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# Highlights of Handelsbanken's Annual Report

JANUARY – DECEMBER 2018

## Summary January – December 2018, compared with January – December 2017

- Growth in business volumes in all home markets.
- Return on equity increased to 12.8% (12.3).
- Operating profit rose by 5% to SEK 22,013m (21,025). Adjusted for non-recurring items, operating profit went up by 3%.
- The period's profit after tax grew by 8% to SEK 17,357m (16,102).
- Earnings per share increased to SEK 8.93 (8.28).
- Income increased by 5% to SEK 43,770m (41,674). Adjusted for non-recurring items, income grew by 4%.
- Net interest income grew by 5% to SEK 31,286m (29,766).
- Net fee and commission income increased by 5% to SEK 10,247m (9,718).
- The C/I ratio rose to 47.7% (45.5).
- The credit loss ratio pursuant to IFRS 9 was 0.04% (IAS 39: 0.08).
- The common equity tier 1 ratio decreased to 16.8% (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% (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.

## Summary of Q4 2018, compared with Q3 2018

- Operating profit decreased by 1% to SEK 5,288m (5,344). Adjusted for non-recurring items, the decrease was 5%.
- The period's profit after tax fell by 2% to SEK 4,016m (4,106) and earnings per share declined to SEK 2.07 (2.11).
- Return on equity decreased to 11.6% (12.1).
- Income increased by 3% to SEK 11,083m (10,728), although adjusted for non-recurring items, the increase was 1%.
- Net interest income was virtually unchanged at SEK 7,872m (7,862). Activity on the funding markets remained at a high level.
- The C/I ratio rose to 49.8% (48.1).
- The credit loss ratio was 0.06% (0.04).

Handelsbanken

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For definitions and calculation of alternative performance measures, together with specifications of special and non-recurring items, please see the Fact Book which is available at handelsbanken.se/ireng.

# Handelsbanken Group – Overview

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| **Summary income statement** | | | | | | | | |
| Net interest income | 7,872 | 7,862 | 0% | 7,777 | 1% | 31,286 | 29,766 | 5% |
| Net fee and commission income | 2,611 | 2,624 | 0% | 2,501 | 4% | 10,247 | 9,718 | 5% |
| Net gains/losses on financial transactions | 303 | 186 | 63% | 164 | 85% | 908 | 1,271 | -29% |
| Risk result - insurance | 40 | 10 | 300% | 34 | 18% | 106 | 142 | -25% |
| Other dividend income | 201 | 3 | | 576 | -65% | 218 | 591 | -63% |
| Share of profit of associates | -3 | 10 | | 30 | | 0 | 14 | -100% |
| Other income | 59 | 33 | 79% | 70 | -16% | 1,005 | 172 | 484% |
| **Total income** | **11,083** | **10,728** | **3%** | **11,152** | **-1%** | **43,770** | **41,674** | **5%** |
| Staff costs | -3,464 | -3,421 | 1% | -3,178 | 9% | -13,465 | -12,472 | 8% |
| Other expenses | -1,889 | -1,554 | 22% | -1,712 | 10% | -6,712 | -5,889 | 14% |
| Depreciation, amortisation and impairment of property, equipment and intangible assets | -171 | -181 | -6% | -184 | -7% | -713 | -619 | 15% |
| **Total expenses** | **-5,524** | **-5,156** | **7%** | **-5,074** | **9%** | **-20,890** | **-18,980** | **10%** |
| **Profit before credit losses** | **5,559** | **5,572** | **0%** | **6,078** | **-9%** | **22,880** | **22,694** | **1%** |
| Net Credit losses | -276 | -230 | 20% | -1,084 | -75% | -881 | -1,683 | -48% |
| Gains/losses on disposal of property, equipment and intangible assets | 5 | 2 | 150% | 3 | 67% | 14 | 14 | 0% |
| **Operating profit** | **5,288** | **5,344** | **-1%** | **4,997** | **6%** | **22,013** | **21,025** | **5%** |
| Taxes | -1,272 | -1,238 | 3% | -1,235 | 3% | -4,656 | -4,923 | -5% |
| **Profit for the period** | **4,016** | **4,106** | **-2%** | **3,762** | **7%** | **17,357** | **16,102** | **8%** |
| | | | | | | | | |
| **Summary balance sheet** | | | | | | | | |
| Loans to the public | 2,189,092 | 2,193,712 | 0% | 2,065,761 | 6% | 2,189,092 | 2,065,761 | 6% |
| *of which mortgage loans* | *1,299,732* | *1,282,952* | *1%* | *1,222,436* | *6%* | *1,299,732* | *1,222,436* | *6%* |
| *of which other loans* | *889,360* | *910,760* | *-2%* | *843,325* | *5%* | *889,360* | *843,325* | *5%* |
| Deposits and borrowing from the public | 1,008,487 | 1,099,384 | -8% | 941,967 | 7% | 1,008,487 | 941,967 | 7% |
| *of which households* | *486,209* | *484,770* | *0%* | *444,942* | *9%* | *486,209* | *444,942* | *9%* |
| Total equity | 142,261 | 141,210 | 1% | 141,604 | 0% | 142,261 | 141,604 | 0% |
| Total assets | 2,978,174 | 3,087,236 | -4% | 2,766,977 | 8% | 2,978,174 | 2,766,977 | 8% |
| | | | | | | | | |
| **Summary of key figures** | | | | | | | | |
| Return on equity | 11.6% | 12.1% | | 11.2% | | 12.8% | 12.3% | |
| C/I ratio | 49.8% | 48.1% | | 45.5% | | 47.7% | 45.5% | |
| Earnings per share, SEK | 2.07 | 2.11 | | 1.93 | | 8.93 | 8.28 | |
| - after dilution | 2.05 | 2.09 | | 1.92 | | 8.84 | 8.20 | |
| Common equity tier 1 ratio, CRR | 16.8% | 21.7% | | 22.7% | | 16.8% | 22.7% | |
| Total capital ratio, CRR | 21.0% | 27.1% | | 28.3% | | 21.0% | 28.3% | |

# Group performance

## JANUARY – DECEMBER 2018 COMPARED WITH JANUARY – DECEMBER 2017

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

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

### Non-recurring items and special items in the operating profit

| SEK m | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|
| **Non-recurring items** | | | |
| Dividend from VISA Sweden | 198 | 576 | -66% |
| Changes in the pension plan in the UK operations | 141 | - | |
| Capital gains from the sale of shares in UC AB | 837 | - | |
| Transition to a defined contribution pension plan in the Norwegian operations | 26 | 239 | -89% |
| **Total Non-recurring items** | **1,202** | **815** | |
| **Special items** | | | |
| Benchmark effect in Stadshypotek | -20 | -1 | |
| Oktogonen (the Bank's profit-sharing system) | -859 | -768 | 12% |
| Variable remuneration | -55 | -73 | -25% |
| **Total Special items** | **-934** | **-842** | **11%** |
| **Total** | **268** | **-27** | |

### Income

| SEK m | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|
| Net interest income | 31,286 | 29,766 | 5% |
| *of which state fees* | *-2,771* | *-2,024* | *37%* |
| Net fee and commission income | 10,247 | 9,718 | 5% |
| Net gains/losses on financial trans. | 908 | 1,271 | -29% |
| Other | 1,329 | 919 | 45% |
| **Total income** | **43,770** | **41,674** | **5%** |

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

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

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

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

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

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

Net fee and commission income increased by 5% to SEK 10,247m (9,718). Fund management, custody account management and other asset management commissions rose by SEK 454m, or 11%, to SEK 4,735m (4,281), while brokerage income decreased by 22% to SEK 690m (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% to SEK 1,340m (1,238), while net payment commissions increased by 6% to SEK 1,975m (1,868). Net fee and commission income from card operations grew by 5% to SEK 1,247m (1,193). Exchange rate effects positively affected net fee and commission income by SEK 152m.

Net gains/losses on financial transactions went down to SEK 908m (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 1,329m (919), due in part to capital gains on the sale of UC AB.

### Expenses

| SEK m | 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%** |

| SEK m | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|
| UK and the Netherlands* | -3,945 | -3,434 | 15% |
| Company formation in UK | -314 | -104 | 201% |
| Changed pension plan in Norway & UK | 167 | 239 | -30% |
| Development costs | -2,016 | -1,821 | 11% |
| Foreign currency effect | -448 | | |
| Other recurring costs | -14,334 | -13,860 | 3% |
| **Total expenses** | **-20,890** | **-18,980** | **10%** |

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

## Development costs

| SEK m | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|
| Investments in development | -2,526 | -2,315 | 9% |
| *of which staff costs* | *-1,118* | *-970* | *15%* |
| *of which other costs* | *-1,408* | *-1,345* | *5%* |
| Capitalised costs | 786 | 694 | 13% |
| **Investments in development after capitalised costs** | **-1,740** | **-1,621** | **7%** |
| Amortisation and depreciation | -276 | -200 | 38% |
| **Development costs** | **-2,016** | **-1,821** | **11%** |

Total expenses rose by 10% to SEK -20,890m (-18,980). Exchange rate effects increased expenses by SEK -448m. 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 348m.

Development costs including depreciation amounted to SEK -2,016m (-1,821). For 2019, the Bank estimates that development costs will reach approximately SEK 2.1–2.2bn. 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% to SEK -13,465m (-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 141m. 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 239m, followed by an additional positive one-off effect of SEK 26m during the fourth quarter of 2018. Adjusted for these effects, staff costs grew by 7%. The provision to the Oktogonen profit-sharing foundation was SEK -859m (-768). Variable remuneration, including social security costs and other payroll overheads, decreased to SEK -55m (-72). Staff costs attributable to the Bank's development rose by 15% to SEK -1,118m (-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% to SEK -6,712m (-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 -1,408m (-1,345). The Bank's costs for the formation of the subsidiary in the UK were SEK -314m (-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% to SEK -713m (-619), of which SEK -276m (-200) related to depreciation linked to development.

## Development investments – by category

| SEK m | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|
| Regulatory compliance | -881 | -985 | -11% |
| Technical development | -846 | -784 | 8% |
| Business development | -543 | -424 | 28% |
| UK & the Netherlands | -256 | -119 | 115% |
| Other | - | -3 | |
| **Total investments in development** | **-2,526** | **-2,315** | **9%** |

## Credit losses

| SEK m | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|
| Net Credit losses | -881 | -1,683 | -802 |
| Credit loss ratio as % of loans (IFRS 9) | 0.04 | | |
| Credit loss ratio as % of loans (IAS 39) | | 0.08 | |

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

## Q4 2018 COMPARED WITH Q3 2018

Operating profit decreased by 1% to SEK 5,288m (5,344). Adjusted for non-recurring items, operating profit went down by 5%. Exchange rate effects had a negative impact of SEK -14m. The period's profit after tax decreased by 2% to SEK 4,016m (4,106). Earnings per share fell to SEK 2.07 (2.11) and return on equity decreased to 11.6% (12.1).

The C/I ratio rose to 49.8% (48.1).

### Non-recurring items and special items in operating profit

| SEK m | Q4 2018 | Q3 2018 | Change |
|---|---|---|---|
| **Non-recurring items** | | | |
| Dividend from VISA Sweden | 198 | - | |
| Transition to a defined contribution pension plan in the Norwegian operations | 26 | - | |
| **Total Non-recurring items** | **224** | **-** | |
| **Special items** | | | |
| Benchmark effect in Stadshypotek | -11 | 1 | |
| Oktogonen (the Bank's profit-sharing system) | -218 | -201 | 8% |
| Variable remuneration | -8 | -18 | -56% |
| **Total Special items** | **-237** | **-218** | **9%** |
| **Total** | **-13** | **-218** | **-94%** |

### Income

| SEK m | Q4 2018 | Q3 2018 | Change |
|---|---|---|---|
| Net interest income | 7,872 | 7,862 | 0% |
| *of which government fees* | *-669* | *-701* | *-5%* |
| Net fee and commission income | 2,611 | 2,624 | 0% |
| Net gains/losses on financial trans. | 303 | 186 | 63% |
| Other | 297 | 56 | 430% |
| **Total income** | **11,083** | **10,728** | **3%** |

Income grew by 3% to SEK 11,083m (10,728). Adjusted for non-recurring items in Q4, the increase was 1%. Exchange rate effects had a negative impact on income of SEK -33m.

Net interest income was virtually unchanged at SEK 7,872m (7,862). Higher business volumes made a positive contribution of SEK 98m, while somewhat lower margins caused an overall decrease in net interest income of SEK -8m. Exchange rate effects had a negative impact of SEK -26m. Government fees totalled SEK -669m (-701). The decrease can be explained by a correction of the Swedish deposit guarantee fee in conjunction with the setting of the level for the year. The benchmark effect in Stadshypotek amounted to SEK -11m (1). The Bank also in the fourth quarter elected to maintain a high level of activity in the funding markets, which negatively affected net interest income.

The average volume of loans to the public grew by 1%, or SEK 13bn, to SEK 2,212bn (2,199). Exchange rate effects reduced the average volume by SEK -7bn. Household lending increased by 1% to SEK 1,161bn (1,151), while corporate lending amounted to SEK 1,050bn (1,049). The total average volume of deposits and borrowing rose by SEK 2bn to SEK 1,096bn (1,094). Exchange rate effects reduced the average volume by SEK 3bn. Household deposits rose by 2%, while the average volume of corporate deposits decreased by 1%.

Net fee and commission income was largely unchanged at SEK 2,611m (2,624). Fund management, custody account management and other asset management commissions declined by 5% to SEK 1,179m (1,235) as a result of the declining market value of the assets under management. The net amount of payment commissions decreased by 4% to SEK 520m (542), where the net amount of card commissions was SEK 325m (356). Every year, the Bank receives a discount from the card companies, which for 2018 was received in the third quarter, affecting the comparative figures. Brokerage income increased by 2% to SEK 168m (164). Lending and deposit commissions rose by 4% to SEK 344m (330).

Net gains/losses on financial transactions totalled SEK 303m (186). The change was chiefly due to seasonally higher activity in the customer-driven operations.

Other income increased to SEK 297m (56). A dividend of SEK 198m was received from VISA Sweden ekonomisk förening during the quarter. The Bank's capitalisation has not been affected by the dividend.

### Expenses

| SEK m | Q4 2018 | Q3 2018 | Change |
|---|---|---|---|
| Staff costs | -3,464 | -3,421 | 1% |
| *of which Oktogonen* | *-218* | *-201* | *8%* |
| Other expenses | -1,889 | -1,554 | 22% |
| Depreciation and amortisation | -171 | -181 | -6% |
| **Total expenses** | **-5,524** | **-5,156** | **7%** |

| SEK m | Q4 2018 | Q3 2018 | Change |
|---|---|---|---|
| UK and the Netherlands* | -1,097 | -1,034 | 6% |
| Company formation in UK | -96 | -69 | 39% |
| Changed pension plan in Norway | 26 | - | |
| Development costs | -534 | -444 | 20% |
| Foreign currency effect | 16 | - | |
| Other recurring costs | -3,839 | -3,609 | 6% |
| **Total expenses** | **-5,524** | **-5,156** | **7%** |

* Adjusted for company formation and currency

### Development costs

| SEK m | Q4 2018 | Q3 2018 | Change |
|---|---|---|---|
| Investments in development | -694 | -521 | 33% |
| *of which staff costs* | *-315* | *-228* | *38%* |
| *of which other costs* | *-379* | *-293* | *29%* |
| Capitalised costs | 240 | 147 | 63% |
| **Investments in development after capitalised costs** | **-454** | **-374** | **21%** |
| Amortisation and depreciation | -80 | -70 | 14% |
| **Development costs** | **-534** | **-444** | **20%** |

Total expenses rose by 7% to SEK -5,524m (-5,156). The impact of exchange rate effects was negligible. Development costs, including depreciation increased as the result of seasonal effects and amounted to SEK -534m (-444).

Staff costs increased by 1% to SEK -3,464m (-3,421). The provision to the Oktogonen profit-sharing foundation was SEK -218m (-201). The change in the Norwegian pension plan implemented in Q1 2017, generated an additional one-off positive effect on staff costs during the period, amounting to SEK 26m. In Denmark, earnings were burdened by non-recurring staff costs of SEK -42m, largely related to adaptation to new legislation pertaining to holiday pay. The period's provision for variable remuneration decreased to SEK -8m (-18). Staff costs relating to the Bank's development totalled SEK -315m (-228).

The average number of employees went down by 224 to 12,359 (12,583) as a result of the extra employment of temporary staff during the previous quarter.

Other expenses rose by 22%, or SEK 335m, to SEK -1,889m (-1,554). The increase during the quarter, with the exception of the normal seasonal upturn, can be attributed to the following factors. In Denmark, a new bank clearing system has been introduced, causing a one-off expense. Transaction differences were higher than normal, due to a handful of specific circumstances. The cost related to the new clearing system was SEK -28m and the transaction differences were SEK -82m (-17). Adjusted for these two items, other expenses increased by SEK 242m.

Other expenses relating to the Bank's development increased, totalling SEK -379m (-293).

Depreciation and amortisation decreased to SEK -171m (-181), with SEK -80m of this total (-70) being linked to development.

Total investments in the Bank's development climbed to SEK -694m (-521). Capitalised costs grew to SEK 240m (147). The capitalisation rate can vary between quarters, due to the nature of the projects to which the development relates.

### Credit losses

| SEK m | Q4 2018 | Q3 2018 | Change |
|---|---|---|---|
| Net Credit losses | -276 | -230 | 46 |
| Credit loss ratio as % of loans (IFRS 9) | 0.06 | 0.04 | |

Credit losses were SEK -276m (-230). The credit loss ratio was 0.06% (0.04). The underlying credit quality remained stable.

### Taxes

The tax rate in Q4 was 24.1% (23.2). The fact that interest expenses on subordinated loans are not tax-deductible had an impact of 1.6 percentage points on the tax rate, compared with the corporate tax rate of 22.0%.

## 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 247bn (163), of which SEK 161bn (138) was covered bonds, SEK 70bn (22) was senior bonds, and SEK 16bn (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 unsecured market funding amounted to 216% 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 351bn (267), while the volume of liquid bonds and other liquid assets totalled SEK 176bn (179).

The Group's liquidity coverage ratio (LCR), calculated according to the European Commission's delegated act, amounted at year-end to 146% (139 at year-end 2017). The net stable funding ratio (NSFR) increased and was 104% 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% 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 163bn to SEK 708bn, 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, 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 1.6bn 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%. In the Bank's assessment, the Supervisory Authority's common equity tier 1 capital requirement at the same date was 15.1%. The Bank's capitalisation was thus within the target range.

### Capital situation 31 December 2018 compared with 31 December 2017

| SEK m | 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 149bn (144), and the Bank's total capital ratio amounted to 21.0% (28.3).

The common equity tier 1 capital was SEK 119bn (116), while the common equity tier 1 ratio was 16.8% (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 708bn (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% (2.2). Other effects, net, were neutral.

### Capital situation 31 December 2018 compared with 30 September 2018

| SEK m | 31 Dec 2018 | 30 Sep 2018 | Change |
|---|---|---|---|
| Common equity tier 1 ratio, CRR | 16.8% | 21.7% | -4.9 |
| Total capital ratio, CRR | 21.0% | 27.1% | -6.1 |
| Risk exposure amount, CRR | 707,579 | 547,977 | 29% |
| Common equity tier 1 capital | 118,810 | 118,784 | 0% |
| Total own funds | 148,659 | 148,669 | 0% |

Own funds amounted to SEK 149bn (149), and the total capital ratio was 21.0% (27.1). The common equity tier 1 capital was SEK 119bn (119), while the common equity tier 1 ratio was 16.8% (21.7). The migration of the risk weight floor for Swedish mortgage loans to Pillar 1 reduced the common equity tier 1 ratio by -5.0 percentage points, due to the risk exposure amount increasing to SEK 708bn (548). The period's earnings raised the common equity tier 1 capital ratio by 1.0 percentage point, after a deduction for the net amount of the proposed dividend and the anticipated dividend from earlier in the year. The net effect of customer and volume migration had a negative effect of -0.1 percentage point. The change in net pensions reduced the common equity tier 1 ratio by -0.6 percentage points.

The impact of exchange rate effects was -0.2 percentage points. The net effect of other factors was 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%. At the end of the fourth quarter, EC for the Group totalled SEK 60.2bn, while AFR was SEK 163.1bn. Thus, the ratio between AFR and EC was 271%. For the consolidated situation, EC totalled SEK 31.4bn, and AFR was SEK 160.4bn.

### 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.

| | Long-term | Short-term | Counterparty 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.

# Handelsbanken Group – Business segments

| January - December 2018<br>SEK m | Home markets<br>Sweden | <br>UK | <br>Denmark | <br>Finland | <br>Norway | Nether-<br>lands | Capital<br>Markets | Other | Adj. &<br>elim. | Group<br>Full year<br>2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 impairments 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 | | |

| January - December 2017<br>SEK m | Home markets<br>Sweden | <br>UK | <br>Denmark | <br>Finland | <br>Norway | Nether-<br>lands | Capital<br>Markets | Other | Adj. &<br>elim. | Group<br>Full year<br>2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 impairments 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 | | |

* Internal income which is included in Total income comprises income from transactions between other operating segments and Other. Since interest income and interest expense are reported net as income, this means that internal income includes the net amount of the internal funding cost between segments and Other.

The business segments consist of Handelsbanken Sweden, Handelsbanken UK, Handelsbanken Denmark, Handelsbanken Finland, Handelsbanken Norway, Handelsbanken the Netherlands and Handelsbanken Capital Markets. The income statements by segment include internal items such as internal interest, commissions and payment for internal services rendered, primarily according to the cost price principle. The part of Handelsbanken Capital Markets' operating profit that does not involve risk-taking is allocated to branches with customer responsibility.

