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Ratings

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Svenska Handelsbanken AB

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Svenska Handelsbanken AB

SACP	a+

Anchor	a-	
Business Position	Strong	+1
Capital and Earnings	Adequate	0
Risk Position	Strong	+1
Funding	Average	0
Liquidity	Adequate	

+

Support	+1
ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating

AA-/Stable/A-1+

Resolution Counterparty Rating

AA-/--/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Conservative strategy and stable business model, reflected in strong asset quality. • Solid market position in household and corporate lending and deposits in Sweden. • Robust capital levels that provide a buffer against potential downside risks in core markets.	• High share of wholesale funding, relative to Nordic peers, leading to high sensitivity to market confidence. • Concentration risk arising from large single-name and real estate exposures.

Outlook: Stable

The stable outlook on Sweden-based Svenska Handelsbanken AB (Handelsbanken) reflects S&P Global Ratings' view that the bank will be able to maintain strong asset quality over the next two years, despite continued lending growth in the Nordic countries and the U.K. This is supported by our view of Handelsbanken's capital levels, with a risk-adjusted capital (RAC) ratio that we project at close to 10%, and a low-risk business model in core markets.

In addition, we believe that Handelsbanken will issue large volumes of senior nonpreferred instruments in the coming years in order to meet the minimum requirement for own funds and eligible liabilities (MREL). As a result, we anticipate that Handelsbanken's additional loss-absorbing capacity (ALAC) will exceed our 5% threshold for an uplift in the rating by 2020.

Downside scenario

We could take a negative rating action if Handelsbanken's issuance of ALAC-eligible instruments amounts to less than 5% of risk-weighted assets (RWAs). Furthermore, we could lower our ratings if the bank's losses are significantly higher than we expect, or if its capitalization weakens materially over the next two years.

Upside scenario

We consider a positive rating action on Handelsbanken to be remote at present, given that our ratings on the bank are now among the highest of those on commercial banks that we rate globally and we do not see Handelsbanken as a positive outlier to those for the time being.

Rationale

Our 'AA-' rating on Handelsbanken reflects its stable and well-recognized market position in household and corporate lending and deposits in Sweden, complemented by operations in other Nordic countries, the U.K., and the Netherlands. The rating also reflects our view of Handelsbanken's strong asset quality and low loan loss track record, supported by a conservative strategy and underwriting standards. The concentration risks arising from large single-name and real estate exposures are, in our view, counterbalanced by a robust level of capital. The funding and liquidity profile is neutral to the rating due to the bank's higher share of wholesale funding compared with local peers', which is offset by its proven access to the capital market and solid reputation. The rating also factors in our expectation that the bank will generate meaningful ALAC above the 5% threshold over a ramp-up period, protecting the bank's senior bondholders from potential losses. We estimate Handelsbanken's ALAC at 4.6% as of year-end 2019.

Anchor: 'a-', reflecting blended economic risks in core markets and industry risk in Sweden

The starting point for our assessment of Handelsbanken's group credit profile (GCP) is the 'a-' anchor, which we base on our view of economic risk in the countries in which Handelsbanken operates. We use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for Handelsbanken is in line with the anchor used for banks operating only in Sweden, based on an economic risk score of '2' and an industry risk score of '3'. As Handelsbanken's international lending exposure (approximately 38% of loans to the public) is to countries with relatively low-risk banking environments, such as Norway, Finland, and Denmark (economic risk '2'), as well as the U.K. and the

Netherlands (economic risk '3'), the blended economic risk score does not affect our anchor for the bank.

We consider that Swedish banks will continue to benefit from a stable and low-risk operating environment. We view the Swedish economy as highly diverse and competitive, with high household incomes and net financial assets, but believe that high property valuations, in tandem with increasing household debt, have created material economic imbalances. Nevertheless, we think that imbalances seem to have moderated with increased housing supply, the requirement for amortization of new residential mortgage loans, in particular on high debt-to-income levels, and the recent raising of the central bank policy rate. We project banks' credit losses and nonperforming loans will remain manageable in the still-low interest rate environment.

