerna **Magnus Ternstedt**
- City **Micael Lindström**
- Luthagen **Ann-Sofie Sivander**
- Rosendal **Kristina Carlsson**

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- City **Therese Massaro**
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- Östermälarstrand **Johanna Landin**

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- Drottningparken **Anders Forsgren**
- Ekersgatan **Kristina Dahl**
- Stortorget **Kenneth Vallin**

Österbybruk **Ann Robertsson**
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Knivsta
- Alsike **Agneta Sturesson**

Lindesberg
- Nora **Maria Ekdahl**

Lima
- Sälen **Lena Eggens**

Mora
- Älvdalen **Jürgen Smolle**

Sala-Heby
- Heby **Ulrika Björklund,** Acting

Strängnäs
- Mariefred **Katharina Schramm Hellmark**

(E)* = employee representative

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Siv Malmgren Stockholm
Katarina Martinson Stockholm
Anne Reis Stockholm, (E)*
Carina Åkerström Stockholm

Head

Carina Åkerström Stockholm

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Vara **Maj Rudell**
Varberg **Alexander Turesson**
Vårgårda **Lars-Göran Pettersson**
Vänersborg **Peter Kornesjö**
Värnamo **Jonas Flink**
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Årjäng **Peter Johansson**
Älvsborg **Allison Åsblom**

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Kungsbacka
  Kungsporten **Anders Blomqvist**

(E)* = employee representative

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Bengt Kjell Helsingborg
Claes Lindqvist Viken
Johan Mattsson Tomelilla
Anders Ohlner Malmö
Sten Peterson Katrineholm
Mikael Roos Malmö

Head

Anders Fagerdahl Malmö

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- Alvesta **Patrick Carlsson**
- Borensberg **Anders Hättström**
- Borgholm **Christin Abrahamsson**
- Båstad **Lars-Olof Ottosson**
- Eksjö **Anna Gyllenhammar**
- Emmaboda **Annie Almlöf**
- Eslöv **David Möller**
- Finspång **Ingela Nyrén**
- Färjestaden **Ida Petersson**
- Helsingborg
  - Norr **Göran Pelvén**
  - Stortorget **Göran Pelvén**
- Hultsfred **Berit Lundqvist**
- Hässleholm **Jonas Bondesson**
- Höganäs **Gunilla Voss**
- Högsby **Jonas Petersson**
- Höllviken **Cecilia Wahlberg**
- Höör **David Möller**
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- Karlshamn **Catharina Lydell**
- 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 **Anders Hättström**
- Mönsterås **Jonas Petersson**
- Norrköping
  - Drottninggatan **Cicki Törnell**
  - Fjärilsgatan **Marika Ronnerheim**
- Nybro **Annie Almlöf**
- Nässjö **Malin Häggström**
- Osby **Fredrik Roghner**
- Oskarshamn **Jonas Petersson**
- Ronneby **Kati Gidlöf**
- Simrishamn **Andreas Jeppsson**
- Sjöbo **Thomas Hansson**
- Skanör **Maria Hägerström**
- Staffanstorp **Mårten Edlund**
- Svedala **Isabel Almqvist**
- Sävsjö **Jörgen Asp**
- Söderköping **Maria Hoonk**
- Sölvesborg **Anita Svensson Barba**
- Tingsryd **Annelie Johansson**
- Tomelilla **Mia Kristell**
- Torsås **Johan Lorentzon**
- Tranås **Mattias König**
- Trelleborg **Katerina Bosevska**
- Vadstena **Anders Hättström**
- Veberöd **Hans-Åke Mårtensson**
- Vellinge **Cecilia Wahlberg**
- Vetlanda **Jörgen Asp**
- Vimmerby **Hans Will**
- Virserum **Berit Lundqvist**
- Vollsjö **Thomas Hansson**
- Västervik **Thomas Rörstrand**
- Växjö **Maj-Lis Pettersson**
- Ystad **Mia Kristell**
- Åhus **Daniel N Högstedt**
- Åseda **Marie-Louise Mobelius**
- Åtvidaberg **Michael Sterne**
- Älmhult **Fredrik Roghner**
- Ängelholm **Irene Andersson**

HANDELSBANKEN NORTHERN GREAT BRITAIN

The operations are part of Handelsbanken plc.