# 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.*

## INCOME STATEMENT

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 4,239 | 4,232 | 0% | 4,371 | -3% | 16,988 | 16,694 | 2% |
| Net fee and commission income | 992 | 1,055 | -6% | 1,146 | -13% | 3,995 | 4,434 | -10% |
| Net gains/losses on financial transactions | 123 | 164 | -25% | 167 | -26% | 626 | 663 | -6% |
| Other income | 13 | 6 | 117% | 15 | -13% | 55 | 49 | 12% |
| **Total income** | **5,367** | **5,457** | **-2%** | **5,699** | **-6%** | **21,664** | **21,840** | **-1%** |
| Staff costs | -845 | -887 | -5% | -885 | -5% | -3,512 | -3,465 | 1% |
| Other expenses | -283 | -260 | 9% | -354 | -20% | -1,104 | -1,180 | -6% |
| Internal purchased and sold services | -921 | -819 | 12% | -871 | 6% | -3,473 | -3,168 | 10% |
| Depreciation, amortisation and impairments of property, equipment and intangible assets | -15 | -17 | -12% | -17 | -12% | -65 | -79 | -18% |
| **Total expenses** | **-2,064** | **-1,983** | **4%** | **-2,127** | **-3%** | **-8,154** | **-7,892** | **3%** |
| **Profit before credit losses** | **3,303** | **3,474** | **-5%** | **3,572** | **-8%** | **13,510** | **13,948** | **-3%** |
| Net credit losses | -61 | 5 | | -69 | -12% | -202 | -210 | -4% |
| Gains/losses on disposal of property, equipment and intangible assets | 1 | 1 | 0% | 2 | -50% | 5 | 2 | 150% |
| **Operating profit** | **3,243** | **3,480** | **-7%** | **3,505** | **-7%** | **13,313** | **13,740** | **-3%** |
| Profit allocation | 462 | 491 | -6% | 311 | 49% | 1,883 | 1,257 | 50% |
| **Operating profit after profit allocation** | **3,705** | **3,971** | **-7%** | **3,816** | **-3%** | **15,196** | **14,997** | **1%** |
| Internal income | -235 | -29 | | 216 | | -631 | 601 | |
| Cost/income ratio, % | 35.4 | 33.3 | | 35.4 | | 34.6 | 34.2 | |
| Credit loss ratio (IAS 39), % | | | | 0.02 | | | 0.02 | |
| Credit loss ratio (IFRS 9), % | 0.03 | 0.00 | | | | 0.02 | | |
| Allocated capital | 81,285 | 79,011 | 3% | 79,964 | 2% | 81,285 | 79,964 | 2% |
| Return on allocated capital, % | 14.2 | 15.7 | | 14.9 | | 15.1 | 15.3 | |
| Average number of employees | 4,016 | 4,229 | -5% | 4,084 | -2% | 4,084 | 4,078 | 0% |
| Number of branches | 390 | 402 | -3% | 420 | -7% | 390 | 420 | -7% |

## BUSINESS VOLUMES

| Average volumes, SEK bn | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Loans to the public* | | | | | | | | |
| Household | 842 | 832 | 1% | 801 | 5% | 828 | 782 | 6% |
| of which mortgage loans | 795 | 785 | 1% | 752 | 6% | 780 | 732 | 7% |
| Companies | 518 | 515 | 1% | 497 | 4% | 511 | 488 | 5% |
| of which mortgage loans | 310 | 303 | 2% | 290 | 7% | 301 | 283 | 6% |
| **Total** | **1,360** | **1,347** | **1%** | **1,298** | **5%** | **1,339** | **1,270** | **5%** |
| Deposits and borrowing from the public | | | | | | | | |
| Household | 357 | 351 | 2% | 333 | 7% | 346 | 321 | 8% |
| Companies | 252 | 242 | 4% | 239 | 5% | 246 | 229 | 7% |
| **Total** | **609** | **593** | **3%** | **572** | **6%** | **592** | **550** | **8%** |

* Excluding loans to the National Debt Office.

## JANUARY – DECEMBER 2018 COMPARED WITH JANUARY – DECEMBER 2017

### Financial performance

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

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

Net fee and commission income fell by 10% or SEK 439m to SEK 3,995m (4,434), while mutual fund commissions decreased by SEK 376m to SEK 840m (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 508m 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%. Insurance commissions were also affected, decreasing by SEK 212m 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% to SEK -8,154m (-7,892). Staff costs increased by 1% to SEK -3,512m (-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% to SEK -3,473m (-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% (34.2).

Credit losses were SEK -202m (-210), and the credit loss ratio was 0.02% 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 13.0bn (22.0), corresponding to a market share of 24% (20), compared to the Bank’s share of the Swedish mutual fund market of 11.1% (11.0). The Bank’s market share for deposits also increased. Official statistics showed that, during the year, 19% 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%.

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

## Q4 2018 COMPARED WITH Q3 2018

Operating profit decreased by 7% to SEK 3,243m (3,480) and the return on allocated capital was 14.2% (15.7).

Net interest income grew marginally to SEK 4,239m (4,232). Increased business volumes had a positive impact of SEK 54m, while margins declined by SEK 25m. The reduction of the deposit guarantee fee gave a positive contribution of SEK 25m and, in total, government fees burdened net interest income by SEK -323m (-346). The benchmark effect in Stadshypotek had a negative impact on net interest income, reducing it by SEK -12m to SEK -11m (1). The gross margin on the mortgage portfolio – before advisory and administration expenses – remained unchanged at 1.05% (1.05).

Net fee and commission income fell by 6% to SEK 992m (1,055), due to lower fund management and payment commissions.

Net gains/losses on financial transactions totalled SEK 123m (164). The decrease is largely entirely down to a change in the internal remuneration model for derivatives and the corresponding positive effect can be seen in the Handelsbanken Capital Markets segment.

Expenses increased by 4% to SEK -2,064m (-1,983). Staff costs decreased by 5% to SEK -845m (-887), due to the employment of temporary staff during the holiday period in the comparison quarter. Other expenses increased, mainly due to higher development costs.

Credit losses totalled SEK -61m (5).

# 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.*

## INCOME STATEMENT

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 1,466 | 1,419 | 3% | 1,245 | 18% | 5,555 | 4,659 | 19% |
| Net fee and commission income | 184 | 179 | 3% | 165 | 12% | 704 | 602 | 17% |
| Net gains/losses on financial transactions | 54 | 52 | 4% | -13 | | 210 | 127 | 65% |
| Other income | 7 | 0 | | 2 | 250% | 7 | 3 | 133% |
| **Total income** | **1,711** | **1,650** | **4%** | **1,399** | **22%** | **6,476** | **5,391** | **20%** |
| Staff costs | -546 | -533 | 2% | -462 | 18% | -1,970 | -1,828 | 8% |
| Other expenses | -256 | -204 | 25% | -194 | 32% | -881 | -549 | 60% |
| Internal purchased and sold services | -207 | -204 | 1% | -155 | 34% | -786 | -595 | 32% |
| Depreciation, amortisation and impairments of property, equipment and intangible assets | -18 | -17 | 6% | -16 | 13% | -72 | -63 | 14% |
| **Total expenses** | **-1,027** | **-958** | **7%** | **-827** | **24%** | **-3,709** | **-3,035** | **22%** |
| **Profit before credit losses** | **684** | **692** | **-1%** | **572** | **20%** | **2,767** | **2,356** | **17%** |
| Net credit losses | -30 | -42 | -29% | -556 | -95% | -125 | -739 | -83% |
| Gains/losses on disposal of property, equipment and intangible assets | 0 | 0 | 0% | 0 | 0% | -1 | -1 | 0% |
| **Operating profit** | **654** | **650** | **1%** | **16** | | **2,641** | **1,616** | **63%** |
| Profit allocation | 8 | 9 | -11% | 11 | -27% | 32 | 35 | -9% |
| **Operating profit after profit allocation** | **662** | **659** | **0%** | **27** | | **2,673** | **1,651** | **62%** |
| Internal income | -133 | -338 | 61% | -126 | -6% | -1,086 | -935 | -16% |
| Cost/income ratio, % | 59.7 | 57.7 | | 58.7 | | 57.0 | 55.9 | |
| Credit loss ratio (IAS 39), % | | | | 1.13 | | | 0.38 | |
| Credit loss ratio (IFRS 9), % | 0.05 | 0.08 | | | | 0.06 | | |
| Allocated capital | 14,048 | 13,469 | 4% | 13,106 | 7% | 14,048 | 13,106 | 7% |
| Return on allocated capital, % | 14.7 | 15.3 | | 0.6 | | 15.5 | 10.2 | |
| Average number of employees | 2,265 | 2,274 | 0% | 2,093 | 8% | 2,230 | 2,045 | 9% |
| Number of branches | 208 | 208 | 0% | 208 | 0% | 208 | 208 | 0% |

## BUSINESS VOLUMES

| Average volumes, GBP m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Loans to the public | | | | | | | | |
| Household | 6,654 | 6,606 | 1% | 6,311 | 5% | 6,544 | 6,127 | 7% |
| Companies | 14,231 | 13,870 | 3% | 12,874 | 11% | 13,740 | 12,264 | 12% |
| **Total** | **20,885** | **20,476** | **2%** | **19,185** | **9%** | **20,284** | **18,391** | **10%** |
| Deposits and borrowing from the public | | | | | | | | |
| Household | 4,868 | 4,726 | 3% | 4,232 | 15% | 4,612 | 3,775 | 22% |
| Companies | 9,940 | 9,091 | 9% | 9,174 | 8% | 9,213 | 8,654 | 6% |
| **Total** | **14,808** | **13,817** | **7%** | **13,406** | **10%** | **13,825** | **12,429** | **11%** |

## JANUARY – DECEMBER 2018 COMPARED WITH JANUARY – DECEMBER 2017

### Financial performance

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

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

Net interest income improved by 19%, or SEK 896m, to SEK 5,555m (4,659). Exchange rate effects increased net interest income by SEK 241m, and expressed in local currency, net interest income grew by 13%. An increase in business volumes made a positive contribution of SEK 407m. The margin on lending to households declined by SEK 128m, while the corporate lending margin improved by SEK 62m. Deposit margins improved by SEK 327m. Government fees rose by SEK 59m and amounted to SEK -232m (-173).

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

Staff costs went up by 8%, or SEK 142m. 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 141m. Adjusted for this, staff costs rose by SEK 283m, or 15%. The weakening of the Swedish krona accounted for SEK 109m of this increase. The average number of employees grew by 9% to 2,230 (2,045).

Other expenses rose by SEK 532m to SEK -1,739m (-1,207). Exchange rate effects had an impact on other expenses in the amount of SEK -62m. During the year, expenses of SEK -295m (-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 -125m (-739) and the credit loss ratio (under IFRS 9) was 0.06%, compared with 0.38% (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% compared with the previous year, while lending to households grew by 7%. Overall, the average volume of lending increased by 10% to GBP 20.3bn, while total deposits went up by 11% to GBP 13.8bn.

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

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

## Q4 2018 COMPARED WITH Q3 2018

Operating profit rose to SEK 654m (650). The effects of exchange rate movements between the quarters were marginal. Return on allocated capital decreased to 14.7% (15.3).

Income increased by 4% to SEK 1,711m (1,650).

Net interest income rose by 3%, or SEK 47m, to SEK 1,466m (1,419). Larger business volumes improved net interest income by SEK 32m, while lower lending margins reduced net interest income by SEK -7m. The margins on household deposits declined by SEK 3m, while the margins on corporate deposits improved by SEK 17m.

Net fee and commission income increased by 3% to SEK 184m (179). Net gains/losses on financial transactions totalled SEK 54m (52).

Expenses increased to SEK -1,027m (-958). Of the SEK 69m increase to expenses, SEK 29m can be attributed to the work on forming the subsidiary. Staff costs went up by SEK 13m to SEK 546m (533). The remainder of the increase to expenses was attributable to continued expansion.

Credit losses amounted to SEK -30m (-42), and the credit loss ratio was thus 0.05% (0.08).

# 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.*

## INCOME STATEMENT

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 423 | 437 | -3% | 439 | -4% | 1,713 | 1,714 | 0% |
| Net fee and commission income | 129 | 117 | 10% | 115 | 12% | 478 | 433 | 10% |
| Net gains/losses on financial transactions | 24 | 23 | 4% | 24 | 0% | 103 | 95 | 8% |
| Other income | 2 | 2 | 0% | 3 | -33% | 10 | 15 | -33% |
| **Total income** | **578** | **579** | **0%** | **581** | **-1%** | **2,304** | **2,257** | **2%** |
| Staff costs | -234 | -188 | 24% | -174 | 34% | -782 | -669 | 17% |
| Other expenses | -79 | -44 | 80% | -51 | 55% | -214 | -159 | 35% |
| Internal purchased and sold services | -95 | -89 | 7% | -88 | 8% | -364 | -335 | 9% |
| Depreciation, amortisation and impairments of property, equipment and intangible assets | -1 | -2 | -50% | -3 | -67% | -8 | -13 | -38% |
| **Total expenses** | **-409** | **-323** | **27%** | **-316** | **29%** | **-1,368** | **-1,176** | **16%** |
| **Profit before credit losses** | **169** | **256** | **-34%** | **265** | **-36%** | **936** | **1,081** | **-13%** |
| Net credit losses | -2 | 4 | | -372 | -99% | 5 | -466 | |
| Gains/losses on disposal of property, equipment and intangible assets | 2 | 1 | 100% | 2 | 0% | 5 | 13 | -62% |
| **Operating profit** | **169** | **261** | **-35%** | **-105** | | **946** | **628** | **51%** |
| Profit allocation | 16 | 19 | -16% | 25 | -36% | 70 | 94 | -26% |
| **Operating profit after profit allocation** | **185** | **280** | **-34%** | **-80** | | **1,016** | **722** | **41%** |
| Internal income | 24 | -81 | | 7 | 243% | -209 | -237 | 12% |
| Cost/income ratio, % | 68.9 | 54.0 | | 52.1 | | 57.6 | 50.0 | |
| Credit loss ratio (IAS 39), % | | | | 1.53 | | | 0.48 | |
| Credit loss ratio (IFRS 9), % | 0.01 | -0.02 | | | | -0.01 | | |
| Allocated capital | 6,168 | 6,088 | 1% | 5,711 | 8% | 6,168 | 5,711 | 8% |
| Return on allocated capital, % | 9.4 | 14.4 | | -4.3 | | 13.3 | 9.7 | |
| Average number of employees | 612 | 611 | 0% | 609 | 0% | 615 | 608 | 1% |
| Number of branches | 56 | 56 | 0% | 57 | -2% | 56 | 57 | -2% |

## BUSINESS VOLUMES

| Average volumes, DKK bn | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Loans to the public | | | | | | | | |
| Household | 46.9 | 46.5 | 1% | 45.1 | 4% | 46.4 | 44.1 | 5% |
| Companies | 28.5 | 29.4 | -3% | 28.7 | -1% | 29.1 | 28.7 | 1% |
| **Total** | **75.4** | **75.9** | **-1%** | **73.8** | **2%** | **75.5** | **72.8** | **4%** |
| Deposits and borrowing from the public | | | | | | | | |
| Household | 14.5 | 14.1 | 3% | 13.3 | 9% | 13.9 | 12.8 | 9% |
| Companies | 18.9 | 21.5 | -12% | 19.3 | -2% | 20.1 | 19.1 | 5% |
| **Total** | **33.4** | **35.6** | **-6%** | **32.6** | **2%** | **34.0** | **31.9** | **7%** |

## JANUARY – DECEMBER 2018 COMPARED WITH JANUARY – DECEMBER 2017

### Financial performance

Operating profit rose by 51% to SEK 946m (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 32m on operating profit. Profit before credit losses, adjusted for exchange rate movements, declined by 19%. Return on allocated capital was 13.3% (9.7).

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

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

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

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

Credit losses consisted of net recoveries and amounted to SEK 5m (-466), and the credit loss ratio was -0.01% 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%, while deposits from households grew by 9%. The average volume of corporate lending increased by 1%, while corporate deposits were up by 5%. Overall, the average volume of lending grew by 4% to DKK 75.5bn (72.8), and deposits increased by 7% to DKK 34.0bn (31.9).

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

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

## Q4 2018 COMPARED WITH Q3 2018

Operating profit went down by 35% to SEK 169m (261). The effect of exchange rate movements was marginal. The downturn in profits can be explained by a higher level of expenses.

Net interest income declined by 3% to SEK 423m (437). Lower lending margins, both corporate and household, negatively affected net interest income by SEK -6m. Higher household lending volumes made a positive contribution of SEK 2m. The fees for the Swedish Resolution Fund and the deposit guarantee were stable and amounted to SEK -26m (-28).

Net fee and commission income grew by 10% thanks to a high level of activity, to SEK 129m (117).

Net gains/losses on financial transactions totalled SEK 24m (23).

Expenses rose by 27% to SEK -409m (-323). Staff costs increased by 24% to SEK -234m (-188). Adaptations to forthcoming legislation in Denmark concerning holiday pay entailed a one-off cost of SEK -32m. In addition, non-recurring staff costs amounted to SEK -10m. Total expenses also increased on account of a non-recurring item of SEK -28m related to the introduction of a new clearing system for Danish banks. Adjusted for these one-off costs, total expenses increased by 5%.

Credit losses totalled SEK -2m (4). The credit loss ratio was 0.01% (-0.02).

# Handelsbanken Finland

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

## INCOME STATEMENT

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 334 | 336 | -1% | 319 | 5% | 1,315 | 1,203 | 9% |
| Net fee and commission income | 132 | 124 | 6% | 118 | 12% | 502 | 462 | 9% |
| Net gains/losses on financial transactions | 6 | 9 | -33% | 18 | -67% | 45 | 52 | -13% |
| Other income | 3 | 6 | -50% | 4 | -25% | 16 | 18 | -11% |
| **Total income** | **475** | **475** | **0%** | **459** | **3%** | **1,878** | **1,735** | **8%** |
| Staff costs | -115 | -110 | 5% | -107 | 7% | -437 | -396 | 10% |
| Other expenses | -57 | -41 | 39% | -48 | 19% | -195 | -180 | 8% |
| Internal purchased and sold services | -97 | -92 | 5% | -80 | 21% | -365 | -303 | 20% |
| Depreciation, amortisation and impairments of property, equipment and intangible assets | -5 | -6 | -17% | -6 | -17% | -21 | -19 | 11% |
| **Total expenses** | **-274** | **-249** | **10%** | **-241** | **14%** | **-1,018** | **-898** | **13%** |
| **Profit before credit losses** | **201** | **226** | **-11%** | **218** | **-8%** | **860** | **837** | **3%** |
| Net credit losses | -72 | -25 | 188% | -51 | 41% | -172 | -57 | 202% |
| Gains/losses on disposal of property, equipment and intangible assets | 0 | 0 | | 0 | | 0 | 0 | |
| **Operating profit** | **129** | **201** | **-36%** | **167** | **-23%** | **688** | **780** | **-12%** |
| Profit allocation | 40 | 47 | -15% | 43 | -7% | 183 | 150 | 22% |
| **Operating profit after profit allocation** | **169** | **248** | **-32%** | **210** | **-20%** | **871** | **930** | **-6%** |
| Internal income | 55 | -72 | | 27 | 104% | -157 | -228 | 31% |
| Cost/income ratio, % | 53.2 | 47.7 | | 48.0 | | 49.4 | 47.6 | |
| Credit loss ratio (IAS 39), % | | | | 0.16 | | | 0.05 | |
| Credit loss ratio (IFRS 9), % | 0.34 | 0.08 | | | | 0.14 | | |
| Allocated capital | 6,376 | 6,104 | 4% | 5,646 | 13% | 6,376 | 5,646 | 13% |
| Return on allocated capital, % | 8.2 | 12.7 | | 11.6 | | 10.9 | 12.8 | |
| Average number of employees | 487 | 525 | -7% | 519 | -6% | 518 | 506 | 2% |
| Number of branches | 36 | 40 | -10% | 45 | -20% | 36 | 45 | -20% |

## BUSINESS VOLUMES

| Average volumes, EUR m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Loans to the public | | | | | | | | |
| Household | 4,277 | 4,215 | 1% | 4,107 | 4% | 4,195 | 4,061 | 3% |
| Companies | 9,292 | 9,274 | 0% | 8,901 | 4% | 9,145 | 8,935 | 2% |
| **Total** | **13,569** | **13,489** | **1%** | **13,008** | **4%** | **13,340** | **12,996** | **3%** |
| Deposits and borrowing from the public | | | | | | | | |
| Household | 1,625 | 1,611 | 1% | 1,569 | 4% | 1,579 | 1,596 | -1% |
| Companies | 2,947 | 2,696 | 9% | 2,698 | 9% | 2,816 | 2,671 | 5% |
| **Total** | **4,572** | **4,307** | **6%** | **4,267** | **7%** | **4,395** | **4,267** | **3%** |

## JANUARY – DECEMBER 2018 COMPARED WITH JANUARY – DECEMBER 2017

### Financial performance

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

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

Net interest income rose by 9%, or SEK 112m, to SEK 1,315m (1,203). Exchange rate movements represented SEK 71m of this increase and, expressed in local currency, net interest income grew by 3%. Fees for the Swedish Resolution Fund increased by SEK 31m and, together with the deposit guarantee, government fees burdened net interest income in the amount of SEK -132m (-101). Larger business volumes made a positive contribution of SEK 30m. 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 6m.

Net fee and commission income rose by 9% to SEK 502m (462) but, adjusted for exchange rate movements, net fee and commission income improved by 2%. 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 15m 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 45m (52).

Total expenses rose by 13% to SEK -1,018m (-898). Adjusted for exchange rate movements, expenses increased by 6%.

Staff costs rose by 10% to SEK -437m (-396) but, expressed in local currency, the increase was 4%. The average number of employees grew by 2% 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 -172m (-57), and the credit loss ratio was 0.14% 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%. Lending to households increased by 3%, while deposits from households declined by 1%.

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

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

## Q4 2018 COMPARED WITH Q3 2018

Operating profit decreased by 36% to SEK 129m (201), partly due to higher credit losses. Profit before credit losses decreased by 11% to SEK 201m (226).

Net interest income decreased by 1% to SEK 334m (336), where the appreciation of the Swedish krona accounted for SEK 3m of the decrease. Expressed in local currency, net interest income improved slightly. Improved margins on corporate lending made a positive contribution of SEK 2m.

Net fee and commission income rose to SEK 132m (124).