We view the banking sector's stability and absence of distortion and complexity as strengths. We consider Swedish banks well placed to benefit from sound margins and high efficiency rates, in part thanks to advanced digitization, as reflected in an average cost-to-income ratio of 52% between 2017 and mid-2019. Combined with low credit losses in the prevailing operating environment, this leads to sound profitability and high capital levels despite elevated dividend payout ratios. However, Sweden's banks rely on a large share of foreign wholesale funding relative to customer deposits, a key risk factor for the confidence-sensitive sector. That said, Sweden's private-sector debt capital markets, and the government's willingness to ensure a well-functioning domestic covered bond market, mitigate this risk, in our view. We consider the regulatory environment in Sweden to be in line with that in other EU countries, despite comparatively high capital buffer requirements and a history of capital and liquidity support to the sector.

Table 1

Svenska Handelsbanken AB--Key Figures

	-- Fiscal year-ended Dec. 31--				
(Mil. SEK)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	2,883,483.0	2,824,927.0	2,614,813.0	2,492,774.0	2,401,342.0
Customer loans (gross)	2,286,733.0	2,183,843.0	2,064,313.0	1,960,772.0	1,863,541.0
Adjusted common equity	127,727.0	114,404.9	110,830.0	108,669.0	101,608.0
Operating revenues	44,509.0	43,770.0	41,674.0	40,763.0	40,336.0
Noninterest expenses	20,784.0	20,890.0	18,980.0	18,438.0	18,271.0
Core earnings	17,611.0	17,346.0	16,091.3	16,199.6	16,223.0

SEK--Swedish krona.

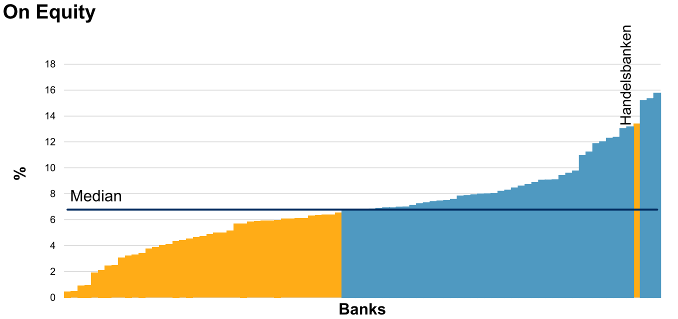
Business position: Stable decentralized business model underpins franchise position and earnings

We view Handelsbanken's business position as strong, reflecting its unique and established business model, revenue stability, and prudent management strategy. Handelsbanken's 48-year-old business model is built on several core principles--no bonuses, no budgets, no central marketing, and no market share or sales targets. In our view, this decentralized model allows the bank to focus on building profitable customer relationships, while remaining strict on underwriting and cost efficiency. Handelsbanken has maintained this approach by pursuing primarily organic growth across the Nordics, the U.K., and the Netherlands. Our assessment is further underpinned by a well-established management team under the new CEO, Carina Akerström, who remains committed to the bank's fundamental values and who continues to focus on core customers and core business. While the branch offices remain the core of Handelsbanken, the group is putting increasing emphasis on building up its digital presence and developing new customer offers in order to adjust to changing customer preferences.

Handelsbanken's primary focus is Sweden, which accounts for approximately 60% of operating profits. With total assets of Swedish krona (SEK) 3,070 billion (€291 billion) as of December 2019, Handelsbanken maintains a significant share of lending (20.7%) and deposits (19.8%) in the domestic market for corporate and retail clients. We expect the bank's profitable growth will continue in its other core markets--the Nordics, the U.K., and, increasingly, the Netherlands. More than one-third of Handelsbanken's revenue is generated internationally, using the same decentralized structure and underwriting philosophies as in Sweden, with a focus on more affluent private customers, property companies and other owner-led companies. Handelsbanken also holds a strong position in the asset management business, with reported assets under management of SEK767 billion (€73 billion), and the bank has further ambitions to grow the business, especially with the Swedish occupational pension funds.

Chart 1

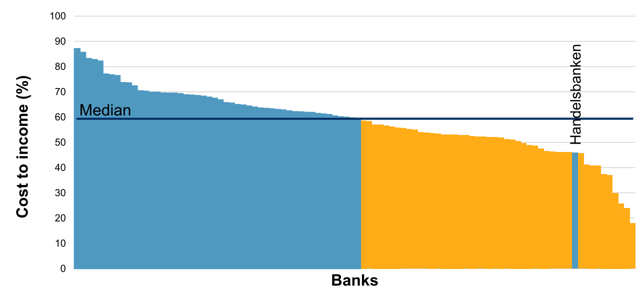
European Top 100 Banks: S&P Global Ratings' Forecast Of 2020 Return On Equity



Source: S&P Global Ratings.