Board

Mikael Sørensen London,
CEO of Handelsbanken UK, Chair
Ingela Forsberg Manchester
Mikael Hallåker Sollentuna

Head

Ingela Forsberg Manchester

Branch/branch manager

- Aberdeen **Neil Clark**
- Altrincham **Ian Noke**
- Blackburn **Philip Skupski**
- Bolton **Sean Greenhalgh**
- Burnley **Simon Joyce**
- Bury **Catherine Joynt**
- Carlisle **Jason Smith**
- Chester **David Barker**
- Chorley **Julie Monks**
- Dundee **Neil Clark,** Acting
- Dunfermline **Jim Donnelly**
- Edinburgh
  - Charlotte Square **Lesley Dunlop**
  - West End **Iain Henderson**
- Glasgow
  - Finnieston **David Waddell**
  - St Vincent Street **George Shanks**
- Heswall **Keith Lowe**
- Inverness **Hamish Boag**
- Kendal **Mike Fell**
- Lancaster **Alison Norfolk**
- Liverpool
  - Duke Street **Stephen Jones**
  - Exchange Station **John Williams**
- Lytham **Kevin Sanderson**
- Manchester
  - Spinningfields **Phil Basten**
  - Trinity Way **John Burke**
- Oldham **Scott Parkinson**
- Penrith **Richard Lancaster**
- Perth **Hamish Boag,** Acting
- Preston **David Warbrick**
- Southport **Andrew Pearson**
- Stirling **Jim Donnelly**
- Stockport **Lisa Dobson**
- Warrington **James Barron**
- Wigan **Adam Short**
- Wilmslow **Anthony Flynn**

(E)* = employee representative

HANDELSBANKEN YORKSHIRE AND NORTH EAST GREAT BRITAIN

The operations are part of Handelsbanken plc.

Board

Mikael Sørensen London,
CEO of Handelsbanken UK, Chair
Mikael Hallåker Sollentuna
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 **Tom Ramshaw**
Doncaster **Sarah Smith**
Durham **David Allenson**
Gateshead **Brian Foreman**
Grimsby **Di Jones**
Halifax **Ian Mason**
Harrogate **James Cornell**
Hexham **David Wilson**
Huddersfield **Tony Jones**
Hull
  Hesslewood **Tim Kitching**
  Marina Court **Tim Kitching**
Ilkley **Sue Toulson**
Leeds
  The Embankment **David Brady**
  Headingley **Andrew Lowther**
  Wellington Street **Andrew Shakeshaft**
Middlesbrough **John Martinson**
Morpeth **David Elliot**
Newcastle upon Tyne **Granville Kelly**
Northallerton **David Thompson**
Rotherham **Sarah Hanson**
Scarborough **Steve Halliday**
Scunthorpe **Matthew Hawcroft**
Sheffield
  Barker's Pool **Stephen Tweedle**
  Tudor Square **Clare Ibbotson**
Stockton-on-Tees **David Filby**
Sunderland **Nicola Boardman**
Tynemouth **Mark Humphreys**
Wakefield **Paul Drysdale**
Wetherby **Sue Toulson**
York **Christopher Ibbotson**

HANDELSBANKEN CENTRAL GREAT BRITAIN

The operations are part of Handelsbanken plc.