Net gains/losses on financial transactions totalled SEK 6m (9).

Expenses increased by 10% to SEK -274m (-249). Staff costs increased by 5% to SEK -115m (-110), due in part to contractual salary increases as of 1 October, and also to the effects of the Finnish pension reform. The average number of employees fell to 487 (525).

Credit losses were SEK -72m (-25), and the credit loss ratio was 0.34% (0.08).

# 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.*

## INCOME STATEMENT

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 972 | 969 | 0% | 953 | 2% | 3,832 | 3,666 | 5% |
| Net fee and commission income | 106 | 109 | -3% | 104 | 2% | 413 | 410 | 1% |
| Net gains/losses on financial transactions | 14 | 26 | -46% | 21 | -33% | 88 | 90 | -2% |
| Other income | 2 | 1 | 100% | 3 | -33% | 7 | 14 | -50% |
| **Total income** | **1,094** | **1,105** | **-1%** | **1,081** | **1%** | **4,340** | **4,180** | **4%** |
| Staff costs | -197 | -221 | -11% | -192 | 3% | -824 | -570 | 45% |
| Other expenses | -61 | -74 | -18% | -62 | -2% | -250 | -223 | 12% |
| Internal purchased and sold services | -121 | -123 | -2% | -118 | 3% | -460 | -424 | 8% |
| Depreciation, amortisation and impairments of property, equipment and intangible assets | -5 | -4 | 25% | -3 | 67% | -17 | -14 | 21% |
| **Total expenses** | **-384** | **-422** | **-9%** | **-375** | **2%** | **-1,551** | **-1,231** | **26%** |
| **Profit before credit losses** | **710** | **683** | **4%** | **706** | **1%** | **2,789** | **2,949** | **-5%** |
| Net credit losses | -112 | -172 | -35% | -36 | 211% | -413 | -157 | 163% |
| Gains/losses on disposal of property, equipment and intangible assets | 1 | 0 | | 0 | | 4 | 1 | |
| **Operating profit** | **599** | **511** | **17%** | **670** | **-11%** | **2,380** | **2,793** | **-15%** |
| Profit allocation | 39 | 28 | 39% | 26 | 50% | 127 | 90 | 41% |
| **Operating profit after profit allocation** | **638** | **539** | **18%** | **696** | **-8%** | **2,507** | **2,883** | **-13%** |
| Internal income | -484 | -760 | 36% | -362 | -34% | -2,572 | -2,196 | -17% |
| Cost/income ratio, % | 33.9 | 37.2 | | 33.9 | | 34.7 | 28.8 | |
| Credit loss ratio (IAS 39), % | | | | 0.06 | | | 0.06 | |
| Credit loss ratio (IFRS 9), % | 0.18 | 0.28 | | | | 0.17 | | |
| Allocated capital | 16,664 | 16,412 | 2% | 15,837 | 5% | 16,664 | 15,837 | 5% |
| Return on allocated capital, % | 11.9 | 10.3 | | 13.7 | | 12.3 | 14.1 | |
| Average number of employees | 697 | 719 | -3% | 673 | 4% | 697 | 672 | 4% |
| Number of branches | 49 | 49 | 0% | 49 | 0% | 49 | 49 | 0% |

## BUSINESS VOLUMES

| Average volumes, NOK bn | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Loans to the public | | | | | | | | |
| Household | 92.9 | 91.7 | 1% | 89.7 | 4% | 91.4 | 88.7 | 3% |
| Companies | 158.7 | 159.1 | 0% | 151.9 | 4% | 158.3 | 149.1 | 6% |
| **Total** | **251.6** | **250.8** | **0%** | **241.6** | **4%** | **249.7** | **237.8** | **5%** |
| Deposits and borrowing from the public | | | | | | | | |
| Household | 20.6 | 21.2 | -3% | 20.1 | 2% | 20.6 | 19.9 | 4% |
| Companies | 45.4 | 42.7 | 6% | 48.3 | -6% | 43.4 | 49.4 | -12% |
| **Total** | **66.0** | **63.9** | **3%** | **68.4** | **-4%** | **64.0** | **69.3** | **-8%** |

## JANUARY – DECEMBER 2018 COMPARED WITH JANUARY – DECEMBER 2017

### Financial performance

Operating profit went down by 15% to SEK 2,380m (2,793). In the fourth quarter, staff costs declined by SEK 26m 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 206m. Adjusted for this, operating profit fell by 9%, which is attributable to higher credit losses. Exchange rate movements increased operating profit by SEK 79m and, expressed in local currency, operating profit declined by 18%.

Return on allocated capital was 12.3% (14.1).

Income grew by 4% to SEK 4,340m (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 166m, or 5%, to SEK 3,832m (3,666), of which SEK 111m was attributable to exchange rate movements. Greater lending volumes improved net interest income by SEK 142m, while higher lending margins contributed SEK 8m. The net amount of the deposit margins contributed SEK 30m. The change in the volume of household deposits contributed SEK 5m, while the equivalent change in corporate deposits reduced net interest income by SEK 22m. Fees for the Swedish Resolution Fund increased by SEK 94m and, together with the deposit guarantee, government fees burdened net interest income in the amount of SEK -283m (-192).

Net fee and commission income increased marginally to SEK 413m (410), although expressed in local currency, net fee and commission income was 3% 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 35m 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 88m (90).

Staff costs totalled SEK -824m (-570). Adjusted for the aforementioned transition to a defined contribution pension plan, staff costs rose by 10%, due in part to contractual salary increases. The average number of employees increased by 4% 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 -413m (-157), and the credit loss ratio was 0.17% 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%, while deposits from households grew by 4%. The average volume of corporate lending grew by 6%, while corporate deposits fell by 12%. In total, the average volume of lending rose by 5% to NOK 249.7bn (237.8), while total deposits decreased by 8% to NOK 64.0bn (69.3).

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

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

## Q4 2018 COMPARED WITH Q3 2018

Operating profit increased by 17% to SEK 599m (511). The effect of exchange rate movements was marginal.

Net interest income was largely unchanged at SEK 972m (969). The appreciation of the Swedish krona had a negative effect of SEK 13m, and expressed in local currency, net interest income grew by 1%. Improved lending margins had a positive impact of SEK 20m, while lower deposit margins had an adverse effect of SEK 6m. The fees for the Swedish Resolution Fund and the deposit guarantee reduced net interest income by SEK -69m (-71).

Net fee and commission income grew by 3% to SEK 106m (109), due in part to lower payment commissions, as well as lower commissions on custody accounts and other asset management.

Net gains/losses on financial transactions totalled SEK 14m (26).

Expenses fell by 9% to SEK -384m (-422).

Staff costs declined by SEK 24m to SEK -197m (-221), chiefly due to the aforementioned non-recurring item of SEK 26m. The average number of employees decreased by 22 to 697 (719), as a result of the employment of temporary staff during the summer period.

Credit losses increased to SEK -112m (-172), and the credit loss ratio was 0.18% (0.28).

# 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.*

## INCOME STATEMENT

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 176 | 174 | 1% | 155 | 14% | 675 | 557 | 21% |
| Net fee and commission income | 39 | 39 | 0% | 55 | -29% | 160 | 155 | 3% |
| Net gains/losses on financial transactions | 9 | 6 | 50% | 13 | -31% | 21 | 20 | 5% |
| Share of profit of associates | | | | 0 | | | 2 | |
| Other income | 1 | 0 | | 0 | | 2 | 1 | 100% |
| **Total income** | **225** | **219** | **3%** | **223** | **1%** | **858** | **735** | **17%** |
| Staff costs | -91 | -90 | 1% | -76 | 20% | -355 | -289 | 23% |
| Other expenses | -35 | -23 | 52% | -27 | 30% | -103 | -85 | 21% |
| Internal purchased and sold services | -31 | -28 | 11% | -29 | 7% | -117 | -98 | 19% |
| Depreciation, amortisation and impairments of property, equipment and intangible assets | -5 | -4 | 25% | -5 | 0% | -17 | -13 | 31% |
| **Total expenses** | **-162** | **-145** | **12%** | **-137** | **18%** | **-592** | **-485** | **22%** |
| **Profit before credit losses** | **63** | **74** | **-15%** | **86** | **-27%** | **266** | **250** | **6%** |
| Net credit losses | 1 | 1 | 0% | 1 | | 14 | 2 | |
| Gains/losses on disposal of property, equipment and intangible assets | - | - | | - | | - | - | |
| **Operating profit** | **64** | **75** | **-15%** | **87** | **-26%** | **280** | **252** | **11%** |
| Profit allocation | 0 | 1 | -100% | 1 | -100% | 2 | 3 | -33% |
| **Operating profit after profit allocation** | **64** | **76** | **-16%** | **88** | **-27%** | **282** | **255** | **11%** |
| Internal income | -51 | -87 | 41% | -45 | -13% | -296 | -227 | -30% |
| Cost/income ratio, % | 72.0 | 65.9 | | 61.2 | | 68.8 | 65.7 | |
| Credit loss ratio (IAS 39), % | | | | -0.01 | | | -0.01 | |
| Credit loss ratio (IFRS 9), % | -0.01 | -0.01 | | | | -0.03 | | |
| Allocated capital | 1,743 | 1,659 | 5% | 1,465 | 19% | 1,743 | 1,465 | 19% |
| Return on allocated capital, % | 11.6 | 14.2 | | 18.8 | | 13.5 | 14.3 | |
| Average number of employees | 307 | 305 | 1% | 283 | 8% | 300 | 273 | 10% |
| Number of branches | 29 | 29 | 0% | 28 | 4% | 29 | 28 | 4% |

## BUSINESS VOLUMES

| Average volumes, EUR m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Loans to the public | | | | | | | | |
| Household | 2,599 | 2,456 | 6% | 2,136 | 22% | 2,403 | 1,959 | 23% |
| Companies | 1,969 | 2,054 | -4% | 1,803 | 9% | 2,016 | 1,728 | 17% |
| **Total** | **4,568** | **4,510** | **1%** | **3,939** | **16%** | **4,419** | **3,687** | **20%** |
| Deposits and borrowing from the public | | | | | | | | |
| Household | 147 | 136 | 8% | 109 | 35% | 132 | 91 | 45% |
| Companies | 1,044 | 955 | 9% | 749 | 39% | 1,008 | 739 | 36% |
| **Total** | **1,191** | **1,091** | **9%** | **858** | **39%** | **1,140** | **830** | **37%** |

## JANUARY – DECEMBER 2018 COMPARED WITH JANUARY – DECEMBER 2017

### Financial performance

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

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

Net fee and commission income increased by 3% to SEK 160m (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 141m (136).

Expenses grew by 22% to SEK -592m (-485), as a result of the continuing expansion. The average number of employees went up by 10% 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 14m (2). The credit loss ratio was -0.03% 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% compared to the previous year, while deposits grew by 37%. The average volume of lending to households rose by 23% to EUR 2,403m (1,959), while deposits from households increased by 45% to EUR 132m (91). Corporate lending climbed 17% to EUR 2,016m (1,728). The average volume of corporate deposits was up by 36% to EUR 1,008m (739).

Assets under management at Optimix totalled EUR 1.6bn (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).

## Q4 2018 COMPARED WITH Q3 2018

Operating profit went down by 15% to SEK 64m (75). Income climbed by 3% to SEK 225m (219). The effect of exchange rate movements was marginal.

Net interest income grew by 1% to SEK 176m (174), primarily due to larger lending volumes.

Net fee and commission income was unchanged at SEK 39m (39).

Expenses increased by 12% to SEK -162m (-145). The average number of employees increased by 2 to 307 (305), and staff costs amounted to SEK -91m (-90).

Credit losses consisted of net recoveries of SEK 1m (1). The credit loss ratio was -0.01% (-0.01).

# Handelsbanken Capital Markets

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

*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).*

*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.*

## INCOME STATEMENT

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 99 | 112 | -12% | 116 | -15% | 440 | 472 | -7% |
| Net fee and commission income | 1,030 | 992 | 4% | 789 | 31% | 3,971 | 3,174 | 25% |
| Net gains/losses on financial transactions | 201 | 130 | 55% | 195 | 3% | 805 | 979 | -18% |
| Risk result - insurance | 40 | 10 | 300% | 34 | 18% | 106 | 142 | -25% |
| Other income | 10 | 12 | -17% | 14 | -29% | 24 | 26 | -8% |
| **Total income** | **1,380** | **1,256** | **10%** | **1,148** | **20%** | **5,346** | **4,793** | **12%** |
| Staff costs | -570 | -559 | 2% | -568 | 0% | -2,278 | -2,241 | 2% |
| Other expenses | -313 | -236 | 33% | -273 | 15% | -1,027 | -922 | 11% |
| Internal purchased and sold services | -35 | 25 | | 23 | | 8 | 52 | -85% |
| Depreciation, amortisation and impairments of property, equipment and intangible assets | -34 | -35 | -3% | -22 | 55% | -127 | -83 | 53% |
| **Total expenses** | **-952** | **-805** | **18%** | **-840** | **13%** | **-3,424** | **-3,194** | **7%** |
| **Profit before credit losses** | **428** | **451** | **-5%** | **308** | **39%** | **1,922** | **1,599** | **20%** |
| Net credit losses | -2 | -1 | | -1 | 100% | 10 | -56 | |
| Gains/losses on disposal of property, equipment and intangible assets | 0 | 0 | | -1 | | 0 | -1 | |
| **Operating profit** | **426** | **450** | **-5%** | **306** | **39%** | **1,932** | **1,542** | **25%** |
| Profit allocation | -565 | -595 | -5% | -417 | 35% | -2,297 | -1,629 | 41% |
| **Operating profit after profit allocation** | **-139** | **-145** | **4%** | **-111** | **-25%** | **-365** | **-87** | **-320%** |
| Internal income | -594 | -712 | 17% | -670 | 11% | -2,741 | -2,735 | 0% |
| Cost/income ratio, % | 116.8 | 121.8 | | 114.9 | | 112.3 | 100.9 | |
| Credit loss ratio (IAS 39), % | | | | 0.01 | | | 0.12 | |
| Credit loss ratio (IFRS 9), % | -0.01 | 0.01 | | | | -0.02 | | |
| Allocated capital | 4,208 | 4,482 | -6% | 4,314 | -2% | 4,208 | 4,314 | -2% |
| Return on allocated capital, % | -10.3 | -10.2 | | -8.1 | | -6.6 | -1.5 | |
| Average number of employees | 1,564 | 1,601 | -2% | 1,591 | -2% | 1,582 | 1,625 | -3% |

For more financial information about the different business areas within Handelsbanken Capital Markets, please see the Fact Book that is available at handelsbanken.se/ireng.

## JANUARY – DECEMBER 2018 COMPARED WITH JANUARY – DECEMBER 2017

### Financial performance

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

Net fee and commission income increased by 25%, to SEK 3,971m (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 558m 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 212m. This will instead be paid to the branch operations by means of profit allocation.

Net gains/losses on financial transactions decreased to SEK 805m (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% to SEK -2,278m (-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% to 1,582 (1,625).

Other expenses increased by 11% to SEK 1,027m (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 10m (-56), and the credit loss ratio was -0.02% 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 13.0bn (22.0) during the year,
corresponding to a market share of 24%. 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 8.9bn during the year.

Total net savings in the Group's funds amounted to SEK 21.2bn (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% to SEK 503bn (498). Total assets under management in the Group rose during the year by 1% to SEK 619bn (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% compared with the previous year. The total net flow also performed strongly and rose by 38% during the year to SEK 6.2bn (4.5).

The volume of assets under management by Handelsbanken Liv during the year was unchanged at SEK 139bn (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 20.0bn. In total, the Bank arranged 115 bond issues during the year for a value of EUR 12.6bn.

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

## Q4 2018 COMPARED WITH Q3 2018

Operating profit decreased by 5% to SEK 426m (450) due to an increase in expenses.

Total income grew by 10% to SEK 1,380m (1,256). Net fee and commission income increased by 4% to SEK 1,030m (992). Net gains/losses on financial transactions rose to SEK 201m (130), one reason for this being a change in the internal remuneration model for derivatives, for which a corresponding negative effect can be seen in the branch operations. The risk result in insurance increased by SEK 30m to SEK 40m (10).

Total expenses rose by 18% to SEK -952m (-805). Staff costs increased by 2% to SEK -570m (-559). The average number of employees decreased by 2% to 1,564 (1,601), as a result of the employment of temporary staff hired over the holiday period in the comparison quarter. Other expenses rose by SEK 77m to SEK -313m (-236), chiefly as a result of seasonally lower expenses during the comparison quarter.

Credit losses were SEK -2m (-1), and the credit loss ratio was -0.01% (0.01).

# Other units not reported in the business segments

*Below is an account of income and expenses attributable to units not reported in the business segments. The largest of these is the Group's IT department, but this also includes treasury, audit, risk control, and the unit for financial crime prevention, as well as the central staff functions for accounting, information, legal affairs, credit, and HR matters. Provisions for the profit-sharing foundation, Oktogonen, capital gains/losses, dividends, and other income and expenses that are not attributable to any of the segments are also reported here.*

## INCOME STATEMENT

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 163 | 183 | -11% | 179 | -9% | 768 | 801 | -4% |
| Net fee and commission income | -1 | 9 | | 9 | | 24 | 48 | -50% |
| Net gains/losses on financial transactions | -128 | -224 | 43% | -261 | 51% | -990 | -755 | -31% |
| Share of profit of associates | -3 | 10 | | 30 | | - | 12 | |
| Other income | 222 | 9 | | 605 | -63% | 1,102 | 637 | 73% |
| **Total income** | **253** | **-13** | | **562** | **-55%** | **904** | **743** | **22%** |
| Staff costs | -851 | -817 | 4% | -674 | 26% | -3,237 | -2,818 | 15% |
| Other expenses | -805 | -672 | 20% | -703 | 15% | -2,938 | -2,591 | 13% |
| Internal purchased and sold services | 1,507 | 1,330 | 13% | 1,318 | 14% | 5,557 | 4,871 | 14% |
| Depreciation, amortisation and impairments of property, equipment and intangible assets | -88 | -124 | -29% | -98 | -10% | -386 | -282 | 37% |
| **Total expenses** | **-237** | **-283** | **-16%** | **-157** | **51%** | **-1,004** | **-820** | **22%** |
| **Profit before credit losses** | **16** | **-296** | | **405** | **-96%** | **-100** | **-77** | **-30%** |
| Net credit losses | 2 | 0 | | - | | 2 | - | |
| Gains/losses on disposal of property, equipment and intangible assets | 1 | 0 | | 0 | | 1 | 0 | |
| **Operating profit** | **19** | **-296** | | **405** | **-95%** | **-97** | **-77** | **-26%** |
| Profit allocation | | | | | | | | |
| **Operating profit after profit allocation** | **19** | **-296** | | **405** | **-95%** | **-97** | **-77** | **-26%** |
| Internal income | 1,418 | 2,079 | -32% | 953 | 49% | 7,692 | 5,957 | 29% |
| Average number of employees | 2,411 | 2,319 | 4% | 2,103 | 15% | 2,281 | 2,025 | 13% |

### JANUARY – DECEMBER 2018 COMPARED WITH JANUARY – DECEMBER 2017

Operating profit in other units not reported in the business segments amounted to SEK -97m (-77).

Other income increased to SEK 1,102m (637); this was attributable to the Bank's sale of its shares in UC AB, which had a positive earnings impact of SEK 837m in the second quarter, and a dividend of SEK 198m received from VISA Sweden ekonomisk förening during Q4.

Net gains/losses on financial transactions totalled SEK -990m (-755).

The provision to the Oktogonen profit-sharing foundation was SEK -859m (-768).

The average number of employees totalled 2,281 (2,025). The increase in the number of employees was partly attributable to an increase in IT development activity. The number of employees in the IT department grew by 6% to 1,641 (1,542). The increase was also attributable to the Bank's continuing build-up of its control functions as part of its adjustment to regulatory developments.

### Q4 2018 COMPARED WITH Q3 2018

Operating profit was SEK 19m (-296). Other income was SEK 222m (9), with the increase chiefly due to the aforementioned receipt of a dividend from VISA Sweden ekonomisk förening. The provision to the Oktogonen profit-sharing foundation was SEK -218m (-201). The average number of employees totalled 2,411 (2,319); within this figure, the number of employees at the IT department increased by 41 to 1,700 (1,659). An organisational change entailed the transfer of 45 employees from Handelsbanken Sweden to central units.

## KEY FIGURES – GROUP

| | Q4 2018 | Q3 2018 | Q4 2017 | Full year 2018 | Full year 2017 |
|---|---|---|---|---|---|
| Return on equity | 11.6% | 12.1% | 11.2% | 12.8% | 12.3% |
| C/I ratio | 49.8% | 48.1% | 45.5% | 47.7% | 45.5% |
| C/I ratio, incl. credit losses | 52.3% | 50.2% | 55.2% | 49.7% | 49.6% |
| Earnings per share, SEK | 2.07 | 2.11 | 1.93 | 8.93 | 8.28 |
| - after dilution | 2.05 | 2.09 | 1.92 | 8.84 | 8.20 |
| Ordinary dividend, SEK | | | | 5.50 | 5.50 |
| Total dividend | | | | 5.50 | 7.50 |
| Adjusted equity per share, SEK | 72.90 | 73.51 | 72.90 | 72.90 | 72.90 |
| Common equity tier 1 ratio, CRR | 16.8% | 21.7% | 22.7% | 16.8% | 22.7% |
| Total capital ratio, CRR | 21.0% | 27.1% | 28.3% | 21.0% | 28.3% |
| Average number of employees | 12,359 | 12,583 | 11,956 | 12,307 | 11,832 |
| Number of branches, Sweden | 390 | 402 | 420 | 390 | 420 |
| Number of branches outside Sweden | 389 | 393 | 399 | 389 | 399 |

In addition to financial definitions according to IFRS, alternative performance measures are used to describe the performance of the underlying operations and to increase comparability between periods. For definitions and calculation of these performance measures, please see the Fact Book which is available at handelsbanken.se/ireng.