Chart 2

European Top 100 Banks: S&P Global Ratings' Forecast Of 2020 Cost To Income



Source: S&P Global Ratings.

A long track record of profitable risk-adjusted growth and a return on equity that is consistently above the peer average, in line with the bank's own stated goals, demonstrates the stability of Handelsbanken's strategy (the bank's reported return on equity was 11.9% in 2019). Handelsbanken's strategy focuses on taking calculated credit risks and actively minimizing the bank's exposure to trading, yield curves, foreign exchange, and operational risks. The conservative business strategy remains the cornerstone of the bank's product offering, with much of the bank's fee- and commission-based income relating to complementary services for customers. As such, the bank's low-risk business model has led to stable revenue and a long history of very low loan losses, which is a trend we expect will continue.

Handelsbanken is also taking a proactive approach to promoting environmental, social, and governance standards. In 2018, the bank issued an inaugural green bond, and its product portfolio now also includes green loans and, since November 2019, green mortgages. Furthermore, the bank has developed sustainable asset management strategies within its fund offerings.

In October 2019, Handelsbanken announced measures to strengthen its client focus and to optimize its already strong operating efficiency. The bank's three main initiatives are to slim down its international presence and focus on its six home markets; to discontinue products and services that the bank assesses as not supporting the core business; and an internal rationalization in central unit. We expect these initiatives to reduce annual costs by SEK1.5 billion (€140 million), of which SEK1 billion will be realized by the end of 2020, and the full amount by 2022. These measures run hand in hand with the bank's ongoing efficiency program targeting 1,600 full-time-equivalent reduction in terms of time saved, 400 of which the bank has already achieved.

Despite restructuring charges of SEK930 million, and only a gradual realization of cost savings, we expect Handelsbanken's efficiency ratios to outperform those of most Nordic and European peers in the next two years (the bank's cost efficiency ratio was 48.8% in 2019). As part of the efforts to slim down its international operations, Handelsbanken has decided to discontinue its international presence outside its home countries, with the exception of branches in Luxembourg and New York.

Table 2

Svenska Handelsbanken AB--Business Position					
	--Fiscal year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Loan market share in country of domicile	20.7	21.2	21.2	21.3	22.0
Deposit market share in country of domicile	19.8	19.4	19.3	18.9	19.0
Total revenues from business line (Mil. €)	44,584.0	43,784.0	41,688.0	40,821.0	40,530.9
Commercial and retail banking/total revenues from business line	N/A	75.4	75.3	72.4	72.2
Trading and sales income/total revenues from business line	N/A	2.2	3.0	7.3	6.6
Corporate finance/total revenues from business line	N/A	0.5	0.6	0.8	0.8
Brokerage/total revenues from business line	N/A	1.1	1.5	1.6	2.0
Insurance activities/total revenues from business line	N/A	1.9	1.9	1.9	2.0
Payments and settlements/total revenues from business line	N/A	4.5	4.5	4.6	5.0
Asset management/total revenues from business line	N/A	10.8	10.3	8.9	8.9
Other revenues/total revenues from business line	100.0	3.6	2.9	2.5	2.6
Investment banking/total revenues from business line	N/A	2.7	3.6	8.1	7.4
Return on average common equity	11.2	12.2	11.6	12.3	12.8

N/A--Not applicable.

Capital and earnings: Robust levels of capital provide a buffer against downside risks

Our assessment of Handelsbanken's capital and earnings as adequate mainly reflects our expectation that the RAC ratio will remain between 9.5% and 10.0% over the next 18-24 months, compared with 9.7% as of Dec. 31, 2018, and 10.1% in mid-2019.