Board

Mikael Sørensen London,
CEO of Handelsbanken UK, Chair
Mikael Hallåker Sollentuna
Nick Lowe Birmingham

Head

Nick Lowe 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 **Judith Brown**
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 **Paul Graham,** Acting
Mansfield **Darryn Evans**
Milton Keynes **Derek Bell**
Newark **Vacant**
Northampton **Mark Charteress**
Norwich **Ian Hall**
Nottingham
  Ropewalk **Larick Walker**
  West Bridgford **Ian Davys**
Peterborough **Julian Turner**
Rugby **Brett Salisbury**
Shrewsbury **Lindsay Pearson**
Solihull **Tom Queenan**
Stafford **Helen Yates**
Stourbridge **Adam Pearson,** Acting
Stratford-upon-Avon **Andrew Smith**
Stoke-on-Trent **Martin Randall**
Tamworth **Andrew Mair**
Walsall **Stephen Breen**
Wolverhampton **Paul Jones**
Worcester **Andrew Smith,** Acting
Wrexham **Vicky Varley**

HANDELSBANKEN SOUTH WEST GREAT BRITAIN

The operations are part of Handelsbanken plc.

Board

Mikael Sørensen London,
CEO of Handelsbanken UK, Chair

Mikael Hallåker Sollentuna

Chris Teasdale Bristol

Head

Chris Teasdale Bristol

Branch/branch manager

Abingdon **David Cook**
Ascot **Richard Payton**
Aylesbury **Faisal Khan**
Barnstaple **Peter Larcombe**
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 **Di Pitts**
Dorchester **Andrew Denning**
Exeter **Darren Galliford**
Farnham **Kevin Heppell**
Frimley **Mark Clinkskel**
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 **Sean Kanavan**
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 **Jim Durrant**

HANDELSBANKEN SOUTHERN GREAT BRITAIN

The operations are part of Handelsbanken plc.

Board

Mikael Sørensen London,
CEO of Handelsbanken UK, Chair

Mikael Hallåker Sollentuna

John Hodson London

Head

John Hodson London

Branch/branch manager

Ashford **David Kiernan**
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 **Peter Wylde**
London
- Belgravia **Julian Reynolds**
- Blackheath **Raff Gallo**
- Chelsea **Geoff Harrison,** Acting
- Chiswick **Dermot Jordan**
- Clapham **Jason May**
- Finchley **Steve Smith**
- Hampstead **Matthew Ireland,** Acting
- Holborn **Jonathan Croney**
- Kensington **Geoff Harrison,** Acting
- Large Corporate branch **Toni Virtanen**
- Liverpool Street **Mark Earlam**
- London Bridge **David Boaden**
- Marylebone **Andrew Rowlands**
- Mayfair **Mark Plummer**
- Moorgate **Ross Simmons**
- Queen's Park **Steve MacDonald**
- 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 **Tim Tostevin**
Wimbledon **Michelle Groome**

Meeting places

London Blackheath
- Canary Wharf **Raff Gallo**

HANDELSBANKEN DENMARK

The operations are part of Svenska Handelsbanken, Copenhagen branch.

Board

John Vestergaard Ikast, Chair
Göran Stille Stockholm, Vice Chair
Lars Moesgaard Hellerup
Helle Rank Aalborg, (E)*
Sanne Weidner Aarhus
Lise Westphal Copenhagen
Steen Winther-Petersen Copenhagen

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 **Lars Hoffmann**

Esbjerg **Jan Plantener**
Farum **Jeanett Schultz Brix**
Fredensborg **Kjeld Aunstrup**
Fredericia **Brian Sørensen**

Frederiksberg
- Frederiksberg **Jan Rasmussen**
- Frederiksberg Vest **Carina Falck Hansen**