## THE HANDELSBANKEN SHARE

| | Q4 2018 | Q3 2018 | Q4 2017 | Full year 2018 | Full year 2017 |
|---|---|---|---|---|---|
| Number of converted shares | - | - | - | 1,609 | 22,151 |
| Number of repurchased shares | - | - | - | - | - |
| Holding of own shares in trading book, end of period | - | - | - | - | - |
| Number of outstanding shares after repurchases and deduction for trading book, end of period | 1,944,175,160 | 1,944,175,160 | 1,944,173,551 | 1,944,175,160 | 1,944,173,551 |
| Number of outstanding shares after dilution, end of period | 1,976,884,889 | 1,976,024,661 | 1,974,525,521 | 1,976,884,889 | 1,974,525,521 |
| Average number of shares converted during the period | 1,609 | 1,609 | 22,151 | 1,018 | 21,058 |
| Average holdings of own shares (repurchased and holdings in trading book) | - | - | - | - | - |
| Average number of outstanding shares | 1,944,175,160 | 1,944,175,160 | 1,944,173,551 | 1,944,174,569 | 1,944,172,458 |
| - after dilution | 1,976,024,661 | 1,976,962,335 | 1,974,776,264 | 1,974,525,521 | 1,974,290,244 |
| Share price SHB class A, end of period, SEK | 98.30 | 112.25 | 112.20 | 98.30 | 112.20 |
| Share price SHB class B, end of period, SEK | 101.20 | 111.80 | 113.00 | 101.20 | 113.00 |
| Market capitalisation, end of period, SEK bn | 191 | 218 | 218 | 191 | 218 |

# Condensed set of financial statements – Group

## INCOME STATEMENT – GROUP

| SEK m | | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|---|
| Interest income | | 12,914 | 12,798 | 1% | 10,853 | 19% | 49,171 | 42,092 | 17% |
| Interest expenses | | -5,042 | -4,936 | 2% | -3,076 | 64% | -17,885 | -12,326 | 45% |
| **Net interest income** | Note 2 | **7,872** | **7,862** | **0%** | **7,777** | **1%** | **31,286** | **29,766** | **5%** |
| Net fee and commission income | Note 3 | 2,611 | 2,624 | 0% | 2,501 | 4% | 10,247 | 9,718 | 5% |
| Net gains/losses on financial transactions | Note 4 | 303 | 186 | 63% | 164 | 85% | 908 | 1,271 | -29% |
| Risk result - insurance | | 40 | 10 | 300% | 34 | 18% | 106 | 142 | -25% |
| Other dividend income | | 201 | 3 | | 576 | -65% | 218 | 591 | -63% |
| Share of profit of associates | | -3 | 10 | | 30 | | - | 14 | |
| Other income | | 59 | 33 | 79% | 70 | -16% | 1,005 | 172 | 484% |
| **Total income** | | **11,083** | **10,728** | **3%** | **11,152** | **-1%** | **43,770** | **41,674** | **5%** |
| Staff costs | | -3,464 | -3,421 | 1% | -3,178 | 9% | -13,465 | -12,472 | 8% |
| Other expenses | Note 5 | -1,889 | -1,554 | 22% | -1,712 | 10% | -6,712 | -5,889 | 14% |
| Depreciation, amortisation and impairment of property, equipment and intangible assets | | -171 | -181 | -6% | -184 | -7% | -713 | -619 | 15% |
| **Total expenses** | | **-5,524** | **-5,156** | **7%** | **-5,074** | **9%** | **-20,890** | **-18,980** | **10%** |
| **Profit before credit losses** | | **5,559** | **5,572** | **0%** | **6,078** | **-9%** | **22,880** | **22,694** | **1%** |
| Net credit losses | Note 6 | -276 | -230 | 20% | -1,084 | -75% | -881 | -1,683 | -48% |
| Gains/losses on disposal of property, equipment and intangible assets | | 5 | 2 | 150% | 3 | 67% | 14 | 14 | 0% |
| **Operating profit** | | **5,288** | **5,344** | **-1%** | **4,997** | **6%** | **22,013** | **21,025** | **5%** |
| Taxes | | -1,272 | -1,238 | 3% | -1,235 | 3% | -4,656 | -4,923 | -5% |
| **Profit for the period** | | **4,016** | **4,106** | **-2%** | **3,762** | **7%** | **17,357** | **16,102** | **8%** |
| Attributable to | | | | | | | | | |
| Shareholders in Svenska Handelsbanken AB | | 4,015 | 4,105 | -2% | 3,760 | 7% | 17,354 | 16,099 | 8% |
| Minority interest | | 1 | 1 | | 2 | | 3 | 3 | |

## EARNINGS PER SHARE – GROUP

| | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Profit for the year, attributable to shareholders in Svenska Handelsbanken AB | 4,015 | 4,105 | -2% | 3,760 | 7% | 17,354 | 16,099 | 8% |
| - of which interest expense on convertible subordinated loan after tax | -26 | -27 | -4% | -25 | 4% | -104 | -99 | 5% |
| Average number of outstanding shares, million | 1,944.2 | 1,944.2 | | 1,944.2 | | 1,944.2 | 1,944.2 | |
| Average number of outstanding shares after dilution, million | 1,976.0 | 1,977.0 | | 1,974.8 | | 1,974.5 | 1,974.3 | |
| Earnings per share, SEK | 2.07 | 2.11 | -2% | 1.93 | 7% | 8.93 | 8.28 | 8% |
| - after dilution | 2.05 | 2.09 | -2% | 1.92 | 7% | 8.84 | 8.20 | 8% |

Earnings per share after dilution are calculated by taking into account the effects of a conversion of outstanding convertible debt instruments. This means that the average number of shares is adjusted by potential shares and that the period's earnings are adjusted by the period's interest expense on the outstanding convertible debt instruments after tax.

## STATEMENT OF COMPREHENSIVE INCOME – GROUP

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| **Profit for the period** | **4,016** | **4,106** | **-2%** | **3,762** | **7%** | **17,357** | **16,102** | **8%** |
| **Other comprehensive income** | | | | | | | | |
| **Items that will not be reclassified to the income statement** | | | | | | | | |
| Defined benefit pension plans | -3,805 | 1,645 | | 216 | | -4,405 | 3,919 | |
| Instruments measured at fair value through other comprehensive income - equity instruments | -314 | 31 | | | | -188 | | |
| Tax on items that will not be reclassified to income statement | 851 | -363 | | -48 | | 978 | -864 | |
| *of which defined benefit pension plans* | *848* | *-362* | | *-48* | | *977* | *-864* | |
| *of which equity instruments measured at fair value through other comprehensive income* | *3* | *-1* | | | | *1* | | |
| **Total items that will not be reclassified to the income statement** | **-3,268** | **1,313** | | **168** | | **-3,615** | **3,055** | |
| **Items that may subsequently be reclassified to the income statement** | | | | | | | | |
| Cash flow hedges | 2,832 | -1,709 | | -1,038 | | 768 | -2,350 | |
| Available-for-sale instruments | | | | -552 | | | -470 | |
| Instruments measured at fair value through other comprehensive income - debt instruments | -12 | 1 | | | | -12 | | |
| Translation differences for the period | -3,345 | -1,181 | -183% | 14 | | -188 | -2,241 | 92% |
| *of which hedging net investment in foreign operations* | *-178* | *-115* | *-55%* | *-386* | *54%* | *-850* | *-1,509* | *44%* |
| Tax on items that may subsequently be reclassified to the income statement | -564 | 401 | | 299 | | 38 | 844 | -95% |
| *of which cash flow hedges* | *-613* | *376* | | *228* | | *-159* | *517* | |
| *of which available-for-sale instruments* | | | | *-14* | | | *-5* | |
| *of which debt instruments measured at fair value through other comprehensive income* | *3* | *0* | | | | *3* | | |
| *of which hedging net investment in foreign operations* | *46* | *25* | *84%* | *85* | *-46%* | *194* | *332* | *-42%* |
| **Total items that may subsequently be reclassified to the income statement** | **-1,089** | **-2,488** | **56%** | **-1,277** | **15%** | **606** | **-4,217** | |
| **Total other comprehensive income for the period** | **-4,357** | **-1,175** | **-271%** | **-1,109** | **-293%** | **-3,009** | **-1,162** | **-159%** |
| **Total comprehensive income for the period** | **-341** | **2,931** | | **2,653** | | **14,348** | **14,940** | **-4%** |
| Attributable to | | | | | | | | |
| Shareholders in Svenska Handelsbanken AB | -342 | 2,930 | | 2,653 | | 14,345 | 14,940 | -4% |
| Minority interest | 1 | 1 | 0% | 0 | | 3 | 0 | |

Other comprehensive income totalled SEK -3,009 (-1,162) after tax in 2018. 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 year-end 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 to December period, other comprehensive income was negatively affected in an amount of SEK -3,428m after tax, related to defined benefit pension plans, while in the period of comparison there was a positive effect of SEK 3,055m after tax. The main reasons for the change in the period were decrease in plan assets since year-end 2017, and the increase of pension obligations as a result of a fall in the discount rate for the Swedish pension obligations, from 2.20% to 2.00%, 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 measured at amortised cost, while the derivatives which are hedging these items are measured 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. During the year, these 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 (-487) and SEK -9m (12) after tax, respectively.

Unrealised exchange rate 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 have affected other comprehensive income by SEK 6m (-1,909) after tax during the year.

## QUARTERLY PERFORMANCE – 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 expenses | -5,042 | -4,936 | -4,449 | -3,458 | -3,076 |
| Net interest income | 7,872 | 7,862 | 7,904 | 7,648 | 7,777 |
| 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** |
| | | | | | |
| Earnings per share, SEK | 2.07 | 2.11 | 2.69 | 2.06 | 1.93 |
| - after dilution | 2.05 | 2.09 | 2.66 | 2.04 | 1.92 |

## BALANCE SHEET – GROUP

| SEK m | | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with central banks | | 317,217 | 357,440 | 375,243 | 276,999 | 226,314 |
| Other loans to central banks | Note 7 | 33,557 | 48,428 | 61,104 | 99,545 | 38,920 |
| Interest-bearing securities eligible as collateral with central banks | | 122,260 | 145,589 | 141,828 | 103,579 | 129,006 |
| Loans to other credit institutions | Note 7 | 22,137 | 35,722 | 36,985 | 35,475 | 20,250 |
| Loans to the public | Note 7 | 2,189,092 | 2,193,712 | 2,194,038 | 2,143,107 | 2,065,761 |
| Value change of interest-hedged item in portfolio hedge | | 33 | 31 | 37 | 36 | 36 |
| Bonds and other interest-bearing securities | | 50,729 | 56,571 | 62,009 | 59,175 | 49,601 |
| Shares | | 13,821 | 13,881 | 13,462 | 19,093 | 14,052 |
| Investments in associates | | 259 | 263 | 254 | 289 | 297 |
| Assets where the customer bears the value change risk | | 136,346 | 152,042 | 147,265 | 138,442 | 135,617 |
| Derivative instruments | Note 9,10 | 58,041 | 52,615 | 67,016 | 59,069 | 56,070 |
| Reinsurance assets | | 12 | 14 | 14 | 14 | 14 |
| Intangible assets | Note 11 | 10,455 | 10,390 | 10,397 | 10,161 | 9,861 |
| Property and equipment | | 2,229 | 2,243 | 2,289 | 2,252 | 2,238 |
| Current tax assets | | 617 | 2,252 | 2,823 | 2,141 | 242 |
| Deferred tax assets | | 1,044 | 376 | 445 | 355 | 399 |
| Net pension assets | | - | 1,084 | - | - | 1,239 |
| Assets held for sale | | 19 | 18 | 20 | - | - |
| Other assets | | 16,880 | 11,416 | 15,334 | 10,420 | 10,715 |
| Prepaid expenses and accrued income | | 3,426 | 3,149 | 3,790 | 3,424 | 6,345 |
| **Total assets** | | **2,978,174** | **3,087,236** | **3,134,353** | **2,963,576** | **2,766,977** |
| | | | | | | |
| **Liabilities and equity** | | | | | | |
| Due to credit institutions | Note 12 | 194,082 | 194,657 | 211,927 | 193,642 | 174,820 |
| Deposits and borrowing from the public | Note 12 | 1,008,487 | 1,099,384 | 1,126,480 | 1,065,678 | 941,967 |
| Liabilities where the customer bears the value change risk | | 136,346 | 152,040 | 147,264 | 138,448 | 135,617 |
| Issued securities | Note 13 | 1,394,647 | 1,393,819 | 1,406,806 | 1,331,913 | 1,276,595 |
| Derivative instruments | Note 9,10 | 17,360 | 19,137 | 21,960 | 25,902 | 24,876 |
| Short positions | | 6,163 | 7,081 | 10,594 | 7,559 | 2,072 |
| Insurance liabilities | | 542 | 546 | 552 | 1,165 | 549 |
| Current tax liabilities | | 1,118 | 2,174 | 1,444 | 789 | 394 |
| Deferred tax liabilities | | 5,786 | 5,959 | 5,942 | 6,247 | 6,853 |
| Provisions | | 222 | 239 | 258 | 268 | 153 |
| Net pension liabilities | | 3,226 | - | 525 | 11 | - |
| Other liabilities | | 12,984 | 16,351 | 15,398 | 13,791 | 15,863 |
| Accrued expenses and deferred income | | 3,865 | 3,812 | 3,777 | 4,929 | 12,718 |
| Subordinated liabilities | | 51,085 | 50,827 | 43,147 | 41,621 | 32,896 |
| **Total liabilities** | | **2,835,913** | **2,946,026** | **2,996,074** | **2,831,963** | **2,625,373** |
| Minority interest | | 12 | 11 | 11 | 13 | 11 |
| Share capital | | 3,013 | 3,013 | 3,013 | 3,013 | 3,013 |
| Share premium | | 5,629 | 5,629 | 5,629 | 5,629 | 5,629 |
| Reserves | | 5,098 | 9,455 | 10,629 | 9,192 | 8,106 |
| Retained earnings | | 111,155 | 109,763 | 109,763 | 109,763 | 108,746 |
| Profit for the period, attributable to shareholders in Svenska Handelsbanken AB | | 17,354 | 13,339 | 9,234 | 4,003 | 16,099 |
| **Total equity** | | **142,261** | **141,210** | **138,279** | **131,613** | **141,604** |
| **Total liabilities and equity** | | **2,978,174** | **3,087,236** | **3,134,353** | **2,963,576** | **2,766,977** |

## Changed presentation 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 | 33,557 | -6 | 33,563 |
| Interest-bearing securities eligible as collateral with central banks | 122,260 | 322 | 121,938 |
| Loans to other credit institutions | 22,137 | 63 | 22,074 |
| Loans to the public | 2,189,092 | 3,119 | 2,185,973 |
| Bonds and other interest-bearing securities | 50,729 | 216 | 50,513 |
| Prepaid expenses and accrued income | 3,426 | -3,816 | 7,242 |
| **Total** | **2,738,418** | **-** | **2,738,418** |
| | | | |
| **Liabilities** | | | |
| Due to credit institutions | 194,082 | 204 | 193,878 |
| Deposits and borrowing from the public | 1,008,487 | 780 | 1,007,707 |
| Issued securities | 1,394,647 | 7,070 | 1,387,577 |
| Short positions | 6,163 | 32 | 6,131 |
| Subordinated liabilities | 51,085 | 1,193 | 49,892 |
| Accrued expenses and deferred income | 3,865 | -9,279 | 13,144 |
| **Total** | **2,658,329** | **-** | **2,658,329** |

As of Q1 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 years' contractual accrued interest on financial assets and financial liabilities continues to be presented under Prepaid expenses and accrued income and Accrued expenses and deferred income on the balance sheet.

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

| January – December 2018<br>SEK m | Share capital | Share premium | Defined benefit plans | Hedge reserve | Fair value reserve | Translation reserve | Retained earnings incl profit for the year | Minority | 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 period | | | | | | | 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 period** | | | **-3,428** | **609** | **-196** | **6** | **17,354** | **3** | **14,348** |
| Reclassified to retained earnings | | | | | | | 1,392 | | 1,392 |
| Dividend | | | | | | | -14,581 | | -14,581 |
| Effects of convertible subordinated loans | 0 | 0 | | | | | | | 0 |
| Change of minority interests | | | | | | | - | -2 | -2 |
| **Closing equity** | **3,013** | **5,629** | **1,283** | **1,263** | **304** | **2,248** | **128,509** | **12** | **142,261** |

| January - December 2017<br>SEK m | Share capital | Share premium | Defined benefit plans | Hedge reserve | Fair value reserve | Translation reserve | Retained earnings incl profit for the year | Minority | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Opening equity** | **3,013** | **5,628** | **1,656** | **2,487** | **974** | **4,151** | **118,466** | **6** | **136,381** |
| Profit for the period | | | | | | | 16,099 | 3 | 16,102 |
| Other comprehensive income | | | 3,055 | -1,833 | -475 | -1,909 | | 0 | -1,162 |
| **Total comprehensive income for the period** | | | **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 of minority interests | | | | | | | 1 | 2 | 3 |
| **Closing equity** | **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 divested. 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 were converted into 1,609 class A shares (22,151). At the end of the period, the number of Handelsbanken shares in the trading book was 0 (0).

## CONDENSED STATEMENT OF CASH FLOWS – GROUP

| SEK m | Full year 2018 | Full year 2017 |
|---|---|---|
| Operating profit, total operations | 22,013 | 21,025 |
| Adjustment for non-cash items in profit/loss | 3,360 | 3,398 |
| Paid income tax | -5,106 | -5,723 |
| Changes in the assets and liabilities of operating activities | 56,395 | 21,191 |
| **Cash flow from operating activities** | **76,662** | **39,891** |
| Acquisition / disposal of subsidiaries | - | - |
| Change in shares | 43 | -62 |
| Change in interest-bearing securities | - | - |
| Change in property and equipment | -383 | -451 |
| Change in intangible assets | -786 | -701 |
| **Cash flow from investing activities** | **-1,126** | **-1,214** |
| Repayment of subordinated loans | - | - |
| Issued subordinated loans | 15,449 | - |
| Dividend paid | -14,581 | -9,721 |
| **Cash flow from financing activities** | **868** | **-9,721** |
| **Liquid funds at beginning of the period** | **226,314** | **199,362** |
| Cash flow for the period | 76,404 | 28,956 |
| Exchange rate difference on liquid funds | 14,499 | -2,004 |
| **Liquid funds at end of the period*** | **317,217** | **226,314** |

* Liquid funds are defined as Cash and balances with central banks.

# NOTES

## Note 1 Accounting policies

**Accounting policies**

This report has been prepared in accordance with IAS 34 Interim Financial Reporting. The consolidated accounts have been prepared in accordance with international financial reporting standards (IFRS) and interpretations of these standards as adopted by the EU. The accounting policies also follow 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 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 report for the parent company has been 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, FFFS 2008:25 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 by the Board.

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 elected 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. Information about accounting policies for the areas affected by IFRS 9 is shown in Handelsbanken's Annual Report for 2018. 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 decreased by SEK 640m before tax due to the transition to IFRS 9, of which SEK 24m is due to the new rules for classification and measurement and SEK 616m to the new rules for impairment. Handelsbanken does not apply the transitional regulations which have been decided for capital adequacy. The relevant capital ratios are not affected by the transition. Handelsbanken presents the transition to IFRS 9 in two tables, provided on page 35 for the Group and on page 69 for the parent company.

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 in the 2018 annual report, 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 revenue recognition are consistent with the requirements presented in IFRS 15. Information about accounting policies for income is shown in Handelsbanken's Annual Report for 2018.

In other respects, the report of the Group and the parent company has been prepared in accordance with the same accounting policies and calculation methods that were applied in the annual report for 2017.

**Future regulatory changes**

<u>IFRS 16 Leases</u>

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 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 4bn and the lease liability to approximately SEK 4bn. 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.

<u>IFRS 17 Insurance contracts</u>

IFRS 17 Insurance contracts has been published by the IASB. Assuming that IFRS 17 is adopted by the EU, and the date of implementation proposed by the IASB is not changed, this standard is to be applied as of the 2022 financial year. IFRS 17 entails a change in how insurance contracts are recognised, presented and measured, and implies extended disclosure requirements. The Bank is currently analysing the financial effects of the new standard.

<u>Others changes in IFRS</u>

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.

**Transition to IFRS 9 – Group**

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 | IAS39 Carrying amount 31 Dec 2017 | IFRS9 Carrying amount 1 Jan 2018 | Effect on equity 1 Jan 2018 | *of which remeasurements due to new rules for classification and measurement* | *of which remeasurements 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 PnL, mandatory | 7,349 | 7,349 | | | |
| Interest-bearing securities eligible as collateral with central banks | | Fair value in IS, other | Fair value through PnL, fair value option | 120,683 | 120,683 | | | |
| Interest-bearing securities eligible as collateral with central banks | | Financial asset available for sale | Fair value through OCI | 201 | 201 | | | |
| Interest-bearing securities eligible as collateral with central banks | 1) | Financial asset 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 PnL, mandatory | 13,261 | 13,261 | | | |
| Bonds and other interest-bearing securities | | Fair value in IS, other | Fair value through PnL, fair value option | 30,948 | 30,948 | | | |
| Bonds and other interest-bearing securities | | Financial asset available for sale | Fair value through OCI | 5,392 | 5,392 | | | |
| Shares | | Fair value in IS, trading | Fair value through PnL, mandatory | 11,914 | 11,914 | | | |
| Shares | 4) | Fair value in IS, other | Fair value through PnL, mandatory | 964 | 964 | | | |
| Shares | 5) | Financial asset available for sale | Fair value through OCI | 1,174 | 1,174 | | | |
| Assets where the customer bears the value change risk | 4) | Fair value in IS, other | Fair value through PnL, 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 PnL, mandatory | 12,572 | 12,572 | | | |
| Derivative instruments | | instruments | Derivatives identified as hedge instrument | 43,498 | 43,498 | | | |
| Other assets | | Fair value in IS, trading | Fair value through PnL, 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 PnL, mandatory | 102 | 102 | | | |
| Prepaid expenses and accrued income | | Fair value in IS, other | Fair value through PnL, 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 asset available for sale | Fair value through OCI | 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 PnL, 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 PnL, 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 PnL, mandatory | 15,204 | 15,204 | | | |
| Derivative instruments | | Derivatives identified as hedge instruments | Derivatives identified as hedge instrument | 9,672 | 9,672 | | | |
| Short positions | | Fair value in IS, trading | Fair value through PnL, mandatory | 2,072 | 2,072 | | | |
| Other liabilities | | Fair value in IS, trading | Fair value through PnL, 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 PnL, 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* |
| 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*** |

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 as of 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 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.