Although the mid-year RAC was above 10%, we expect the bank to demonstrate further credit growth of 4%-5% over the next two years consuming capital. While there has been some growth across the Nordic markets, much of Handelsbanken's organic growth has been in the U.K. and the Netherlands. The higher volumes and relatively stable margins will, in our view, support Handelsbanken's net interest income. We project that the bank's fee and commission income will grow on the back of efforts to strengthen the asset management business. Under our base case, we forecast that the bank's core earnings will be near SEK17 billion-SEK19 billion per year in 2020-2021, backed by further cost scrutiny due to the aforementioned strategic initiatives, but also our expectation of a low cost of risk over the next two years. We expect Handelsbanken to maintain significant financial flexibility, despite the high dividend payout.

Our total adjusted capital includes SEK15.8 billion of additional Tier 1 (AT1) hybrid capital instruments. We include them in our total adjusted capital (TAC) measure, representing approximately 12% of TAC, and expect the total amount of hybrid capital to remain stable. We therefore view Handelsbanken as having adequate quality of capital.

As a result of increased harmonization of capital requirements across the Nordic region, a 25% risk weight floor for Swedish mortgages became a Pillar 1 requirement as of Dec. 31, 2018. This led to an increase in regulatory RWAs and a consequent fall in the bank's common equity tier 1 (CET1) ratio, as well as its requirement. As of year-end 2019, the bank reported a CET1 ratio of 18.5%, which is 2.7 percentage points above the estimated Financial Services Authority requirement of 15.8%. We expect Handelsbanken's regulatory capital requirement to increase by about one percentage point in 2020 due to increased countercyclical buffer requirements and higher capital requirements related to property lending exposures in Sweden and Norway.

Table 3

Svenska Handelsbanken AB--Capital And Earnings

	--Fiscal year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	20.7	18.6	25.0	27.9	23.8
S&P Global Ratings' RAC ratio before diversification	N/A	9.7	9.8	9.9	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	9.3	9.6	9.8	N/A
Adjusted common equity/total adjusted capital	89.0	91.4	91.9	90.9	91.1
Double leverage	55.1	59.7	39.4	39.7	42.8
Net interest income/operating revenues	72.2	71.5	71.4	68.5	68.8
Fee income/operating revenues	24.0	23.4	23.3	22.5	23.1
Market-sensitive income/operating revenues	3.0	2.5	3.3	7.8	6.7
Noninterest expenses/operating revenues	46.7	47.7	45.5	45.2	45.3
Preprovision operating income/average assets	0.8	0.8	0.8	0.9	0.8
Core earnings/average managed assets	0.6	0.6	0.6	0.6	0.6

RAC--Risk-adjusted capital. N/A--Not applicable.

Table 4

Svenska Handelsbanken AB Risk-Adjusted Capital Framework Data

(Mil. SEK)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	182,836.5	4,992.4	2.7	5,784.5	3.2
Of which regional governments and local authorities	43,568.0	2,828.3	6.5	1,580.2	3.6
Institutions and CCPs	93,451.1	16,495.7	17.7	16,955.8	18.1
Corporate	960,413.2	270,790.2	28.2	722,508.8	75.2
Retail	1,475,223.7	317,045.4	21.5	400,834.0	27.2
Of which mortgage	1,385,031.8	287,948.8	20.8	339,149.6	24.5
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	20,672.8	12,657.4	61.2	16,200.7	78.4
Total credit risk	2,732,597.3	621,981.2	22.8	1,162,283.9	42.5

Table 4

Svenska Handelsbanken AB Risk-Adjusted Capital Framework Data (cont.)					
Credit valuation adjustment					
Total credit valuation adjustment	--	5,825.0	--	0.0	--
Market risk					
Equity in the banking book	8,674.3	24,063.5	277.4	75,167.2	866.6
Trading book market risk	--	9,398.0	--	14,096.9	--
Total market risk	--	33,461.4	--	89,264.1	--
Operational risk					
Total operational risk	--	66,022.7	--	77,797.5	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	727,290.4	--	1,329,345.6	100.0
Total diversification/ concentration adjustments	--	--	--	55,151.0	4.1
RWA after diversification	--	727,290.4	--	1,384,496.6	104.1
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		140,498.0	19.3	134,611.0	10.1
Capital ratio after adjustments‡		140,498.0	19.3	134,611.0	9.7

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). CCP--Central counter part clearing house. RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. SEK--Swedish Krona. Sources: Company data as of 'June. 30 2019', S&P Global Ratings.