Frederikssund **Michael Tøgersen**
Frederiksværk **Alan Nielsen**
Give **Kathrine Vesterager Andersen**
Grindsted **Thomas Lindal Pedersen**
Hammerum **Vibeke Hestbek**
Helsinge **Steen Malmqvist**
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 **Maj-Britt Nielsen**
Lemvig **Peter Tornbo**
Lynge **Hatice Bakke**
Odense **Klaus Rydal**
Roskilde **Steen Hansen**
Sdr. Felding **Frank Jensen**
Silkeborg **Stefan Brochmann**
Slagelse **Henrik Eg**
Slangerup **Ida Riisberg Mikkelsen**
Stenløse **Klaus Møller Hansen**
Struer **Poul Bakkegaard**
Sunds **Lars Christian Lauth Hansen**
Vejle **Carsten Hjortflod**
Viborg **Henrik Toft Mathiasen**
Videbæk **Michael Frisk Sørensen**

HANDELSBANKEN FINLAND

The operations are part of Svenska Handelsbanken, Helsinki branch.

Board

Matti Vuoria Helsinki, Chair
Göran Stille Stockholm, Vice Chair
Nina Arkilahti Espoo
Tapio Hakakari Hyvinkää
Esa Korvenmaa Helsinki
Bjarne Mitts Espoo
Pirjo Repo Helsinki
Leena Saarinen Helsinki
Pekka Vasankari Vantaa, (E)*

Head

Nina Arkilahti Helsinki

Branch/branch manager

Espoo
- Matinkylä **Juha-Lassi Laisi**
- Tapiola **Aku Dunderfelt**

Etelä-Karjala **Arto Valjakka**

Helsinki
- Aleksi **Tuija Nuutinen**
- Herttoniemi **Hanna Kuvaja**
- Kamppi **Sami Hoffrén**
- Large Corporates **Riitta Hallila**
- Munkkiniemi **Jarkko Pöysti**
- Pasila **Risto Mäkeläinen**
- Ruoholahti **Outi Vesanto**

Hyvinkää **Henri Uronen**
Hämeenlinna **Auli Lehtomäki**
Joensuu **Mauri Kujanen**
Jyväskylä **Jesse Järvinen**
Keski-Uusimaa **Ilkka Arenius**
Kokkola **Mikael Wiklund**
Kuopio **Timo Väisänen**
Kymenlaakso **Joonas Heinonen**

Lahti
- Askonkatu **Jaana Repo-Kemppinen**
- Vapaudenkatu **Matti Nieminen**

Mikkeli **Jussi Myllymäki**
Oulu **Jari Itkonen**
Pietarsaari **Jörgen Blomqvist**
Porvoo **Tuija Nuutinen,** Acting
Rovaniemi **Sami Hiltunen**
Satakunta **Tero Järvistö**
Seinäjoki **Esa Alkio,** Acting
Tammisaari **Anders Sandbacka**

Tampere
- Kuninkaankatu **Tarja Suvisalmi**
- Kyttälä **Ilari Tyrkkö**

Tornio **Matti Tapio**

Turku
- Kauppatori **Risto Vihula**
- Kupittaa **Teemu Alanko**

Vaasa **Frej Björses**

Vantaa
- Aviapolis **Mari Govenius**
- Tikkurila **Pauli Ranta**

Meeting places

Kymenlaakso
- Kouvola **Joonas Heinonen**

(E)* = employee representative

HANDELSBANKEN NORWAY

The operations are part of Svenska Handelsbanken, Oslo branch.

Board

Bjørn Flatgård Kolbotn, Chair
Göran Stille Stockholm, Vice 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 **Trond Røisland**
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 **Knut Børge Lunde**
Jæren **Rolf Inge Knutsen**
Jessheim **Inger Kyhen**
Kolbotn **Hanne Bjørnå Berntsen**
Kongsberg **Håvard Røed Langerud**
Kristiansand **Vidar Akselsen**
Larvik **Bodil Hansen**
Lillehammer **Thomas Næstad Moe**
Lillestrøm **Paal Tollefsen**
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 **Lynn Sperb**
- Straen **Ole Henry Slette**

Tromsø **Raymond Brendeløkken**
Trondheim
- Heimdal **Ola Grøtte**
- Leangen **Ole-Martin Smedseng**
- Søndregate **Ola Grøtte**

Tønsberg **Per Skustad**
Ålesund **Steinar Krøvel**

HANDELSBANKEN THE NETHERLANDS

The operations are part of Svenska Handelsbanken AB, The Netherlands branch.