## Note 2 Net interest income

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| **Interest income** | | | | | | | | |
| Loans to credit institutions and central banks | 957 | 874 | 9% | 635 | 51% | 3,160 | 2,140 | 48% |
| Loans to the public | 10,578 | 10,523 | 1% | 9,820 | 8% | 41,469 | 38,919 | 7% |
| Interest-bearing securities eligible as collateral with central banks | 121 | 100 | 21% | 44 | 175% | 387 | 188 | 106% |
| Bonds and other interest-bearing securities | 148 | 200 | -26% | 186 | -20% | 811 | 676 | 20% |
| Derivative instruments | 691 | 703 | -2% | -120 | | 1,817 | -949 | |
| Other interest income | 336 | 333 | 1% | 342 | -2% | 1,334 | 1,342 | -1% |
| **Total** | **12,831** | **12,733** | **1%** | **10,907** | **18%** | **48,978** | **42,316** | **16%** |
| Interest income reported in Net gains/losses on financial transactions | -83 | -65 | -28% | 54 | | -193 | 224 | |
| **Total interest income** | **12,914** | **12,798** | **1%** | **10,853** | **19%** | **49,171** | **42,092** | **17%** |
| *of which interest income according to the effective interest method and interest on derivatives for hedging* | *12,708* | *12,559* | *1%* | *10,743* | *18%* | *48,341* | *41,657* | *16%* |
| **Interest expenses** | | | | | | | | |
| Due to credit institutions and central banks | -272 | -329 | -17% | -335 | -19% | -1,362 | -1,281 | 6% |
| Deposits and borrowing from the public | -479 | -511 | -6% | -414 | 16% | -1,814 | -1,545 | 17% |
| Issued securities | -5,097 | -4,846 | 5% | -3,826 | 33% | -18,458 | -15,732 | 17% |
| Derivative instruments | 1,971 | 1,836 | 7% | 2,294 | -14% | 8,070 | 9,378 | -14% |
| Subordinated liabilities | -416 | -387 | 7% | -344 | 21% | -1,543 | -1,411 | 9% |
| State fees | -669 | -701 | -5% | -504 | 33% | -2,771 | -2,024 | 37% |
| Other interest expenses | -127 | -21 | | -59 | 115% | -309 | -106 | 192% |
| **Total** | **-5,089** | **-4,959** | **3%** | **-3,188** | **60%** | **-18,187** | **-12,721** | **43%** |
| Interest expenses reported in Net gains/losses on financial transactions | -47 | -23 | 104% | -112 | -58% | -302 | -395 | -24% |
| **Total interest expenses** | **-5,042** | **-4,936** | **2%** | **-3,076** | **64%** | **-17,885** | **-12,326** | **45%** |
| *of which interest expense according to the effective interest method and interest on derivatives for hedging* | *-4,373* | *-4,235* | *3%* | *-2,572* | *70%* | *-15,114* | *-10,302* | *47%* |
| **Net interest income** | **7,872** | **7,862** | **0%** | **7,777** | **1%** | **31,286** | **29,766** | **5%** |

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.

## Note 3 Net fee and commission income

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Brokerage and other securities commissions | 168 | 164 | 2% | 207 | -19% | 690 | 886 | -22% |
| Mutual funds | 906 | 956 | -5% | 946 | -4% | 3,692 | 3,559 | 4% |
| Custody and other asset management fees | 273 | 279 | -2% | 200 | 37% | 1,043 | 722 | 44% |
| Advisory services | 70 | 29 | 141% | 36 | 94% | 214 | 234 | -9% |
| Insurance | 178 | 182 | -2% | 169 | 5% | 714 | 664 | 8% |
| Payments | 953 | 930 | 2% | 895 | 6% | 3,605 | 3,359 | 7% |
| Loans and deposits | 344 | 330 | 4% | 328 | 5% | 1,340 | 1,238 | 8% |
| Guarantees | 100 | 99 | 1% | 92 | 9% | 390 | 381 | 2% |
| Other | 132 | 115 | 15% | 125 | 6% | 495 | 496 | 0% |
| **Total fee and commission income** | **3,124** | **3,084** | **1%** | **2,998** | **4%** | **12,183** | **11,539** | **6%** |
| Securities | -56 | -54 | 4% | -65 | -14% | -222 | -264 | -16% |
| Payments | -433 | -388 | 12% | -413 | 5% | -1,630 | -1,491 | 9% |
| Other | -24 | -18 | 33% | -19 | 26% | -84 | -66 | 27% |
| **Total fee and commission expenses** | **-513** | **-460** | **12%** | **-497** | **3%** | **-1,936** | **-1,821** | **6%** |
| **Net fee and commission income** | **2,611** | **2,624** | **0%** | **2,501** | **4%** | **10,247** | **9,718** | **5%** |

## Note 4 Net gains/losses on financial transactions

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Amortised cost | 49 | 48 | 2% | 53 | -8% | 180 | 156 | 15% |
| *of which loans* | *103* | *83* | *24%* | *111* | *-7%* | *357* | *372* | *-4%* |
| *of which interest-bearing securities* | *0* | *0* | *0%* | *-* | | *0* | *-* | |
| *of which issued securities* | *-54* | *-35* | *-54%* | *-58* | *7%* | *-177* | *-216* | *18%* |
| Fair value through other comprehensive income | 0 | 0 | 0% | - | | 0 | - | |
| *of which expected credit losses* | *-1* | *0* | | *-* | | *-1* | *-* | |
| Financial instruments available for sale | | | | 2 | | | 8 | |
| Fair value through profit or loss, fair value option | 501 | -624 | | - | | -129 | - | |
| *of which interest-bearing securities* | *501* | *-624* | | *-* | | *-129* | *-* | |
| Other financial instruments at fair value through profit/loss | | | | -184 | | | -553 | |
| *of which interest-bearing securities* | | | | *-182* | | | *-524* | |
| *of which loans* | | | | *-2* | | | *-29* | |
| Fair value through profit or loss, mandatory including FX effects | -115 | 811 | | - | | 1,107 | - | |
| Trading, derivatives, FX effect etc | | | | 347 | | | 1,814 | |
| Hedge accounting | -23 | 0 | | -14 | -64% | -44 | -29 | -52% |
| *of which net gains/losses on fair value hedges* | *-17* | *5* | | *-8* | *-113%* | *-4* | *-7* | *43%* |
| *of which cash flow hedge ineffectiveness* | *-6* | *-5* | *-20%* | *-6* | *0%* | *-40* | *-22* | *-82%* |
| Result from financial components in insurance contract | -109 | -49 | -122% | -40 | -173% | -206 | -125 | -65% |
| **Total** | **303** | **186** | **63%** | **164** | **85%** | **908** | **1,271** | **-29%** |

## Note 5 Other expenses

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Property and premises | -344 | -326 | 6% | -333 | 3% | -1,310 | -1,235 | 6% |
| External IT costs | -597 | -507 | 18% | -514 | 16% | -2,191 | -1,935 | 13% |
| Communication | -87 | -80 | 9% | -79 | 10% | -344 | -309 | 11% |
| Travel and marketing | -95 | -56 | 70% | -102 | -7% | -305 | -317 | -4% |
| Purchased services | -524 | -387 | 35% | -471 | 11% | -1,760 | -1,406 | 25% |
| Supplies | -54 | -36 | 50% | -52 | 4% | -178 | -178 | 0% |
| Other administrative expenses | -188 | -162 | 16% | -161 | 17% | -624 | -509 | 23% |
| **Other expenses** | **-1,889** | **-1,554** | **22%** | **-1,712** | **10%** | **-6,712** | **-5,889** | **14%** |

## Note 6 Credit losses

### Credit losses IFRS 9

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| **Expected credit losses on balance sheet items** | | | | | | | | |
| The period's provision Stage 3 | -108 | -382 | -72% | | | -1,155 | | |
| Reversal of Stage 3 provisions to Stage 1 or Stage 2 | 43 | 61 | -30% | | | 265 | | |
| **Total expected credit losses Stage 3** | **-65** | **-321** | **-80%** | | | **-890** | | |
| The period's net provision Stage 2 | -30 | 45 | | | | 33 | | |
| The period's net provision Stage 1 | -4 | 44 | | | | 93 | | |
| **Total expected credit losses in Stage 1 and Stage 2** | **-34** | **89** | | | | **126** | | |
| **Total expected credit losses on balance sheet items** | **-99** | **-232** | **-57%** | | | **-764** | | |
| **Expected credit lossses on off-balance sheet items** | | | | | | | | |
| The period's net provision Stage 3 | 41 | -1 | | | | 0 | | |
| The period's net provision Stage 2 | 13 | 1 | | | | 23 | | |
| The period's net provision Stage 1 | 2 | 0 | | | | 33 | | |
| **Total expected credit losses on off-balance sheet items** | **56** | **0** | | | | **56** | | |
| **Write-offs** | | | | | | | | |
| Actual credit losses for the period | -466 | -136 | 243% | | | -3,060 | | |
| Utilised share of previous provision Stage 3 | 193 | 107 | 80% | | | 2,711 | | |
| **Total write-offs** | **-273** | **-29** | | | | **-349** | | |
| **Recoveries** | **40** | **31** | **29%** | | | **176** | | |
| **Net credit losses** | **-276** | **-230** | **20%** | | | **-881** | | |
| *of which loans to the public* | *-324* | *-229* | *41%* | | | *-929* | | |

### Credit losses IAS 39

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| **Specific provision for individually assessed loans** | | | | | | | | |
| Provision for the period | | | | -1,061 | | | -1,811 | |
| Reversal of previous provisions | | | | 41 | | | 225 | |
| **Total** | | | | **-1,020** | | | **-1,586** | |
| **Collective provisions** | | | | | | | | |
| Net provision for the period for individually assessed loans | | | | -51 | | | -120 | |
| Net provision for the period for homogeneous loans | | | | -4 | | | -10 | |
| **Total** | | | | **-55** | | | **-130** | |
| **Off-balance sheet items** | | | | | | | | |
| Losses on off-balance sheet items | | | | -3 | | | -4 | |
| Reversal of previous losses on off-balance sheet items | | | | 0 | | | 10 | |
| Change in collective provision for off-balance sheet items | | | | -32 | | | -27 | |
| **Total** | | | | **-35** | | | **-21** | |
| **Write-offs** | | | | | | | | |
| Actual credit losses for the period | | | | -484 | | | -1,253 | |
| Utilised share of previous provisions | | | | 422 | | | 1,102 | |
| Recoveries | | | | 88 | | | 205 | |
| **Total** | | | | **26** | | | **54** | |
| **Net Credit losses** | | | | **-1,084** | | | **-1,683** | |

## Credit losses IFRS 9 – Key figure “Loans to the public”

| | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Credit loss ratio, % of loans to the public, acc | 0.04 | 0.04 | 0.04 | 0.03 | |
| Total credit loss reserve ratio, % | 0.17 | 0.18 | 0.17 | 0.20 | |
| Credit loss reserve ratio Stage 1, % | 0.01 | 0.01 | 0.02 | 0.02 | |
| Credit loss reserve ratio Stage 2, % | 0.95 | 1.00 | 0.96 | 1.22 | |
| Credit loss reserve ratio Stage 3, % | 38.00 | 39.54 | 39.23 | 40.19 | |
| Proportion of loans Stage 3, % | 0.22 | 0.22 | 0.21 | 0.23 | |

## Credit losses IAS 39 – Key figures

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Impaired loans | | | | | 7,944 |
| Specific provision for individually assessed loans | | | | | -4,578 |
| Provision for collectively assessed homogeneous groups of loans with limited value | | | | | -118 |
| Collective provisions for individually assessed loans | | | | | -463 |
| **Impaired loans, net** | | | | | **2,785** |
| Total impaired loans reserve ratio | | | | | 64.9% |
| Proportion of impaired loans | | | | | 0.13% |
| Impaired loans reserve ratio excl. collective provisions | | | | | 59.1% |
| Credit loss ratio as a % of loans, acc. | | | | | 0.08% |
| Loans past due > 60 days | | | | | 5,371 |
| Loans past due > 60 days, which are not impaired | | | | | 968 |

For definitions, please see the Fact Book which is available at handelsbanken.se/ireng.

## Note 7 Loans

### Loans and interest-bearing securities that are subject to impairment testing in accordance with IFRS 9, net

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Cash and balances with central banks | 317,217 | 357,440 | 375,243 | 276,999 | |
| Other loans to central banks | 33,557 | 48,428 | 61,104 | 99,545 | |
| Interest-bearing securities eligible as collateral with central banks | 1,236 | 1,360 | 1,199 | 1,268 | |
| Loans to other credit institutions | 22,137 | 35,722 | 36,985 | 35,475 | |
| *of which reverse repos* | *2,756* | *9,353* | *11,116* | *11,032* | |
| Loans to the public | 2,189,092 | 2,193,712 | 2,194,038 | 2,143,107 | |
| *of which reverse repos* | *9,049* | *8,645* | *8,726* | *6,698* | |
| Bonds and interest-bearing securities | 5,373 | 5,996 | 6,021 | 5,586 | |
| **Total** | **2,568,612** | **2,642,658** | **2,674,590** | **2,561,980** | |

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Loans to the public | | | | | 2,065,761 |
| *of which reverse repos* | | | | | *6,607* |
| Loans to other credit institutions | | | | | 20,250 |
| *of which reverse repos* | | | | | *1,338* |
| Other loans to central banks | | | | | 38,920 |

### Loans and interest-bearing securities that are subject to impairment testing in accordance with IFRS 9, divided into stages

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Volume, gross | 2,572,424 | 2,646,623 | 2,678,441 | 2,566,289 | |
| *of which Stage 1* | *2,506,117* | *2,584,909* | *2,610,556* | *2,508,066* | |
| *of which Stage 2* | *58,576* | *53,838* | *60,469* | *49,965* | |
| *of which Stage 3* | *7,731* | *7,876* | *7,416* | *8,258* | |
| Provisions | -3,813 | -3,965 | -3,851 | -4,309 | |
| *of which Stage 1* | *-316* | *-314* | *-360* | *-378* | |
| *of which Stage 2* | *-560* | *-537* | *-582* | *-612* | |
| *of which Stage 3* | *-2,937* | *-3,114* | *-2,909* | *-3,319* | |

### Loans to the public that are subject to impairment testing in accordance with IFRS 9, divided into stages

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Loans to the public, gross | 2,192,893 | 2,197,670 | 2,197,882 | 2,147,413 | |
| *of which Stage 1* | *2,126,983* | *2,136,226* | *2,130,147* | *2,089,295* | |
| *of which Stage 2* | *58,179* | *53,568* | *60,319* | *49,860* | |
| *of which Stage 3* | *7,731* | *7,876* | *7,416* | *8,258* | |
| Provisions | -3,801 | -3,958 | -3,844 | -4,306 | |
| *of which Stage 1* | *-312* | *-311* | *-357* | *-377* | |
| *of which Stage 2* | *-552* | *-533* | *-578* | *-610* | |
| *of which Stage 3* | *-2,937* | *-3,114* | *-2,909* | *-3,319* | |

## Change in provision for expected credit losses – Loans and interest-bearing securities (IFRS 9)

| 31 December 2018<br>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 period** | **-316** | **-560** | **-2,937** | **-3,813** |

## Change in provision for expected credit losses – Loans to the public (IFRS 9)

| 31 December 2018<br>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 |
| Increase due to origination and acquisition | -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 period** | **-312** | **-552** | **-2,937** | **-3,801** |

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 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.

## Loans to the public (IFRS 9) – by sector

| 31 December 2018 | Gross | | | Provisions | | | Net |
|---|---|---|---|---|---|---|---|
| SEK m | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| 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 to 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 and insurance companies, funds etc. | 72,371 | 3,083 | 283 | -12 | -20 | -202 | 75,503 |
| Government and municipalities | 10,598 | 277 | - | -1 | 0 | - | 10,874 |
| *of which 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** |

## Specification of Loans to the public (IFRS 9) – Property management

| 31 December 2018 | Gross | | | Provisions | | | Net |
|---|---|---|---|---|---|---|---|
| SEK m | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| **Loans in Sweden** | | | | | | | |
| State-owned property companies | 5,066 | - | - | 0 | - | - | 5,066 |
| Municipal-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 loans in Sweden** | **247,334** | **4,184** | **237** | **-18** | **-19** | **-138** | **251,580** |
| **Loans outside Sweden** | | | | | | | |
| UK | 130,699 | 5,773 | 728 | -28 | -91 | -131 | 136,950 |
| Norway | 106,962 | 4,625 | 175 | -26 | -38 | -52 | 111,646 |
| Denmark | 20,102 | 585 | 98 | -7 | -19 | -28 | 20,731 |
| Finland | 38,630 | 2,507 | 102 | -3 | -36 | -12 | 41,188 |
| The Netherlands | 31,440 | 13 | - | -4 | 0 | - | 31,449 |
| Other countries | 4,439 | 2 | 25 | -2 | - | -6 | 4,458 |
| **Total loans outside Sweden** | **332,272** | **13,505** | **1,128** | **-70** | **-184** | **-229** | **346,422** |
| **Total loans - Property management** | **579,606** | **17,689** | **1,365** | **-88** | **-203** | **-367** | **598,002** |

## Loans to the public (IAS 39) – by sector

| 31 December 2017<br>SEK m | Loans gross | Provisions | Loans net |
|---|---|---|---|
| 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 to 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 |
| Hotels and restaurants | 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, 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, funds, etc. | 67,805 | -249 | 67,556 |
| Government and municipalities | 13,611 | - | 13,611 |
| Other corporate lending | 18,533 | -53 | 18,480 |
| **Total loans to the public, before collective provisions** | **2,070,920** | **-4,696** | **2,066,224** |
| Collective provisions | | | -463 |
| **Total loans to the public** | | | **2,065,761** |

## Specification of Loans to the public (IAS 39) – Property management

| 31 December 2017<br>SEK m | Loans gross | Provisions | Loans net |
|---|---|---|---|
| **Loans in Sweden** | | | |
| State-owned property companies | 4,329 | - | 4,329 |
| Municipal-owned property companies | 8,874 | - | 8,874 |
| Residential property companies | 106,014 | -20 | 105,994 |
| *of which mortgage loans* | *92,260* | *-* | *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** | | | |
| Denmark | 20,367 | -70 | 20,297 |
| Finland | 37,302 | -4 | 37,298 |
| Norway | 104,319 | -100 | 104,219 |
| UK | 125,701 | -197 | 125,504 |
| The Netherlands | 27,628 | - | 27,628 |
| Other countries | 5,432 | -6 | 5,426 |
| **Total loans outside Sweden** | **320,749** | **-377** | **320,372** |
| **Total loans - Property management** | **565,190** | **-523** | **564,667** |

## Note 8 Credit risk exposure

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Cash and balances with central banks | 317,217 | 357,440 | 375,243 | 276,999 | 226,314 |
| Other loans to central banks | 33,557 | 48,428 | 61,104 | 99,545 | 38,920 |
| Interest-bearing securities eligible as collateral with central banks | 122,260 | 145,589 | 141,828 | 103,579 | 129,006 |
| Loans to other credit institutions | 22,137 | 35,722 | 36,985 | 35,475 | 20,250 |
| *of which reverse repos* | *2,756* | *9,353* | *11,116* | *11,032* | *1,338* |
| Loans to the public | 2,189,092 | 2,193,712 | 2,194,038 | 2,143,107 | 2,065,761 |
| *of which reverse repos* | *9,049* | *8,645* | *8,726* | *6,698* | *6,607* |
| Bonds and other interest-bearing securities | 50,729 | 56,571 | 62,009 | 59,175 | 49,601 |
| Derivative instruments* | 58,041 | 52,615 | 67,016 | 59,069 | 56,070 |
| Contingent liabilities | 92,939 | 89,952 | 89,404 | 88,634 | 75,666 |
| *of which guarantees, credits* | *10,319* | *10,248* | *10,079* | *9,729* | *10,177* |
| *of which guarantees, other* | *75,290* | *72,333* | *73,291* | *72,274* | *57,878* |
| *of which letters of credit* | *7,330* | *7,371* | *6,034* | *6,631* | *7,611* |
| Commitments | 458,772 | 463,080 | 459,482 | 457,688 | 443,383 |
| *of which unutilised part of granted overdraft facilities* | *123,744* | *124,264* | *125,580* | *129,845* | *131,121* |
| *of which loan commitments* | *314,437* | *310,331* | *309,984* | *299,383* | *290,643* |
| *of which other* | *20,591* | *28,485* | *23,918* | *28,460* | *21,619* |
| **Total** | **3,344,744** | **3,443,109** | **3,487,109** | **3,323,271** | **3,104,971** |

* Refers to the total of positive market values.

## Note 9 Derivatives

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| **Positive market values** | | | | | |
| Trading | 28,854 | 27,289 | 38,409 | 33,049 | 31,242 |
| Fair value hedges | 37 | 55 | 35 | 55 | 65 |
| Cash flow hedges | 50,200 | 45,082 | 51,579 | 48,238 | 45,585 |
| Amounts set off | -21,050 | -19,811 | -23,007 | -22,273 | -20,822 |
| **Total** | **58,041** | **52,615** | **67,016** | **59,069** | **56,070** |
| **Negative market values** | | | | | |
| Trading | 29,104 | 29,438 | 34,633 | 33,939 | 33,576 |
| Fair value hedges | 241 | 150 | 305 | 185 | 125 |
| Cash flow hedges | 5,835 | 7,706 | 8,095 | 12,417 | 11,086 |
| Amounts set off | -17,820 | -18,157 | -21,073 | -20,639 | -19,911 |
| **Total** | **17,360** | **19,137** | **21,960** | **25,902** | **24,876** |
| **Nominal value** | | | | | |
| Trading | 4,235,753 | 4,171,570 | 4,382,951 | 4,598,181 | 4,054,918 |
| Fair value hedges | 79,795 | 81,540 | 83,699 | 82,129 | 79,318 |
| Cash flow hedges | 996,906 | 1,022,442 | 1,042,608 | 1,160,081 | 1,060,565 |
| Amounts set off | -2,241,073 | -2,107,319 | -2,162,770 | -2,179,898 | -2,071,229 |
| **Total** | **3,071,381** | **3,168,233** | **3,346,488** | **3,660,493** | **3,123,572** |

Derivative contracts are presented gross in the table. Amounts offset on the balance sheet consist of the offset market value 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.