Risk position: Underwriting standards underpin the bank's exceptional loss record

We view Handelsbanken's risk position as strong, reflecting the bank's long history of exceptionally low losses and sound underwriting standards. Furthermore, the bank has a low-risk business model and no significantly complex or material exposure outside its relatively stable core Nordic and U.K. markets.

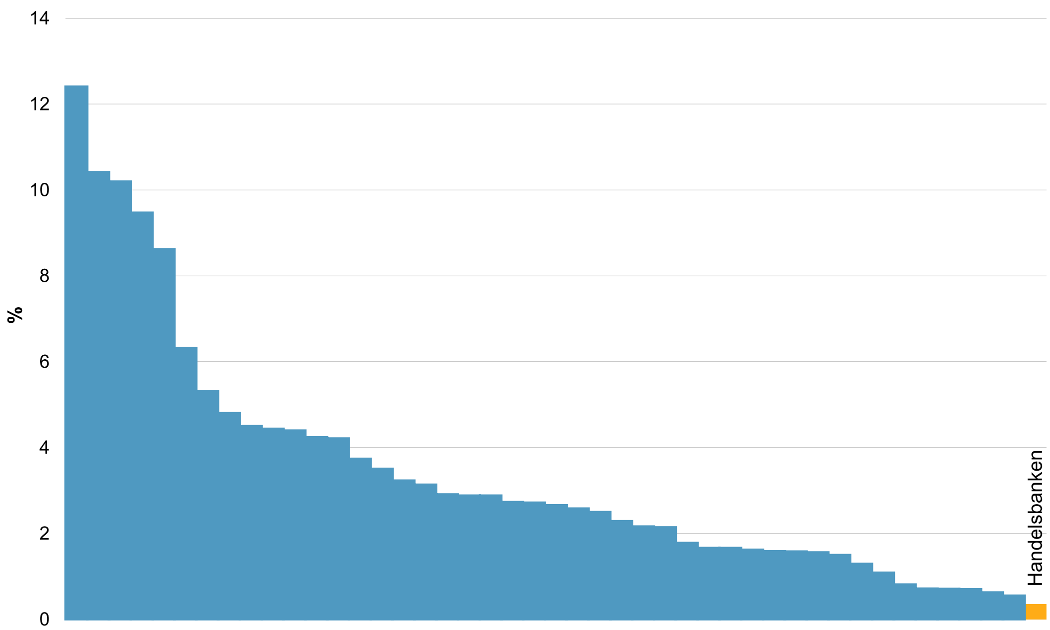
As of December 2019, Handelsbanken has a balanced lending portfolio of SEK2,293 billion (€217 billion), having experienced roughly 5%-6% annual loan growth over the past five years. As of Sept. 30, 2019, 50% of the bank's gross loans were to private individuals, primarily via mortgages. The remaining 50% of gross loans were to corporate entities and small and midsize enterprises, of which about half related to property management. We understand that the related properties are almost exclusively cash flow-generating commercial and multifamily residential dwellings with conservative underwriting standards with regard to owner equity and pre-led proportion.

Handelsbanken's mortgage loan portfolio amounts to SEK1,372 billion and demonstrates rather conservative loan-to-value (LTV) ratios. The share of the portfolio with LTV ratios above 70% is less than 5% of the total mortgages. About 85% of Handelsbanken's mortgages are generated in Sweden, while the rest are mainly spread across the U.K., Norway, and Denmark. Handelsbanken has strong relationships with some of the largest companies in the Nordic region, leading to some degree of single-name concentration in the bank's corporate and property management portfolios.

Handelsbanken has maintained a strong track record of low loan losses, which we believe is due to its selective underwriting process, and further supported by a lack of defined growth rates or sales targets. Given Handelsbanken's strong loan loss performance (reported 4 basis points [bps] under International Financial Reporting Standards 9 in 2019), we expect total losses to remain fairly stable, at about 6-8 bps over the coming two years. Handelsbanken therefore outperforms its Nordic and U.K. peers in terms of overall loan loss provisions. Similarly, when comparing the quality of Handelsbanken's loan book, the bank has demonstrated a lower level of nonperforming assets as a share of loans for over two decades.

Chart 3

Strongest Nonperforming Loan Ratio Relative To Top 50 European Banks
Gross nonperforming assets/customer loans and other real estate owned*



*As of December 2018. Alpha Bank AE and National Bank of Greece S.A. have been excluded as outliers.
Source: S&P Global Ratings.