Board

Göran Stille Stockholm, Chair
Per Jansson Stockholm
Jens Wiklund Amstelveen

Head

Jens Wiklund Amstelveen

Branch/branch manager

Alkmaar **Ronald Smit**
Alphen aan den Rijn **Marcel Palsgraaf,** Acting
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**
Breda **Edwin Boonk**
Den Haag **Marc de Brey**
Eindhoven **Pieter van de Koolwijk**
Emmen **Norbert van de Lande**
Groningen **Erwin van der Steur**
Haarlem **Nicole Broersma**
Het Gooi **Laurens de Jong**
Laren **Sharon Peeters**
Leeuwarden **Tammo Oosterhof**
Maastricht **Tim Neu**
Rijnmond Zuid **Wim Tieleman**
Roermond **Luc Geisen**
Rotterdam **Riewing van Eerden,** Acting
Schiphol **Caroline Mesters**
's-Hertogenbosch **Nicole van Rijmenam**
Tilburg **Pieter van de Koolwijk,** Acting
Twente **Martijn Peters**
Utrecht **Robert van der Kolk**
Zwolle **Peter Hulsbergen**

Meeting places

Schiphol
- Amstelveen **Caroline Mesters**

(E)* = employee representative

OUTSIDE THE NORDIC COUNTRIES, THE UK AND THE NETHERLANDS

Operations are conducted in Svenska Handelsbanken with branches in each country.

China
General Manager **Mikael Westerback**
Hong Kong **David Haqvinsson**
Shanghai **Mikael Westerback**

Estonia
General Manager **Annika Nordström**
Tallinn **Jan Nurminen**

France
General Manager **Peggy Paul**
Nice **Anna Jansson-Clauzier**

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**

Tyskland
General Manager **Michael Green**

USA
General Manager **Susanna Svartz**

REPRESENTATIVE OFFICES

Beijing
Representative **Joakim Hedhill**

Jakarta
Representative **Erik Milfors**

Kuala Lumpur
Representative **Abhinash Murukesvan**

Marbella
Representative **Vibeke Toustrup Bonne**

Mumbai
Representative **Ashish Gupta**

Sydney
Representative **Robert Karlsson**

Taipei
Representative **Amy Chen**

Zürich
Representative **Andreas Wedar**

BOARDS OF SUBSIDIARIES

ECSTER**
Board
Göran Stille Stockholm, Chair
Yonnie Berqvist Täby
Eva Eldebrink Strängnäs, (E)*
Benny Johansson Stockholm
Agneta Lilja Drottningholm

Chief Executive Ecster
Yonnie Berqvist

EFN**
Board
Elisabet Jamal Bergström Danderyd, Chair
Magnus Berglund Saltsjöbaden
Carl Bjurling Enskede
Joakim Jansson Sundbyberg
Ulf Köping-Höggård Lidingö
Katarina Ljungqvist Västra Frölunda

Chief Executive EFN
Mikaela Strand

HANDEL & INDUSTRI**
Board
Göran Stille Stockholm, Chair
Michael Green Stockholm
Magnus Sternbrink Bromma

Chief Executive Handel & Industri
Magnus Sternbrink

HANDELSBANKEN FINANS**
Board
Göran Stille Stockholm, Chair
Martin Blåvarg Stockholm
Marie Järvås Hägersten, (E)*
Erik de la Motte Helsingborg

Acting Chief Executive Handelsbanken Finans
Pauline Edström

HANDELSBANKEN FONDER**
Board
Michael Green Stockholm, Chair
Helen Fasth Gillstedt Djursholm
Malin Hedman Björkmo Lidingö
Robert Lundin Stockholm, (E)*
Lars Seiz Antibes, France
Göran Stille Stockholm