## Note 10 Offsetting of financial instruments

| 31 December 2018 | Derivatives | Repurchase agreements, securities borrowing and similar agreements | **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 similar 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** |

| 31 December 2017 | Derivatives | Repurchase agreements, securities borrowing and similar agreements | **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 |
| **Total 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 similar 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 |
| **Total amounts not offset on the balance sheet** | **-19,812** | **-126** | **-19,938** |
| **Net amount** | **5,064** | **-** | **5,064** |

Derivative instruments are offset on the balance sheet when the settlement of two or more derivatives reflects the Bank's anticipated cash flows. Repurchase agreements and reverse repurchase agreements with central counterparty clearing houses are offset on the balance sheet when this reflects the Bank's anticipated cash flows in the settlement of two or more agreements. This occurs when the Bank has both a contractual right and intention to settle the agreed cash flows with a net amount. The remaining counterparty risk in derivatives is reduced through netting agreements if payments are suspended, 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.

The amount offset for derivative assets includes offset cash collateral of SEK 5,106m (3,342) derived from the balance sheet item Deposits and borrowing from the public. The amount offset for derivative liabilities includes offset cash collateral of SEK 1,877m (2,431), derived from the balance sheet item Loans to the public.

## Note 11 Goodwill and other intangible assets

| | Goodwill | | Other intangible assets | | **Total** | |
|---|---|---|---|---|---|---|
| SEK m | Full year 2018 | Full year 2017 | Full year 2018 | Full year 2017 | **Full year 2018** | **Full year 2017** |
| Opening residual value | 6,798 | 6,761 | 3,063 | 2,632 | **9,861** | **9,393** |
| Additional during the period | - | 7 | 786 | 694 | **786** | **701** |
| The period's amortisation | - | - | -344 | -266 | **-344** | **-266** |
| The period's impairments | - | - | -4 | -9 | **-4** | **-9** |
| Foreign exchange effect | 124 | 30 | 32 | 12 | **156** | **42** |
| **Closing residual value** | **6,922** | **6,798** | **3,533** | **3,063** | **10,455** | **9,861** |

## Note 12 Due to credit institutions, deposits and borrowing from the public

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Due to credit institutions | 194,082 | 194,657 | 211,927 | 193,642 | 174,820 |
| *of which repos* | - | *49* | - | *157* | *126* |
| Deposits and borrowing from the public | 1,008,487 | 1,099,384 | 1,126,480 | 1,065,678 | 941,967 |
| *of which repos* | - | *8,243* | *13* | *4,202* | - |

## Note 13 Issued securities

| SEK m | Full year 2018 | Full year 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 period** | **1,394,647** | **1,276,595** |

## Note 14 Assets pledged, contingent liabilities and commitments

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Assets pledged for own debt | 850,368 | 902,214 | 868,092 | 859,158 | 856,772 |
| Other pledged assets | 48,622 | 35,036 | 31,853 | 39,389 | 34,165 |
| Contingent liabilities | 92,939 | 89,952 | 89,404 | 88,634 | 75,666 |
| Commitments | 458,772 | 463,080 | 459,482 | 457,688 | 443,383 |

## Note 15 Classification of financial assets and liabilities

| 31 December 2018 | Fair value through profit or loss | | | | | | |
|---|---|---|---|---|---|---|---|
| SEK m | Mandatory | Fair value option | Derivatives identified as hedge instruments | Fair value through other comprehensive income | Amortised cost | **Total carrying amount** | Fair value |
| **Assets** | | | | | | | |
| Cash and balances with central banks | | | | | 317,217 | **317,217** | 317,217 |
| Other loans to central banks | | | | | 33,557 | **33,557** | 33,557 |
| Interest-bearing securities eligible as collateral with central banks | 2,567 | 118,457 | | 405 | 831 | **122,260** | 122,260 |
| Loans to other credit institutions | | | | | 22,137 | **22,137** | 22,072 |
| Loans to the public | | | | | 2,189,092 | **2,189,092** | 2,199,205 |
| Value change of interest-hedged item in portfolio hedge | | | | | 33 | **33** | |
| Bonds and other interest-bearing securities | 8,748 | 36,608 | | 5,373 | | **50,729** | 50,729 |
| Shares | 11,981 | | | 1,840 | | **13,821** | 13,821 |
| Assets where the customer bears the value change risk | 136,287 | | | | 59 | **136,346** | 136,346 |
| Derivative instruments | 12,547 | | 45,494 | | | **58,041** | 58,041 |
| Other assets | 19 | | | | 16,861 | **16,880** | 16,880 |
| **Total** | **172,149** | **155,065** | **45,494** | **7,618** | **2,579,787** | **2,960,113** | **2,970,128** |
| Investments in associates | | | | | | **259** | |
| Non-financial assets | | | | | | **17,802** | |
| **Total assets** | | | | | | **2,978,174** | |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to credit institutions | | | | | 194,082 | **194,082** | 196,447 |
| Deposits and borrowing from the public | | | | | 1,008,487 | **1,008,487** | 1,008,562 |
| Liabilities where the customer bears the value change risk | | 136,287 | | | 59 | **136,346** | 136,346 |
| Issued securities | 2,250 | | | | 1,392,397 | **1,394,647** | 1,403,560 |
| Derivative instruments | 13,155 | | 4,205 | | | **17,360** | 17,360 |
| Short positions | 6,163 | | | | | **6,163** | 6,163 |
| Other liabilities | 20 | | | | 12,964 | **12,984** | 12,984 |
| Subordinated liabilities | | | | | 51,085 | **51,085** | 51,081 |
| **Total** | **21,588** | **136,287** | **4,205** | | **2,659,074** | **2,821,154** | **2,832,503** |
| Non-financial liabilities | | | | | | **14,759** | |
| **Total liabilities** | | | | | | **2,835,913** | |

| 31 December 2017 | At fair value in income statement divided into | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| SEK m | Trading | Other | Derivatives identified as hedge instruments | Loans and other 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** | |

## Note 16 Fair value measurement of financial instruments

| 31 December 2018 | Level 1 | Level 2 | Level 3 | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Interest-bearing securities eligible as collateral with central banks | 119,338 | 2,091 | - | 121,429 |
| Bonds and other interest-bearing securities | 48,802 | 1,927 | - | 50,729 |
| Shares | 10,662 | 2,024 | 1,135 | 13,821 |
| 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** |

| 31 December 2017<br>SEK m | Level 1 | Level 2 | Level 3 | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Interest-bearing securities eligible as collateral with central banks | 126,996 | 2,010 | - | 129,006 |
| Loans to the public | - | 364 | 13 | 377 |
| Bonds and other interest-bearing securities | 47,111 | 2,490 | - | 49,601 |
| Shares | 8,798 | 4,008 | 1,246 | 14,052 |
| 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** |

**Valuation process**

The risk control function checks that the Group’s financial instruments are correctly valued. As far as is possible, the valuations are based on externally generated data.

Financial instruments for which price information is easily available, and which are representative of real and frequently occurring transactions, are valued at their current market price. The current bid price is used for financial assets and the current ask price is used for financial liabilities. 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 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. These models can, for example, be based on price comparisons, present value calculations or option valuation theory depending on the nature of the instrument.

**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 is 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 2018 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 1,088m for which the customer bears the value change risk and derivatives worth

SEK 1m were transferred from level 1 to level 2. Interest-bearing securities worth SEK 778m, shares worth SEK 68m, and derivatives worth SEK 1m were transferred from level 2 to level 1. On the liabilities side, liabilities worth SEK 1,088m for which the customer bears the value change risk and derivatives at a value of SEK 8m were transferred from level 1 to level 2. Derivatives to the value of SEK 12m were moved from level 2 to level 1. The change in level 3 holdings during the year is shown in a separate table, see 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. Since 1 January 2018, unlisted shares are, in all material respects, classified at fair value through other comprehensive income, having been classified as available for sale until 31 December 2017. Value changes for these holdings are thus reported in Other comprehensive income.

Certain holdings of private equity funds are categorised in 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.

**Differences between the transaction price and the value measured by a valuation model**

The models use input data in the form of market prices and other variables that are deemed to affect pricing. The models and input data which form the basis of the valuations are regularly validated to ensure that they are consistent with market practice and established financial theory. In cases where there are material positive differences between the value calculated with the help of a valuation model at initial recognition and the transaction price (day 1 gain/loss), the difference is distributed over the life of the financial instrument. Such differences occur when the applied valuation model does not fully capture all the components which affect the value of the instrument.

As a consequence of the application of this principle, an accrual effect of SEK 158m (144) was recognised in Net gains/losses on financial transactions during the 2018 financial year. At the end of the period, non-recognised day 1 gains/losses totalled SEK 602m; at year-end 2017, the corresponding figure was SEK 638m.

The Bank regularly conducts separate valuations of the total credit risk component (own credit risk as well as counterparty risk) 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.

**Change in holdings in level 3**

| January – December 2018<br>SEK m | Shares | Derivative assets* | Derivative liabilities* | Loans to the public | Assets where the customer bears the value change risk | Liabilities where the customer bears the value change risk |
|---|---|---|---|---|---|---|
| Carrying amount 31 Dec 2017 | 1,246 | -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 during the period | - | - | - | - | - | - |
| 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 period** | **1,135** | **-176** | **176** | **-** | **484** | **-484** |

| January – December 2017<br>SEK m | Shares | Derivative assets* | Derivative liabilities* | Loans to the public | Assets where the customer bears the value change risk | Liabilities where the customer bears the value change risk |
|---|---|---|---|---|---|---|
| Carrying amount at beginning of year | 1,837 | - | - | 17 | 762 | -762 |
| Acquisitions | 25 | - | - | - | - | - |
| Repurchases/sales | -62 | - | - | - | -318 | 318 |
| Matured during the period | - | - | - | -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 period** | **1,246** | **-87** | **88** | **13** | **464** | **-464** |

* Derivatives reported in level 3 are a sub-component of a main instrument. The classification of the main instrument determines whether the sub-component is classified as an asset or a liability. Sub-components with a negative fair value are classified as an asset if the fair value of the main instrument is positive in its entirety. Sub-components with a positive fair value are classified as a liability if the fair value of the main instrument is negative in its entirety.

## Note 17 Assets and liabilities by currency

| 30 December 2018<br>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 corporates* | *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 corporates* | *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** |

| 31 December 2017<br>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 corporates* | *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 corporates* | *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** |

## Note 18 Own funds and capital requirements in the consolidated situation

The requirements for the calculation of own funds and capital requirements are regulated in Regulation (EU) No 575/2013 (CRR) and Directive 2013/36/EU, which comprise the EU's implementation of the international Basel III regulations. All references to CRR in this report refer to these regulations in their entirety, regardless of legislative form (regulation, directive, executive decree or national implementation). Information reported in this section refers to the minimum capital requirements under Pillar 1 and meets the requirements for publication of information relating to capital adequacy in CRR Part Eight, as well as in the Swedish Financial Supervisory Authority's regulation FFFS 2014:12.

### Own funds

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| **TIER 1 CAPITAL** | | | | | |
| Equity, Group | 142,261 | 141,210 | 138,279 | 131,613 | 141,604 |
| Accrued unpaid dividend previous year | - | - | - | - | - |
| Accrued dividend current year | -10,693 | -12,104 | -8,389 | -3,620 | -14,581 |
| Adjustment of Group result | -779 | -657 | -444 | -210 | -820 |
| Adjustment of Group equity | 2,616 | 2,582 | 2,549 | 2,529 | 3,337 |
| Minority interests | -12 | -11 | -11 | -13 | -11 |
| **Equity (consolidated entities)** | **133,393** | **131,020** | **131,984** | **130,299** | **129,529** |
| Deducted items | | | | | |
| Goodwill and other intangible assets | -10,390 | -10,323 | -10,328 | -10,091 | -9,787 |
| Value adjustments (fair value) | -375 | -397 | -385 | -386 | -409 |
| Negative amounts resulting from the calculation of expected loss amounts | -2,047 | -1,907 | -1,974 | -1,748 | -2,357 |
| Positions in securitisation | - | - | - | - | - |
| Net pension assets | - | - | - | - | - |
| Own shares | -508 | -565 | -516 | -551 | -569 |
| Adjustments in accordance with stability filter | | | | | |
| Cash flow hedges | -1,263 | 956 | -377 | 168 | -654 |
| Unrealised accumulated gains, shares | - | - | - | - | - |
| **Common equity tier 1 capital, gross** | **118,810** | **118,784** | **118,404** | **117,691** | **115,753** |
| Threshold deductions | | | | | |
| Capital contributions to unconsolidated financial entities >10% CET1 | - | - | - | - | - |
| Deferred tax assets >10% CET1 | - | - | - | - | - |
| Amount of capital contributions and deferred tax assets >15% | - | - | - | - | - |
| **Common equity tier 1 capital** | **118,810** | **118,784** | **118,404** | **117,691** | **115,753** |
| Additional tier 1 instruments | 12,653 | 12,599 | 12,685 | 11,934 | 11,746 |
| **Total tier 1 capital** | **131,463** | **131,383** | **131,089** | **129,625** | **127,499** |
| **TIER 2 CAPITAL** | | | | | |
| Subordinated loans | 18,325 | 18,415 | 26,495 | 26,096 | 17,745 |
| Positive amounts resulting from the calculation of expected loss amounts | - | - | - | 37 | - |
| Tier 2 contribution in unconsolidated financial entities | -1,129 | -1,129 | -1,129 | -1,129 | -1,129 |
| **Total tier 2 capital** | **17,196** | **17,286** | **25,366** | **25,004** | **16,616** |
| **Total own funds** | **148,659** | **148,669** | **156,455** | **154,629** | **144,115** |

## Capital ratios and buffers

| | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Common equity tier 1 ratio, CRR | 16.8% | 21.7% | 21.4% | 21.6% | 22.7% |
| Tier 1 ratio, CRR | 18.6% | 24.0% | 23.7% | 23.7% | 25.0% |
| Total capital ratio, CRR | 21.0% | 27.1% | 28.3% | 28.3% | 28.3% |
| Risk exposure amount, CRR | 707,579 | 547,977 | 553,762 | 545,898 | 509,032 |
| Own funds in relation to capital requirement according to Basel I floor | | | | | 142% |
| Institution-specific buffer requirements* | 7.0% | 6.7% | 6.8% | 6.7% | 6.7% |
| *of which capital conservation buffer requirement* | *2.5%* | *2.5%* | *2.5%* | *2.5%* | *2.5%* |
| *of which countercyclical capital buffer requirement* | *1.5%* | *1.2%* | *1.3%* | *1.2%* | *1.2%* |
| *of which systemic risk buffer requirement* | *3.0%* | *3.0%* | *3.0%* | *3.0%* | *3.0%* |
| Common equity tier 1 capital available for use as a buffer | 12.3% | 17.2% | 16.9% | 17.1% | 18.2% |

* Information is only provided regarding the buffer requirements which have come into effect.

## Capital requirements

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Credit risk according to standardised approach | 6,996 | 7,208 | 7,350 | 7,080 | 6,707 |
| Credit risk according to IRB Approach | 30,247 | 30,147 | 30,259 | 30,049 | 27,871 |
| Risk weight floor Swedish mortgages | 13,050 | | | | |
| Market risks | 781 | 867 | 1,112 | 958 | 825 |
| Credit valuation adjustment risk (CVA) | 417 | 501 | 465 | 470 | 391 |
| Operational risk | 5,115 | 5,115 | 5,115 | 5,115 | 4,929 |
| **Total capital requirement** | **56,606** | **43,838** | **44,301** | **43,672** | **40,723** |
| Adjustment according to Basel I floor | | | | | 62,125 |
| **Capital requirement, Basel I floor** | | | | | **102,848** |
| Total own funds, Basel I floor | | | | | 146,472 |

As of 1 January 2018, capital requirements and reporting according to the Basel I floor ceased, as a result of Article 500(1) of the Capital Requirements Regulation 575/2013/EU).

## Risk exposure amount

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Credit risk according to standardised approach | 87,451 | 90,106 | 91,877 | 88,502 | 83,833 |
| Credit risk according to IRB Approach | 378,089 | 376,834 | 378,236 | 375,609 | 348,386 |
| Risk weight floor Swedish mortgages | 163,123 | | | | |
| Market risk | 9,765 | 10,835 | 13,906 | 11,978 | 10,310 |
| Credit valuation adjustment risk (CVA) | 5,219 | 6,270 | 5,811 | 5,877 | 4,890 |
| Operational risk | 63,932 | 63,932 | 63,932 | 63,932 | 61,613 |
| **Total risk exposure amount** | **707,579** | **547,977** | **553,762** | **545,898** | **509,032** |

## Capital requirement credit risks, standardised approach**

| | Exposure amount | | Risk-weighted exposure amount | | Capital requirement | | Average risk weight, % | |
|---|---|---|---|---|---|---|---|---|
| SEK m | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2018 | 31 Dec 2017 |
| Sovereign and central banks | 403 | 236 | - | - | - | - | 0.0 | 0.0 |
| Municipalities | 25 | - | 5 | - | 0 | - | 20.0 | 0.0 |
| Multilateral development banks | 183 | 568 | - | - | - | - | 0.0 | 0.0 |
| International organisations | - | 35 | - | - | - | - | 0.0 | 0.0 |
| Institutions | 9,570 | 7,290 | 897 | 506 | 72 | 40 | 9.4 | 6.9 |
| Corporates | 10,282 | 9,407 | 10,191 | 9,312 | 815 | 745 | 99.1 | 99.0 |
| Households | 9,198 | 16,824 | 6,867 | 12,580 | 549 | 1,006 | 74.7 | 74.8 |
| Collateral in real estate | 125,107 | 106,316 | 46,682 | 38,158 | 3,735 | 3,053 | 37.3 | 35.9 |
| Past due items | 705 | 654 | 878 | 748 | 70 | 60 | 124.6 | 114.4 |
| Collective investment undertakings | - | 86 | - | 86 | - | 7 | 0.0 | 100.0 |
| Equities | 6,254 | 6,813 | 15,636 | 16,143 | 1,251 | 1,291 | 250.0 | 236.9 |
| Other items | 6,604 | 6,780 | 6,295 | 6,300 | 504 | 505 | 95.3 | 92.9 |
| **Total** | **168,331** | **155,009** | **87,451** | **83,833** | **6,996** | **6,707** | **52.0** | **54.1** |

** Information about capital requirements for the exposure classes where there are exposures.

## Credit risks IRB approach

| SEK m | Exposure amount 31 Dec 2018 | Exposure amount 31 Dec 2017 | Risk-weighted exposure amount 31 Dec 2018 | Risk-weighted exposure amount 31 Dec 2017 | Capital requirement 31 Dec 2018 | Capital requirement 31 Dec 2017 | Average risk weight, % 31 Dec 2018 | Average risk weight, % 31 Dec 2017 |
|---|---|---|---|---|---|---|---|---|
| **Sovereign and central banks** | **440,789** | **357,719** | **7,694** | **7,474** | **616** | **598** | **1.7** | **2.1** |
| **Corporate** | **908,004** | **852,845** | **250,750** | **237,107** | **20,060** | **18,969** | **27.6** | **27.8** |
| Corporate lending | 888,991 | 835,665 | 247,764 | 233,707 | 19,821 | 18,697 | 27.9 | 28.0 |
| *of which other loans foundation approach ** | *125,126* | *109,608* | *37,526* | *32,467* | *3,002* | *2,598* | *30.0* | *29.6* |
| *of which other loans advanced approach ** | *763,865* | *726,057* | *210,238* | *201,240* | *16,819* | *16,099* | *27.5* | *27.7* |
| *of which large companies* | *154,297* | *152,189* | *57,241* | *58,176* | *4,579* | *4,654* | *37.1* | *38.2* |
| *of which medium-sized companies* | *85,130* | *80,590* | *37,275* | *37,839* | *2,982* | *3,027* | *43.8* | *47.0* |
| *of which property companies* | *524,438* | *493,278* | *115,722* | *105,225* | *9,258* | *8,418* | *22.1* | *21.3* |
| Counterparty risk | 19,013 | 17,180 | 2,986 | 3,400 | 239 | 272 | 15.7 | 19.8 |
| **Housing co-operative associations** | **216,026** | **195,265** | **9,902** | **9,974** | **791** | **798** | **4.6** | **5.1** |
| **Retail** | **1,079,337** | **1,026,668** | **85,185** | **72,574** | **6,815** | **5,806** | **7.9** | **7.1** |
| Private individuals | 1,054,730 | 1,001,733 | 77,746 | 65,742 | 6,220 | 5,259 | 7.4 | 6.6 |
| *of which property loans* | *991,558* | *925,491* | *62,459* | *51,092* | *4,997* | *4,087* | *6.3* | *5.5* |
| *of which other loans* | *63,172* | *76,242* | *15,287* | *14,650* | *1,223* | *1,172* | *24.2* | *19.2* |
| Small companies | 24,607 | 24,935 | 7,438 | 6,832 | 595 | 547 | 30.2 | 27.4 |
| *of which property loans* | *7,280* | *6,929* | *1,409* | *1,707* | *113* | *137* | *19.4* | *24.6* |
| *of which other loans* | *17,327* | *18,006* | *6,029* | *5,125* | *482* | *410* | *34.8* | *28.5* |
| **Institutions** | **86,423** | **72,223** | **14,858** | **13,929** | **1,189** | **1,114** | **17.2** | **19.3** |
| Lending to institutions | 17,559 | 16,332 | 5,640 | 5,232 | 452 | 418 | 32.1 | 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** | **2,121** | **1,512** | **7,410** | **5,068** | **593** | **405** | **349.4** | **335.1** |
| *of which listed shares* | *545* | *661* | *1,581* | *1,916* | *126* | *153* | *290.0* | *290.0* |
| *of which other shares* | *1,576* | *851* | *5,829* | *3,152* | *467* | *252* | *370.0* | *370.0* |
| **Non credit-obligation assets** | **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** | **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** | **541,212** | **348,386** | **43,297** | **27,871** | **19.8** | **13.9** |

* The foundation approach means the IRB approach without own estimates of LGD and CCF. The advanced approach means the IRB approach with own estimates of LGD and CCF.