The operational losses at Handelsbanken have been low over the past five years. However, in 2015 Handelsbanken was fined by the Swedish Financial Supervisory Authority due to inadequate anti-money laundering measures. The bank was also notified by the U.K. Financial Conduct Authority about weaknesses within its financial crime framework in 2017. We expect the bank to continue investing in controls and process improvements, in addition to monitoring and reporting tools, relating in particular to compliance and financial crime issues. In 2019 and 2020, we estimate Handelsbanken's annual expenses related to continued investment in strengthening anti-money laundering prevention at SEK1.2 billion.

Table 5

Svenska Handelsbanken AB--Risk Position					
	--Fiscal year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	4.7	5.8	5.3	5.2	4.2
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	3.8	2.1	1.5	N/A
Total managed assets/adjusted common equity (x)	24.0	26.0	25.0	24.2	24.8
New loan loss provisions/average customer loans	0.05	0.04	0.08	0.09	0.09
Net charge-offs/average customer loans	(0.01)	0.01	0.00	0.01	0.04
Gross nonperforming assets/customer loans + other real estate owned	0.39	0.36	0.43	0.45	0.54
Loan loss reserves/gross nonperforming assets	51.73	48.71	57.89	52.72	47.86

N/A--Not applicable. RWA--Risk-weighted assets.

Funding and liquidity: Diversified funding profile underpinned by broad capital market access as result of a solid reputation

We assess Handelsbanken's funding as average, reflecting its diversified funding profile. Customer deposits represent slightly above 40% of the bank's funding base, a relatively low level in comparison with other major European banks. While a lower share of deposit-based funding is not untypical among Nordic banks, Handelsbanken's usage of wholesale funding is heavier than local peers'. Handelsbanken generally makes extensive use of the Swedish covered bond market, where the majority of the investor base is domestic.

This counterbalances the lower S&P Global Ratings' liquidity ratio (broad liquid assets to short-term wholesale funding) compared with Swedish peers', and the tighter margin to the regulatory net stable funding ratio than that of other European banks. As of third-quarter 2019, the stable funding ratio was 89% and the ratio of broad liquid assets to short-term wholesale funding was 0.7x. At the same date, Handelsbanken reported a regulatory liquidity coverage ratio of 149% and a net stable funding ratio of 112%, both of which have remained fairly stable. While there is some volatility in the bank's funding and liquidity metrics at year-end, as a result of liquidity management related to short-term corporate deposits, the bank has kept fairly stable regulatory ratios. We expect Handelsbanken will maintain broad and diverse access to a variety of funding tools in international markets.

We consider Handelsbanken's liquidity to be adequate, reflecting the bank's strong access to capital markets, its substantial prefunding of long-term debt, and our expectations of a functioning domestic covered bond market. Handelsbanken holds vast contingent liquidity amounting to SEK2,142 billion mainly in the form of mortgage and other loans eligible as collateral for covered bonds and for central bank funding. The bank also continues to finance long-term unsecured debt about 12 months in advance. We view these factors, which we do not fully capture in our liquidity metrics, as important for liquidity management, given Handelsbanken's structural use of long-term senior unsecured funding for the lending book.

Table 6

Svenska Handelsbanken AB--Funding And Liquidity					
	--Fiscal year-ended Dec. 31--				
(%)	2019	2018	2017	2016	2015
Core deposits/funding base	41.8	38.0	38.7	35.9	34.2
Customer loans (net)/customer deposits	204.2	217.8	220.5	238.3	249.5
Long-term funding ratio	73.1	70.7	70.6	71.8	69.3
Stable funding ratio	87.1	86.6	84.0	85.2	82.1
Short-term wholesale funding/funding base	28.6	30.9	31.2	29.9	32.5
Broad liquid assets/short-term wholesale funding (x)	0.6	0.6	0.6	0.6	0.6
Net broad liquid assets/short-term customer deposits	(810.1)	(788.0)	(710.6)	(654.1)	(42.9)
Short-term wholesale funding/total wholesale funding	48.7	49.5	50.6	46.3	49.0
Narrow liquid assets/3-month wholesale funding (x)	3.4	2.5	2.9	1.9	2.0

Support: One notch of rating uplift for ALAC

We include one notch of support above Handelsbanken's 'a+' unsupported GCP, as we expect the bank will build meaningful ALAC over the next two to four years that will protect the senior bondholders. With the implementation of the EU's Banking Recovery and Resolution Directive (BRRD) in Sweden in 2016, and the formal decision on the MREL by the Swedish National Debt Office (SNDO) at year-end 2017, we view government support as being uncertain and consider that the country now has an effective resolution regime.