Chief Executive Handelsbanken Fonder
Carl Cederschiöld

HANDELSBANKEN LIV**
Board
Mikael Hallåker Sollentuna, Chair
Katarina Berner Frösdal Stockholm
Viveca Classon Stockholm
Göran Stille Stockholm
Anna Hjelmberg Järfälla, (E)*
Joakim Jansson Sundbyberg
Tobias Lindhe Uppsala
Anders Ohlner Malmö

Chief Executive Handelsbanken Liv
Louise Sander

HANDELSBANKEN PLC**
Board
Mikael Hallåker Sollentuna, Chair
Martin Björnberg London
Tanya Castell Inverness-shire
John Ellacott West Yorkshire
Maureen Laurie East Sussex
Ulrica Stolt Kirkegaard Stocksund
Mikael Sørensen London

Chief Executive Handelsbanken plc
Mikael Sørensen

HEARTWOOD**
Board
Michael Broom Devon, Chair
Noland Carter Oxfordshire
Tracey Davidson London
Simon Dixon Battle

Chief Executive Heartwood
Tracey Davidson

OPTIMIX**
Board
Jens Wiklund Amsterdam, Chair
Edwin van Essen Almere
Gert van Wakeren Soest

STADSHYPOTEK**
Board
Mikael Hallåker Sollentuna, Chair
Michael Bertorp Stockholm
Helena Håkansson Färjestaden, (E)*
Johanna Lundberg Uppsala
Göran Stille Stockholm
Helena Öström Nimander Enebyberg

Chief Executive Stadshypotek
Maria Lidström Andersson

XACT KAPITALFÖRVALTNING**
Board
Per Beckman Lidingö, Chair
Michael Bertorp Stockholm
Gunnar Båtelsson Sandviken
Maria Lönnqvist Bromma, (E)*
Åsa Magnusson Stockholm
Lena Munkhammar Solna
Jörgen Oldensand Märsta

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 Senior 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. The calculations of certain performance measures are presented in the Fact Book which is available at handelsbanken.se/ireng.

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 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 (IAS 39)

Credit losses and value changes on repossessed property in relation to loans to the public and credit institutions (excluding banks), and also repossessed property and credit guarantees at the beginning of the year.

CREDIT LOSS RATIO (IFRS 9)

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.

IMPAIRED LOANS (IAS 39)

Loans are classified as impaired loans if contracted cash flows are not likely to be fulfilled. The full amount of all claims which give rise to a specific provision is included in impaired loans even if parts are covered by collateral.

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 IMPAIRED LOANS (IAS 39)

Net impaired loans in relation to total loans to the public and credit institutions (excluding banks). Impaired loans are reported without deduction for the collateral that is security for the claim.

PROPORTION OF LOANS IN STAGE 3 (IFRS 9)

Net loans to the public in Stage 3 in relation to gross loans to the public.

RESERVE RATIO EXCLUDING COLLECTIVE PROVISIONS (IAS 39)

Total provisions excluding collective provisions in relation to gross impaired loans.

RESERVE RATIO STAGE 1 (IFRS 9)

Provisions in Stage 1 for loans to the public in relation to gross loans to the public in Stage 1.

RESERVE RATIO STAGE 2 (IFRS 9)

Provisions in Stage 2 for loans to the public in relation to gross loans to the public in Stage 2.

RESERVE RATIO STAGE 3 (IFRS 9)

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 average total assets for the past five quarters.

TOTAL IMPAIRED LOANS RESERVE RATIO (IAS 39)

Total provisions in relation to gross impaired loans.

TOTAL RESERVE RATIO (IFRS 9)

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 REQUIREMENTS
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 Value Adjustment is a component in the regulations for valuation of derivatives. The adjustment in 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-weighted 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 rate adjustment 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.

ITRAXX
ITRAXX Financials is an index of CDS (Credit Default Swaps) spreads 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.

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.se/ireng.

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.

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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