** The exposure amount which is affected by the rules for risk weight floor, Swedish mortgage loans is SEK 795,278m at 31 December 2018

The capital requirement for credit risk is calculated according to the standardised approach and the IRB approach in accordance with CRR. There are two different IRB approaches: the IRB approach without own estimates of LGD and CCF, and the IRB approach with own estimates of LGD and CCF.

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 in the case of default (LGD) and the exposure amount.

Handelsbanken uses the IRB approach without own estimates of LGD and CCF for exposures to sovereigns, institutions and for certain product and collateral types for corporate exposures in the whole of the regional banking operations and in the following subsidiaries: Stadshypotek AB, Handelsbanken Finans AB, Ecster AB, Handelsbanken Finans (Shanghai) Financial Leasing Co. Ltd and Rahoitus Oy.

The IRB approach with own estimates of LGD and CCF is applied to the majority of exposures to large corporates, medium-sized companies, property companies and housing co-operative associations in branch operations (excluding the Netherlands), Handelsbanken Capital Markets, Stadshypotek AB and Handelsbanken Finans AB, Ecster AB, and retail exposures in Sweden, Norway, Finland and Denmark, as well as 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 an international 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.

For retail exposures with residential property as collateral, the Swedish Financial Supervisory Authority introduced on 31 December 2018 a risk weight floor in Pillar 1 reporting. This risk weight floor was previously a requirement in Pillar 2. The effect of the risk weight floor is an increase of SEK 163bn to the risk-weighted exposure amount.

At the end of the quarter, the IRB approach was applied to 86% of the total risk-weighted exposure amount for credit risk. For the remaining credit risk exposures, the capital requirements are calculated using the standardised approach.

Repos and securities loans for institutions are reported separately in the Credit risk exposures approved for the IRB approach table, since they give rise to very low capital requirements, while the volumes vary considerably over time. The low capital requirement is due to the exposure being reported gross and being secured.

The total average risk weight for exposures approved for the IRB approach was stable during the quarter and amounted to 13.8% (13.5). 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%.

Credit quality is good. Of Handelsbanken's corporate exposures, 98% were customers with a repayment capacity assessed as normal or better than normal, i.e. with a rating grade between 1 and 5 on the Bank's nine-point risk rating scale. The IRB approach is based on historical losses from both the financial crisis of recent years and the Swedish banking crisis in the early 1990s. These risk weights reflect the fact that Handelsbanken has reported low credit losses over a long period. The risk measurements applied contain margins of conservatism to ensure that the risk is not underestimated.

The level of the risk weight in the corporate exposures reflects the portfolio composition and how various loans are classified into different exposure classes.

The capital requirements for equity exposures in the IRB approach are calculated according to a simplified risk weight method.

## Capital requirement market risks

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| **Outright products** | | | | | |
| Interest rate risk | 764 | 846 | 1,086 | 937 | 808 |
| *of which general risk* | *631* | *706* | *827* | *698* | *572* |
| *of which specific risk* | *133* | *140* | *259* | *239* | *236* |
| Equity price risk | 7 | 8 | 10 | 9 | 9 |
| *of which general risk* | *2* | *3* | *4* | *3* | *3* |
| *of which specific risk* | *5* | *5* | *6* | *6* | *6* |
| *of which mutual funds* | *0* | *0* | *0* | *0* | *0* |
| Exchange rate risk | - | - | - | - | - |
| Commodities risk | 7 | 8 | 12 | 8 | 5 |
| **Options** | | | | | |
| Scenario approach | 3 | 5 | 4 | 4 | 3 |
| *of which interest rate risk* | *0* | *0* | *0* | *0* | *0* |
| *of which equity risk* | *3* | *5* | *4* | *4* | *3* |
| *of which exchange rate risk* | - | - | - | - | - |
| *of which commodity risk* | *0* | *0* | *0* | *0* | *0* |
| Securitisation (specific risk) | - | - | - | - | - |
| Settlement risk | 0 | - | 0 | 0 | 0 |
| **Total capital requirement for market risks** | **781** | **867** | **1,112** | **958** | **825** |

The capital requirement for market risks is calculated for the Bank's consolidated situation. The capital requirements for interest rate risk and equity price risk are, however, only calculated for positions in the trading book. When calculating the capital requirement for market risks, the standardised approach is applied.

## Capital requirement operational risk

Handelsbanken uses the standardised approach, to calculate the capital requirement 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.

## Leverage ratio

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Balance sheet according to accounting regulations | 2,978,174 | 3,087,236 | 3,134,353 | 2,963,576 | 2,766,977 |
| Deduction for assets not included in the banking group | -130,857 | -146,782 | -142,185 | -133,567 | -131,176 |
| Adjustment for differences between carrying amount and leverage ratio exposure – derivatives | -18,501 | -13,807 | -21,830 | -16,503 | -17,115 |
| Adjustment for differences between carrying amount and leverage ratio exposure – repos and securities loans | 3,850 | 5,125 | 5,534 | 5,077 | 2,176 |
| *Assets reported off the balance sheet, gross (before adjustment for conversion factor)* | *535,815* | *529,010* | *531,614* | *523,691* | *501,292* |
| *Deduction from assets off the balance sheet after application of conversion factor* | *-343,827* | *-336,752* | *-336,998* | *-334,267* | *-320,747* |
| Assets reported off the balance sheet, net | 191,988 | 192,258 | 194,616 | 189,424 | 180,545 |
| Additional adjustment | -14,583 | -12,236 | -13,580 | -12,608 | -13,775 |
| **Assets on which the leverage ratio is calculated** | **3,010,071** | **3,111,794** | **3,156,908** | **2,995,399** | **2,787,632** |
| | | | | | |
| **Capital on which the leverage ratio can be calculated** | | | | | |
| Tier 1 capital | 131,463 | 131,383 | 131,089 | 129,625 | 127,499 |
| | | | | | |
| **Leverage ratio** | | | | | |
| Leverage ratio calculated on tier 1 capital | 4.4% | 4.2% | 4.2% | 4.3% | 4.6% |

Information in this section relates to Handelsbanken's material risks and capital requirement as of the publication date of this report. A full description of the Bank's risks and capital management can be found in Handelsbanken's Annual Report and in Handelsbanken's Risk and Capital – Information according to Pillar 3.

## Note 19 Risk and liquidity

Figures reported in this section meet the requirements for publication of information relating to risk and capital management in CRR Part Eight.

### Risk and uncertainty factors

Handelsbanken provides credit through its branch operations, exercising a low risk tolerance. The credit process is based on the conviction that a decentralised organisation with local presence ensures high quality in credit decisions. In recent months, house prices have shown a weaker trend, which has affected companies focused on housing development. The Bank's credit process and low risk tolerance mean that the Bank avoids granting credits to high-risk companies that are focused on housing development. Handelsbanken's exposure to market risks is also low. Essentially, market risks in the banking operations are only taken as part of meeting customers' investment and risk management needs. The situation with regard to regulatory developments continues to evolve rapidly. The UK's decision to leave the EU means there is uncertainty regarding the regulations that will apply to the Bank's British operations. The Bank is preparing for the implementation of Brexit in close consultation with public authorities in both Sweden and the UK. The Bank's low tolerance of risk, sound capitalisation and strong liquidity situation mean that Handelsbanken is also well-equipped to operate under substantially more difficult market conditions than those experienced during the past few years. The Bank's liquidity position is described in more detail below under the heading Liquidity and funding.

### Liquidity and funding

Handelsbanken has a strong liquidity position. For many years, the Bank has actively worked with liquidity measures and has adopted a conservative approach. One aspect of this work has been to centralise liquidity management, with the aim of tightening control of the liquidity risks, and in all scenarios to guarantee and optimise the Bank's funding. Handelsbanken's funding programme covers the maturities in all currencies that the Bank needs to fund its lending and enables the Bank to issue in all currencies of relevance to the Bank.

Balances with central banks and banks, as well as securities that are eligible as collateral with central banks, totalled SEK 527bn as at 31 December 2018 (see table below). In addition, there was an unutilised issue amount for covered bonds and other liquidity-creating measures.

### Balances with central banks and banks, and securities holdings in the liquidity reserve

| Market value<br>SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Cash and balances with and other lending to central banks | 350,679 | 405,823 | 436,279 | 376,513 | 265,234 |
| Balances with banks and the National Debt Office, overnight | 487 | 525 | 404 | 603 | 2,041 |
| Securities issued by governments and public entities | 117,917 | 136,971 | 139,314 | 101,672 | 132,385 |
| Covered bonds | 57,705 | 49,396 | 55,063 | 46,647 | 44,249 |
| Securities issued by non-financial companies | 128 | 748 | 483 | 302 | 141 |
| Securities issued by financial companies | 174 | 395 | 401 | 434 | 275 |
| **Total** | **527,090** | **593,858** | **631,944** | **526,171** | **444,325** |
| *of which in SEK* | *137,910* | *165,373* | *165,423* | *152,986* | *142,452* |
| *of which in EUR* | *140,720* | *122,782* | *127,949* | *125,582* | *94,685* |
| *of which in USD* | *133,306* | *174,921* | *193,998* | *117,281* | *74,168* |
| *of which in other currencies* | *115,154* | *130,782* | *144,574* | *130,322* | *133,020* |

| 31 December 2018<br>Market value, 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 the National Debt Office, overnight | 123 | 13 | 200 | 151 | 487 |
| Securities issued by governments | 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, external issuers | 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 | 21 | 12 | - | 141 | 174 |
| **Total** | **137,910** | **140,720** | **133,306** | **115,154** | **527,090** |

## Maturity periods for financial assets and liabilities

| 31 December 2018 | Up to 30 days | 31 days - 6 mths | 6 - 12 mths | 1 - 2 yrs | 2 - 5 yrs | 5 yrs - | Unspec. maturity | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 350,679 | - | - | - | - | - | - | 350,679 |
| Interest-bearing securities eligible as collateral with central banks | 121,937 | - | - | - | - | - | - | 121,937 |
| Bonds and other interest-bearing securities | 50,513 | - | - | - | - | - | - | 50,513 |
| Loans to credit institutions | 14,041 | 2,963 | 844 | 73 | 1,732 | 2,425 | 0 | 22,078 |
| *-of which reverse repos* | *2,752* | - | - | - | - | - | - | *2,752* |
| Loans to the public | 49,118 | 250,694 | 170,924 | 214,403 | 422,754 | 1,078,221 | 0 | 2,186,114 |
| *-of which reverse repos* | *9,049* | - | - | - | - | - | - | *9,049* |
| 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** | **610,608** | **253,657** | **171,768** | **214,476** | **424,486** | **1,080,646** | **222,533** | **2,978,174** |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Due to credit institutions | 103,856 | 38,463 | 12,587 | 3,872 | 244 | 4,439 | 30,477 | 193,938 |
| *-of which repos* | - | - | - | - | - | - | - | *0* |
| *-of which deposits from central banks* | *42,305* | *24,015* | - | - | - | - | *2,316* | *68,636* |
| Deposits and borrowing from the public | 7,501 | 24,546 | 4,625 | 638 | 590 | 7,099 | 962,707 | 1,007,706 |
| *-of which repos* | - | - | - | - | - | - | - | *0* |
| Issued securities | 97,270 | 341,577 | 214,706 | 178,143 | 479,444 | 77,167 | - | 1,388,307 |
| *-of which covered bonds* | - | *31,381* | *80,853* | *101,384* | *329,734* | *69,222* | - | *612,574* |
| *-of which certificates and other securities with original maturity of less than one year* | *65,107* | *252,581* | *63,313* | - | - | - | - | *381,001* |
| *-of which senior bonds and other securities with original maturity of more than one year* | *32,163* | *57,615* | *70,540* | *76,759* | *149,710* | *7,945* | - | *394,732* |
| Subordinated liabilities | 15,247 | 5,503 | - | - | 21,519 | 7,623 | - | 49,892 |
| Other | 9,134 | - | - | - | - | - | 329,197 | 338,331 |
| *-of which short positions* | *6,163* | - | - | - | - | - | - | *6,163* |
| *-of which investment banking settlement debts* | *2,971* | - | - | - | - | - | - | *2,971* |
| **Total** | **233,008** | **410,089** | **231,918** | **182,653** | **501,797** | **96,328** | **1,322,381** | **2,978,174** |

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. This means that the table does not reflect the actual maturities for the securities included.

In “Other”, assets and liabilities are reported as maturing in the time intervals that correspond to the contractual maturity dates, taking into account contractual amortisation plans.

Sight deposits are reported under “Unspecified maturity”. “Other” includes market values in derivative transactions.

## Liquidity coverage ratio (LCR)

| Liquidity coverage ratio (LCR) - sub-components, SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| **High quality liquidity assets** | **508,009** | **584,187** | **618,676** | **514,470** | **432,958** |
| **Cash outflows** | **404,045** | **426,051** | **493,932** | **425,472** | **353,756** |
| Deposits from the public and small enterprises | 58,078 | 57,537 | 57,206 | 55,122 | 52,697 |
| Unencumbered capital market financing | 300,759 | 321,409 | 395,127 | 320,903 | 252,825 |
| Encumbered capital market financing | 4,609 | 9,411 | 5,800 | 11,825 | 9,119 |
| Other cash outflows | 40,599 | 37,694 | 35,799 | 37,622 | 39,115 |
| **Cash inflows** | **55,956** | **62,939** | **70,593** | **62,007** | **42,406** |
| Inflows from fully performing exposures | 25,418 | 26,041 | 25,094 | 30,171 | 28,292 |
| Other cash inflows | 30,538 | 36,898 | 45,499 | 31,836 | 14,114 |
| **Liquidity coverage ratio (LCR), %** | **146** | **161** | **146** | **142** | **139** |

The liquidity coverage ratio (LCR) has been a binding requirement for banks in the EU since the European Commission introduced its delegated act. 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%. 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. Minimum requirements for the net stable funding ratio (NSFR) – the structural liquidity measure that is the ratio between available stable funding and the stable funding required – is expected to be introduced in the EU in 2021 at the earliest.

At the end of the year, the Group's aggregated LCR was 146%, in accordance with the European Commission's delegated act, which shows that the Bank has substantial resistance to short-term disruptions in the funding markets. During the year, the LCR was 150%, as an average of daily observations according to the same definition.

## Stress test with liquidity-creating measures

The Bank's liquidity position is regularly subjected to stress tests. In these tests, the Bank's cash flows are stressed, based on certain defined assumptions. For example, in the stress test aimed at demonstrating resistance to more long-term market disruptions, it is assumed that the Bank is unable to obtain funding in the financial markets at the same time as it experiences a gradual disappearance of 10% of deposits from households and companies over the first month. It is further assumed that the Bank continues to conduct its core activities, i.e. loans to households and companies, and that committed loan offers and other credit facilities are partly utilised by customers. Account is also taken of the fact that holdings with central banks are utilised and that the Group Treasury liquidity portfolio can provide immediate additional liquidity. In addition, liquidity-creating measures – for example, unutilised facilities to issue covered bonds – are used in order to gradually provide liquidity for the Bank. The result of the stress test shows that the liquidity reserves, even in a stressed scenario, cover the Bank's liquidity requirement for over three years, even if access to new funding in the markets were to disappear.

## Non-encumbered assets, NEA

| 31 December 2018<br>SEK bn | NEA | Accumulated coverage ratio in % of unsecured funding* |
|---|---|---|
| Holdings with central banks and securities in the liquidity portfolio | 527 | 55% |
| Mortgage loans | 645 | 122% |
| Other household lending | 184 | 141% |
| Property company lending lowest risk class (1-3) | 288 | 171% |
| Other corporate lending lowest risk class (1-3) | 151 | 186% |
| Loans to credit institutions lowest risk class (1-3) | 16 | 188% |
| Other corporate lending | 269 | 216% |
| Other assets | 0 | 216% |
| **Total non-encumbered assets (NEA)** | **2,080** | **216%** |
| **Encumbered assets without underlying liabilities**** | **60** | |
| Encumbered assets with underlying liabilities | 838 | |
| **Total assets, Group** | **2,978** | |

| 31 December 2017<br>SEK bn | NEA | Accumulated coverage ratio in % of unsecured funding* |
|---|---|---|
| Holdings with central banks and securities in the liquidity portfolio | 444 | 53% |
| Mortgage loans | 549 | 118% |
| Other household lending | 190 | 141% |
| Property company lending lowest risk class (1-3) | 276 | 174% |
| Other corporate lending lowest risk class (1-3) | 141 | 191% |
| Loans to credit institutions lowest risk class (1-3) | 19 | 193% |
| Other corporate lending | 248 | 223% |
| Other assets | 9 | 224% |
| **Total non-encumbered assets (NEA)** | **1,876** | **224%** |
| **Encumbered assets without underlying liabilities**** | **61** | |
| Encumbered assets with underlying liabilities | 830 | |
| **Total assets, Group** | **2,767** | |

* Issued short and long non-secured funding and liabilities to credit institutions.
** Over-collateralisation in cover pool (OC).

Information in this section relates to Handelsbanken’s material risks and risk management at the time that this interim report is published. A full description of the Bank’s risks and capital management can be found in Handelsbanken’s Annual Report and in Handelsbanken’s Risk and Capital – Information according to Pillar 3.

## Note 20 Related-party transactions

There have been no business transactions of material importance with related parties during the period.

## Note 21 Segment reporting

Information about the Bank’s segment reporting is provided on pages 10-24.

## Note 22 Events after the balance sheet date

No significant events occurred after the balance sheet date.

# Condensed set of financial statements – Parent company

## INCOME STATEMENT – PARENT COMPANY

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 4,041 | 4,478 | -10% | 4,125 | -2% | 17,234 | 16,326 | 6% |
| Dividends received | 10,677 | 72 | | 12,631 | -15% | 11,023 | 13,705 | -20% |
| Net fee and commission income | 1,529 | 1,600 | -4% | 1,655 | -8% | 6,218 | 6,592 | -6% |
| Net gains/losses on financial transactions | 391 | 250 | 56% | 239 | 64% | 1,020 | 1,339 | -24% |
| Other operating income | 580 | 469 | 24% | 465 | 25% | 2,805 | 1,690 | 66% |
| **Total income** | **17,218** | **6,869** | **151%** | **19,115** | **-10%** | **38,300** | **39,652** | **-3%** |
| Staff costs | -2,459 | -3,147 | -22% | -2,353 | 5% | -12,255 | -10,938 | 12% |
| Other administrative expenses | -1,689 | -1,501 | 13% | -1,650 | 2% | -6,332 | -5,702 | 11% |
| Depreciation, amortisation and impairment of property, equipment and intangible assets | -407 | -317 | 28% | -306 | 33% | -1,350 | -1,094 | 23% |
| **Total expenses before credit losses** | **-4,555** | **-4,965** | **-8%** | **-4,309** | **6%** | **-19,937** | **-17,734** | **12%** |
| **Profit before credit losses** | **12,663** | **1,904** | | **14,806** | **-14%** | **18,363** | **21,918** | **-16%** |
| Net credit losses | -240 | -222 | 8% | -1,083 | -78% | -835 | -1,685 | -50% |
| Impairment of financial assets | - | - | | - | | - | - | |
| **Operating profit** | **12,423** | **1,682** | | **13,723** | **-9%** | **17,528** | **20,233** | **-13%** |
| Appropriations | 241 | 31 | | 29 | | 332 | 115 | 189% |
| **Profit before tax** | **12,664** | **1,713** | | **13,752** | **-8%** | **17,860** | **20,348** | **-12%** |
| Taxes | -2,796 | -462 | | -3,181 | -12% | -4,005 | -4,662 | -14% |
| **Profit for the period** | **9,868** | **1,251** | | **10,571** | **-7%** | **13,855** | **15,686** | **-12%** |

## STATEMENT OF COMPREHENSIVE INCOME – PARENT COMPANY

| SEK m | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change | Full year 2018 | Full year 2017 | Change |
|---|---|---|---|---|---|---|---|---|
| **Profit for the period** | **9,868** | **1,251** | | **10,571** | **-7%** | **13,855** | **15,686** | **-12%** |
| **Other comprehensive income** | | | | | | | | |
| **Items that will not be reclassified to the income statement** | | | | | | | | |
| Instruments measured at fair value through other comprehensive income - equity instruments | -314 | 31 | | | | -188 | | |
| Tax on items that will not be reclassified to income statement | 3 | -1 | | | | 1 | | |
| *of which equity instruments measured at fair value through other comprehensive income* | *3* | *-1* | | | | *1* | | |
| **Total items that will not be reclassified to the income statement** | **-311** | **30** | | | | **-187** | | |
| **Items that may subsequently be reclassified to the income statement** | | | | | | | | |
| Cash flow hedges | 1,646 | -600 | | -424 | | 829 | 41 | |
| Available-for-sale instruments | | | | -552 | | | -470 | |
| Instruments measured at fair value through other comprehensive income - debt instruments | -12 | 1 | | | | -12 | | |
| Translation differences for the period | -2,358 | -1,011 | -133% | -44 | | 41 | -2,261 | |
| *of which hedging net investment in foreign operations* | *-275* | *-144* | *-91%* | *-353* | *22%* | *-848* | *-1,476* | *43%* |
| Tax on items that may subsequently be reclassified to the income statement | -287 | 164 | | 158 | | 19 | 311 | -94% |
| *of which cash flow hedges* | *-358* | *132* | | *93* | | *-178* | *-9* | |
| *of which available-for-sale instruments* | | | | *-13* | | | *-5* | |
| *of which debt instruments measured at fair value through other comprehensive income* | *3* | *0* | | | | *3* | | |
| *of which hedging net investment in foreign operations* | *68* | *32* | *113%* | *78* | *-13%* | *194* | *325* | *-40%* |
| **Total items that may subsequently be reclassified to the income statement** | **-1,011** | **-1,446** | **30%** | **-862** | **-17%** | **877** | **-2,379** | |
| **Total other comprehensive income for the period** | **-1,322** | **-1,416** | **7%** | **-862** | **-53%** | **690** | **-2,379** | |
| **Total comprehensive income for the period** | **8,546** | **-165** | | **9,709** | **-12%** | **14,545** | **13,307** | **9%** |

## Comment on results – Parent company January – December 2018 compared with January – December 2017

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% to SEK 17,528m (20,233), chiefly owing to reduced dividends, as well as increased staff costs. Profit for the year decreased by 12% to SEK 13,855m (15,686). Net interest income increased by 6% to SEK 17,234m (16,326), as net fee and commission income decreased by 6% to SEK 6,218m (6,592). At year-end, the parent company's equity amounted to SEK 121,062m (120,200).