The SNDO, acting as resolution authority, updated a bank-specific MREL in November 2019, which for Handelsbanken amounts to 5.76% of total liabilities and own funds (or 22.8% of the risk exposure amount). Banks with domestic systemic importance, such as Handelsbanken, will need to meet the MREL with subordinated liabilities by the 2022 deadline. Handelsbanken has indicated that the size of subordinated issuance that it will require to meet the MREL is up to SEK90 billion (€8.5 billion) by the regulatory deadline. Handelsbanken commenced its first senior nonpreferred debt issuance in third-quarter 2019, and has issued €1.75 billion so far. As such, we anticipate that Handelsbanken's ALAC buffers will exceed 5.0% of S&P Global Ratings' RWA by 2020, compared with our estimate of 4.6% as of year-end 2019.

Core subsidiary: Stadshypotek AB and Handelsbanken PLC

We equalize our rating on Stadshypotek AB (AA-/Stable/A-1+) and Handelsbanken PLC (AA-/Stable/A-1+) with those on Handelsbanken according to our group methodology.

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

U.K.-based Handelsbanken PLC was incorporated on Dec. 1, 2018. We believe that Handelsbanken's decision to subsidiarize the U.K. operations further emphasizes the group's long-term commitment to its U.K. business. We therefore expect Handelsbanken PLC to remain an integral part of Handelsbanken's overall business strategy, and therefore benefit from material ongoing and extraordinary support from senior group management in good times and under stressful conditions. This is underpinned by the ongoing funding agreement, the contingency funding agreement (that provides short-term liquidity), and a letter of intent offering potential capital support. We consider that Handelsbanken PLC is closely linked to the group's reputation, brand, and risk management, which supports its core group status.

Resolution Counterparty Rating (RCR)

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

Ratings on hybrid instruments

We rate Handelsbanken's senior nonpreferred notes, which contractually rank below its senior unsecured debt, at 'A', one notch below the bank's SACP, reflecting the subordination risk (see the senior subordinated notes in the Ratings Detail). In addition, we believe that the senior nonpreferred notes would be subject to a possible conversion or write-down only in resolution, and would be excluded from any burden-sharing under EU state-aid rules. Therefore, we have not applied further notching from the SACP because we believe that senior nonpreferred notes do not carry any additional default risk relative to that represented by the SACP assessment.

We rate Handelsbanken's nondeferrable subordinated debt instruments 'A-', two notches below the bank's stand-alone credit profile (SACP). The rating reflects our view of the debt's contractual subordination as a tier 2 instrument, and that the BRRD is equivalent to a contractual write-down clause.

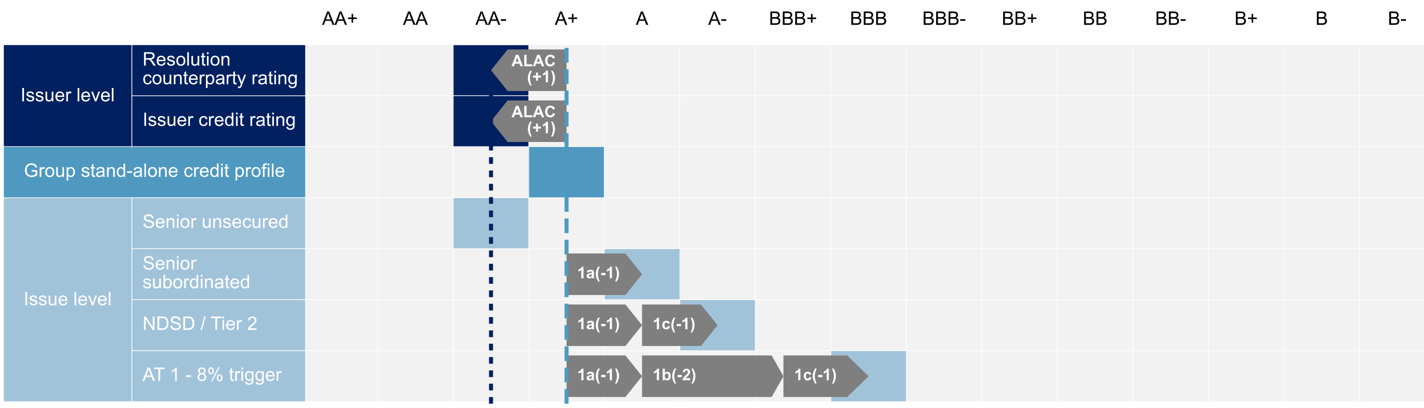
We rate Handelsbanken's additional tier 1 instruments with a going-concern trigger at 'BBB', four notches lower than the SACP, reflecting our deduction of:

- One notch for contractual subordination;
- Two notches for the instruments' status as tier 1 regulatory capital; and
- One notch because the instruments allow for the full or partial temporary write-down of the principal amount.

We do not apply additional notching because we assume that the bank's existing regulatory CET1 capital will remain well above 15% over the next 24 months (18.5% as of December 2019). A CET1 ratio of greater than 15% provides a substantial buffer of more than 700 bps over the 8% CET1 trigger level (which we view as a going-concern trigger), below which the instruments would mandatorily be written down. The instruments would also be written down if the parent company's solo CET1 ratio fell below 5.125%. We regard such a trigger level as a gone-concern trigger.

Chart 4

Svenska Handelsbanken AB: Notching



Key to notching

- Group stand-alone credit profile
- Issuer credit rating
- ALAC Additional loss-absorbing capacity buffer
- 1a Contractual subordination
- 1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
- 1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

Related Criteria

- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Group Rating Methodology, July 1, 2019
- Hybrid Capital: Methodology and Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- ESG Industry Report Card: EMEA Banks, Feb. 11, 2020
- Tech Disruption In Retail Banking: Nordic Techies Make Mobile Banking Easy, Feb 4, 2020
- Banking Industry Country Risk Assessment Update: January, Jan. 20, 2020
- Handelsbanken PLC, Dec. 10, 2019
- Nordic Banks' Capital And Earnings Can Weather The Weakening Credit Cycle, Nov. 14, 2019
- Handelsbanken Makes A Push Toward Further Efficiency and Client Focus: Oct. 23, 2019.
- Sweden-Based Svenska Handelsbanken AB's First Issuance Of Senior Nonpreferred Notes Assigned 'A' Rating, Sept. 2, 2019
- Tech Disruption In Retail Banking: Swedish Consumers Dig Digital--And Banks Deliver, May 14, 2019
- Banking Industry Country Risk Assessment: Sweden, Apr. 11, 2019

Anchor Matrix

Industry Risk	Economic Risk									
	1	**2**	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	**a-**	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of February 18, 2020)*	
Svenska Handelsbanken AB	
Issuer Credit Rating	AA-/Stable/A-1+
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	A-1+
Junior Subordinated	BBB
Senior Subordinated	A

Ratings Detail (As Of February 18, 2020)*(cont.)		
Senior Unsecured		AA-
Short-Term Debt		A-1+
Subordinated		A-
Issuer Credit Ratings History		
29-Mar-2017	*Foreign Currency*	AA-/Stable/A-1+
25-Sep-2013		AA-/Negative/A-1+
19-Jul-2013		AA-/Watch Neg/A-1+
29-Mar-2017	*Local Currency*	AA-/Stable/A-1+
25-Sep-2013		AA-/Negative/A-1+
19-Jul-2013		AA-/Watch Neg/A-1+
Sovereign Rating		
Sweden		AAA/Stable/A-1+
Related Entities		
Handelsbanken PLC		
Issuer Credit Rating		AA-/Stable/A-1+
Resolution Counterparty Rating		AA-/--/A-1+
Stadshypotek AB		
Issuer Credit Rating		AA-/Stable/A-1+
Nordic Regional Scale		--/--/K-1
Resolution Counterparty Rating		AA-/--/A-1+
Commercial Paper		A-1+
Nordic Regional Scale		K-1
Senior Unsecured		AA-
Short-Term Debt		A-1+

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

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