## BALANCE SHEET – PARENT COMPANY

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with central banks | 243,824 | 357,440 | 375,243 | 276,999 | 226,314 |
| Interest-bearing securities eligible as collateral with central banks | 118,918 | 142,218 | 138,454 | 100,428 | 125,887 |
| Loans to credit institutions | 841,085 | 736,921 | 768,343 | 787,818 | 664,018 |
| Loans to the public | 611,699 | 862,370 | 872,776 | 846,208 | 795,691 |
| Bonds and other interest-bearing securities | 50,993 | 53,599 | 58,896 | 55,755 | 46,220 |
| Shares | 13,156 | 12,905 | 12,530 | 18,199 | 13,073 |
| Shares in subsidiaries and investments in associates | 72,267 | 48,651 | 48,670 | 47,359 | 47,302 |
| Assets where the customer bears the value change risk | 5,240 | 5,531 | 5,481 | 5,264 | 5,005 |
| Derivative instruments | 59,109 | 54,284 | 69,214 | 62,279 | 59,767 |
| Intangible assets | 2,772 | 2,898 | 2,863 | 2,717 | 2,610 |
| Property, equipment and leasing assets | 5,434 | 2,927 | 3,056 | 2,987 | 2,822 |
| Current tax assets | 531 | 2,165 | 2,733 | 2,056 | 191 |
| Deferred tax assets | 285 | 215 | 277 | 214 | 283 |
| Other assets | 25,910 | 9,184 | 13,243 | 9,053 | 18,807 |
| Prepaid expenses and accrued income | 2,476 | 2,228 | 2,607 | 2,796 | 4,886 |
| **Total assets** | **2,053,699** | **2,293,536** | **2,374,386** | **2,220,132** | **2,012,876** |
| **Liabilities and equity** | | | | | |
| Due to credit institutions | 261,735 | 210,052 | 231,285 | 213,850 | 193,822 |
| Deposits and borrowing from the public | 839,835 | 1,100,088 | 1,126,581 | 1,065,837 | 941,401 |
| Liabilities where the customer bears the value change risk | 5,240 | 5,531 | 5,481 | 5,264 | 5,005 |
| Issued securities | 716,531 | 750,391 | 783,254 | 711,115 | 654,637 |
| Derivative instruments | 36,226 | 38,512 | 43,535 | 48,184 | 41,771 |
| Short positions | 6,163 | 7,081 | 10,594 | 7,559 | 2,072 |
| Current tax liabilities | - | - | - | - | - |
| Deferred tax liabilities | 528 | 257 | 344 | 363 | 582 |
| Provisions | 109 | 179 | 187 | 199 | 146 |
| Other liabilities | 12,044 | 15,487 | 14,650 | 13,165 | 12,746 |
| Accrued expenses and deferred income | 2,255 | 3,186 | 3,183 | 4,085 | 6,915 |
| Subordinated liabilities | 51,085 | 50,827 | 43,147 | 41,621 | 32,896 |
| **Total liabilities** | **1,931,751** | **2,181,591** | **2,262,241** | **2,111,242** | **1,891,993** |
| **Untaxed reserves** | **886** | **611** | **646** | **670** | **683** |
| Share capital | 3,013 | 3,013 | 3,013 | 3,013 | 3,013 |
| Share premium | 5,629 | 5,629 | 5,629 | 5,629 | 5,629 |
| Other funds | 8,285 | 9,698 | 11,042 | 9,670 | 7,320 |
| Retained earnings | 90,280 | 89,007 | 89,079 | 89,254 | 88,552 |
| Profit for the period | 13,855 | 3,987 | 2,736 | 654 | 15,686 |
| **Total equity** | **121,062** | **111,334** | **111,499** | **108,220** | **120,200** |
| **Total liabilities and equity** | **2,053,699** | **2,293,536** | **2,374,386** | **2,220,132** | **2,012,876** |

## Changed presentation 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 | 118,918 | 314 | 118,604 |
| Loans to credit institutions | 841,085 | 1,072 | 840,013 |
| Loans to the public | 611,699 | 1,038 | 610,661 |
| Bonds and other interest-bearing securities | 50,993 | 203 | 50,790 |
| Prepaid expenses and accrued income | 2,476 | -2,711 | 5,187 |
| **Total** | **1,868,995** | **-** | **1,868,995** |
| **Liabilities** | | | |
| Due to credit institutions | 261,735 | 212 | 261,523 |
| Deposits and borrowing from the public | 839,835 | 767 | 839,068 |
| Issued securities | 716,531 | 2,250 | 714,281 |
| Short positions | 6,163 | 32 | 6,131 |
| Subordinated liabilities | 51,085 | 1,193 | 49,892 |
| Accrued expenses and deferred income | 2,255 | -4,454 | 6,739 |
| **Total** | **1,877,604** | **-** | **1,877,634** |

As of Q1 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 years' contractual accrued interest on financial assets and financial liabilities continues to be presented under Prepaid expenses and accrued income and Accrued expenses and deferred income on the balance sheet.

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.

## CHANGE IN SHAREHOLDER'S EQUITY – PARENT COMPANY

| | Restricted equity | | | Unrestricted equity | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| January – December 2018<br>SEK m | Share capital | Statutory reserve | Fund for internally developed software | Share premium | Hedge reserve * | Fair value reserve * | Translation reserve * | 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 period | | | | | | | | 13,855 | 13,855 |
| Other comprehensive income | | | | | 651 | -196 | 235 | | 690 |
| *of which reclassified within equity* | | | | | | *-5* | *-1,191* | | *-1,196* |
| **Total comprehensive income for the period** | | | | | **651** | **-196** | **235** | **13,855** | **14,545** |
| Reclassified to retained earnings | | | | | | | | 1,196 | 1,196 |
| Dividend | | | | | | | | -14,581 | -14,581 |
| Group contributions provided | | | | | | | | -11 | -11 |
| Tax effect on Group contribution | | | | | | | | -3 | -3 |
| Effects of convertible subordinated loans | 0 | | | 0 | | | | | 0 |
| Fund for internally developed software | | | 274 | | | | | -274 | |
| **Closing equity** | **3,013** | **2,682** | **2,497** | **5,629** | **564** | **304** | **2,238** | **104,135** | **121,062** |

| | Restricted equity | | | Unrestricted equity | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| January – December 2017 SEK m | Share capital | Statutory reserve | Fund for internally developed software | Share premium | Hedge reserve * | Fair value reserve * | Translation reserve * | Retained earnings incl. profit for the year | **Total** |
| **Opening equity** | **3,013** | **2,682** | **1,766** | **5,628** | **-119** | **974** | **3,939** | **98,759** | **116,642** |
| Profit for the period | | | | | | | | 15,686 | 15,686 |
| Other comprehensive income | | | | | 32 | -475 | -1,936 | | -2,379 |
| **Total comprehensive income for the period** | | | | | **32** | **-475** | **-1,936** | **15,686** | **13,307** |
| Dividend | | | | | | | | -9,721 | -9,721 |
| Group contributions provided | | | | | | | | -37 | -37 |
| Tax effect on Group contribution | | | | | | | | 8 | 8 |
| Effects of convertible subordinated loans | 0 | | | 1 | | | | | 1 |
| Fund for internally developed software | | | 457 | | | | | -457 | |
| **Closing equity** | **3,013** | **2,682** | **2,223** | **5,629** | **-87** | **499** | **2,003** | **104,238** | **120,200** |

* 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 divested. 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 were converted into 1,609 class A shares (22,151). At the end of the period, the number of Handelsbanken shares in the trading book was 0 (0).

## CONDENSED STATEMENT OF CASH FLOWS – PARENT COMPANY

| SEK m | Full year 2018 | Full year 2017 |
|---|---|---|
| Operating profit | 17,528 | 20,233 |
| Adjustment for non-cash items in profit/loss | -6,432 | -8,032 |
| Paid income tax | -4,386 | -5,064 |
| Changes in the assets and liabilities of operating activities | 13,435 | 21,738 |
| **Cash flow from operating activities** | **20,145** | **28,875** |
| | | |
| Acquisition / divestment of subsidiaries | - | - |
| Change in shares | -24,890 | -924 |
| Change in interest-bearing securities | - | - |
| Change in property and equipment | -3,558 | -886 |
| Change in intangible assets | -521 | -645 |
| **Cash flow from investing activities** | **-28,969** | **-2,455** |
| | | |
| Repayment of subordinated loans | - | - |
| Issued subordinated loans | 15,449 | - |
| Dividend paid | -14,581 | -9,721 |
| Received group contributions | 11,814 | 12,257 |
| **Cash flow from financing activities** | **12,682** | **2,536** |
| | | |
| **Liquid funds at beginning of the year** | **226,314** | **199,362** |
| Cash flow for the period | 3,858 | 28,956 |
| Exchange rate difference on liquid funds | 13,652 | -2,004 |
| **Liquid funds at end of year*** | **243,824** | **226,314** |

* Liquid funds are defined as Cash and balances with central banks.

# OWN FUNDS AND CAPITAL REQUIREMENT – PARENT COMPANY

## Own funds and capital ratios – Parent company

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Common equity tier 1 capital | 103,487 | 102,197 | 103,093 | 102,457 | 100,782 |
| Total tier 1 capital | 116,140 | 114,796 | 115,778 | 114,391 | 112,528 |
| Total tier 2 capital | 17,196 | 17,286 | 25,366 | 25,004 | 16,616 |
| Total own funds | 133,336 | 132,082 | 141,144 | 139,395 | 129,144 |
| **Capital ratios and buffers** | | | | | |
| Common equity tier 1 ratio, CRR | 16.6% | 16.6% | 16.6% | 16.8% | 21.4% |
| Tier 1 ratio, CRR | 18.6% | 18.7% | 18.6% | 18.7% | 23.9% |
| Total capital ratio, CRR | 21.3% | 21.5% | 22.7% | 22.8% | 27.5% |
| Risk exposure amount, CRR | 624,981 | 614,049 | 621,903 | 610,354 | 470,353 |
| Own funds in relation to capital requirement according to transitional rules | | | | | 249% |
| Institution-specific buffer requirements | 4.0% | 3.9% | 3.9% | 3.8% | 3.7% |
| *of which capital conservation buffer requirement* | *2.5%* | *2.5%* | *2.5%* | *2.5%* | *2.5%* |
| *of which countercyclical capital buffer requirement* | *1.5%* | *1.4%* | *1.4%* | *1.3%* | *1.2%* |
| *of which systemic risk buffer requirement* | - | - | - | - | - |
| Common equity tier 1 capital available for use as a buffer | 12.1% | 12.1% | 12.1% | 12.3% | 16.9% |

## Capital requirement – Parent company

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Credit risk according to standardised approach | 6,941 | 8,898 | 9,003 | 8,777 | 11,496 |
| Credit risk according to IRB Approach | 38,019 | 35,445 | 35,759 | 35,210 | 21,524 |
| Risk weight floor Swedish mortgage | 426 | | | | |
| Market risk | 781 | 867 | 1,112 | 958 | 825 |
| Credit valuation adjustment risk (CVA) | 418 | 501 | 465 | 470 | 390 |
| Operational risk | 3,413 | 3,413 | 3,413 | 3,413 | 3,393 |
| **Total capital requirement** | **49,998** | **49,124** | **49,752** | **48,828** | **37,628** |
| Adjustment according to Basel I floor | | | | | 14,886 |
| **Capital requirement, Basel I floor** | | | | | **52,514** |
| Total own funds, Basel I floor | | | | | 130,967 |

## Capital requirement credit risks, standardised approach * – Parent company

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Sovereign and central banks | - | - | - | - | - |
| Municipalities | 0 | - | - | - | - |
| Multilateral development banks | - | - | - | - | - |
| International organisations | - | - | - | - | - |
| Institutions | 1,105 | 134 | 77 | 85 | 75 |
| Corporates | 706 | 803 | 875 | 734 | 740 |
| Households | 244 | 940 | 1,064 | 1,047 | 997 |
| Collateral in real estate | 1,477 | 3,433 | 3,409 | 3,311 | 3,053 |
| Past due items | 22 | 45 | 46 | 39 | 34 |
| Equities | 2,988 | 2,988 | 2,988 | 2,988 | 6,121 |
| Other items | 399 | 555 | 544 | 573 | 476 |
| **Total** | **6,941** | **8,898** | **9,003** | **8,777** | **11,496** |

* Information about capital requirements for the exposure classes where there are exposures.

## Capital requirement credit risks, IRB approach – Parent company

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Sovereign and central banks | 423 | 527 | 560 | 521 | 428 |
| Corporates | 14,045 | 18,366 | 18,789 | 18,755 | 17,061 |
| Households | 2,260 | 2,130 | 2,148 | 2,003 | 1,949 |
| Private individuals | 1,744 | 1,641 | 1,652 | 1,543 | 1,493 |
| *of which property loans* | *1,068* | *1,015* | *1,021* | *819* | *795* |
| *of which other loans* | *676* | *626* | *630* | *724* | *698* |
| Small companies | 516 | 489 | 496 | 461 | 456 |
| Institutions | 1,178 | 1,251 | 1,245 | 1,318 | 1,114 |
| Equity exposures | 20,050 | 13,089 | 12,932 | 12,530 | 891 |
| *of which listed shares* | *126* | *145* | - | - | *1* |
| *of which other shares* | *19,924* | *12,944* | *12,932* | *12,530* | *890* |
| Non credit-obligation assets | 59 | 78 | 82 | 80 | 79 |
| Securitisation positions | 4 | 4 | 2 | 2 | 2 |
| **Total IRB approach** | **38,019** | **35,445** | **35,758** | **35,209** | **21,524** |
| **Risk weight floor Swedish mortgage loans** | **426** | | | | |
| **Total IRB approach with impact of risk weight floor, Swedish mortgage loans** | **38,445** | | | | |

## Capital requirement market risks – Parent company

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Position risk in the trading book | 774 | 859 | 1,100 | 950 | 820 |
| Interest rate risk | 764 | 846 | 1,086 | 937 | 808 |
| *of which positions in securitisation instruments* | - | - | - | - | - |
| Equity price risk | 10 | 13 | 14 | 13 | 12 |
| Exchange rate risk | - | - | - | - | - |
| Commodities risk | 7 | 8 | 12 | 8 | 5 |
| Settlement risk | 0 | - | 0 | 0 | 0 |
| **Total capital requirement for market risks** | **781** | **867** | **1,112** | **958** | **825** |

## Leverage ratio – Parent company

| SEK m | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| Balance sheet according to accounting regulations | 2,053,699 | 2,293,536 | 2,374,386 | 2,220,132 | 2,012,876 |
| Adjustment for differences between carrying amount and leverage ratio exposure - derivatives | -16,735 | -12,442 | -21,363 | -16,750 | -17,888 |
| Adjustment for differences between carrying amount and leverage ratio exposure - repos and securities loans | 3,850 | 5,473 | 5,549 | 5,349 | 2,199 |
| *Assets reported off the balance sheet, gross (before adjustment for conversion factor)* | *517,183* | *568,462* | *571,106* | *563,474* | *542,726* |
| *Deduction from assets off the balance sheet after application of conversion factor* | *-335,815* | *-366,548* | *-366,800* | *-364,175* | *-351,822* |
| Assets reported off the balance sheet, net | 181,368 | 201,914 | 204,306 | 199,299 | 190,904 |
| Additional adjustment | -706,084 | -666,519 | -684,661 | -667,743 | -631,185 |
| **Assets on which the leverage ratio is calculated** | **1,516,098** | **1,821,962** | **1,878,217** | **1,740,287** | **1,556,906** |
| | | | | | |
| **Capital on which the leverage ratio can be calculated** | | | | | |
| Tier 1 capital | 116,140 | 114,796 | 115,778 | 114,391 | 112,528 |
| | | | | | |
| **Leverage ratio** | | | | | |
| Leverage ratio calculated on tier 1 capital | 7.7% | 6.3% | 6.2% | 6.6% | 7.2% |

### Transition to IFRS 9 - Parent company

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.
Further information concerning this transition can be found in note 1.

| SEK m | | IAS 39 Classification 31 Dec 2017 | IFRS 9 Classification 1 Jan 2018 | IAS39 Carrying amount 31 Dec 2017 | IFRS9 Carrying amount 1 Jan 2018 | Effect on equity 1 Jan 2018 | *of which remeasurements due to new rules for classification and measurement* | *of which remeasurements 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 PnL, mandatory | 7,349 | 7,349 | | | |
| Interest-bearing securities eligible as collateral with central banks | | Fair value in IS, other | Fair value through PnL, fair value option | 117,575 | 117,575 | | | |
| Interest-bearing securities eligible as collateral with central banks | | Financial assets available for sale | Fair value through OCI | 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 PnL, 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 PnL, mandatory | 13,261 | 13,261 | | | |
| Bonds and other interest-bearing securities | | Fair value in IS, other | Fair value through PnL, fair value option | 27,566 | 27,566 | | | |
| Bonds and other interest-bearing securities | | Financial assets available for sale | Fair value through OCI | 5,393 | 5,393 | | | |
| Shares | | Fair value in IS, trading | Fair value through PnL, mandatory | 11,903 | 11,903 | | | |
| Shares | 6) | Financial assets available for sale | Fair value through OCI | 1,170 | 1,170 | | | |
| Assets where the customer bears the value change risk | 5) | Fair value in IS, other | Fair value through PnL, 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 PnL, mandatory | 33,163 | 33,163 | | | |
| Derivative instruments | | instruments | Derivatives identified as hedge instrument | 26,604 | 26,604 | | | |
| Other assets | | Fair value in IS, trading | Fair value through PnL, 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 PnL, mandatory | 102 | 102 | | | |
| Prepaid expenses and accrued income | | Fair value in IS, other | Fair value through PnL, 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 OCI | 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 PnL, 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 PnL, 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 PnL, 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 PnL, mandatory | 2,072 | 2,072 | | | |
| Other liabilities | | Fair value in IS, trading | Fair value through PnL, 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 PnL, 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 | | | | 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*** |

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 as of 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 loan 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 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 as fair value through profit or loss, using the fair value option since 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 on retained earnings of 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.

## PRESS AND TELEPHONE CONFERENCE

A press and analyst conference is being arranged at the Bank’s head office on 6 February at 9:15 a.m. (CET).

A phone conference will be held on 6 February at 10:30 a.m. (CET).

Press releases, presentations, a fact book and a recording of the telephone conference are available at handelsbanken.se/ireng.

The Annual Report for 2018 will be published during the week starting 11 February and will then be available at handelsbanken.se/ireng.

The Bank’s 2019 annual general meeting will be held at the Grand Hotel’s Winter Garden, Royal Entrance, Stallgatan 4, Stockholm, at 10:00 a.m. CET on 27 March.

The interim report for January – March 2019 will be published on 17 April 2019.

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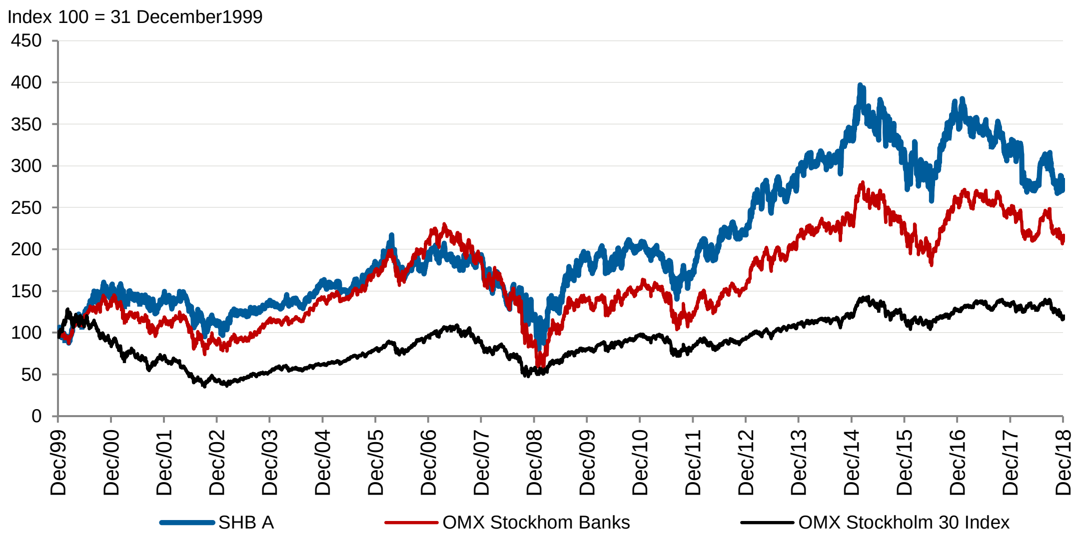
# Share price performance and other information

*The Swedish stock market fell by 11% during the year. The Stockholm stock exchange's bank index fell by 13%. Handelsbanken's class A shares closed at SEK 98.30, a decline of 12%, but including the dividend paid, amounting to SEK 7.50, the total return was -6%. Since 1 January 2000, Handelsbanken's share price has increased by 176%, excluding dividends, while the Stockholm stock exchange has risen by 18%.*

## SHARE PRICE PERFORMANCE SINCE 31 DEC 1999

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