

Highlights of Annual Report

January-December

2018

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).

Contents

	Page
Group – Overview.....	4
Group performance.....	5
Group – Business segments.....	11
Handelsbanken Sweden.....	12
Handelsbanken UK.....	14
Handelsbanken Denmark.....	16
Handelsbanken Finland.....	18
Handelsbanken Norway.....	20
Handelsbanken the Netherlands.....	22
Handelsbanken Capital Markets.....	24
Other units not reported in the business segments.....	26
Key figures.....	27
The Handelsbanken share.....	27
Condensed set of financial statements – Group.....	28
Income statement.....	28
Earnings per share.....	28
Statement of comprehensive income.....	29
Quarterly performance.....	30
Balance sheet.....	31
Statement of changes in equity.....	33
Cash flow statement.....	34
Note 1 Accounting policies.....	35
Note 2 Net interest income.....	38
Note 3 Net fee and commission income.....	38
Note 4 Net gains/losses on financial transactions.....	39
Note 5 Other expenses.....	39
Note 6 Credit losses.....	40
Note 7 Loans.....	42
Note 8 Credit risk exposure.....	46
Note 9 Derivatives.....	46
Note 10 Offsetting of financial instruments.....	47
Note 11 Goodwill and other intangible assets.....	48
Note 12 Due to credit institutions, deposits and borrowing from the public.....	48
Note 13 Issued securities.....	48
Note 14 Assets pledged, contingent liabilities and other commitments.....	48
Note 15 Classification of financial assets and liabilities.....	49
Note 16 Fair value measurement of financial instruments.....	51
Note 17 Assets and liabilities by currency.....	53
Note 18 Own funds and capital requirements in the consolidated situation.....	54
Note 19 Risk and liquidity.....	58
Note 20 Related-party transactions.....	62
Note 21 Segment reporting.....	62
Note 22 Events after the balance sheet date.....	62
Condensed set of financial statements – Parent company.....	63
Information on phone conference, etc.....	72
Share price performance and other information.....	73

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%
<i>of which mortgage loans</i>	1,299,732	1,282,952	1%	1,222,436	6%	1,299,732	1,222,436	6%
<i>of which other loans</i>	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%
<i>of which households</i>	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 Oktogonen (the Bank's profit-sharing system)	-20	-1	
Variable remuneration	-859	-768	12%
	-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%
<i>of which state fees</i>	-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%
<i>of which Oktogonen</i>	-859	-768	12%
<i>of which Norwegian pension plan</i>	26	239	-89%
<i>of which UK pension plan</i>	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%
<i>of which staff costs</i>	<i>-1,118</i>	<i>-970</i>	<i>15%</i>
<i>of which other costs</i>	<i>-1,408</i>	<i>-1,345</i>	<i>5%</i>
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 Oktogonen (the Bank's profit-sharing system)	-11	1	
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%
<i>of which government fees</i>	<i>-669</i>	<i>-701</i>	<i>-5%</i>
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%
<i>of which Oktogonen</i>	<i>-218</i>	<i>-201</i>	<i>8%</i>
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%
<i>of which staff costs</i>	-315	-228	38%
<i>of which other costs</i>	-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	Home markets								Adj. & elim.	Group Full year 2018
	Sweden	UK	Denmark	Finland	Norway	Netherlands	Capital Markets	Other		
SEK m										
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	Home markets								Adj. & elim.	Group Full year 2017
	Sweden	UK	Denmark	Finland	Norway	Netherlands	Capital Markets	Other		
SEK m										
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	
<i>of which defined benefit pension plans</i>	848	-362		-48		977	-864	
<i>of which equity instruments measured at fair value through other comprehensive income</i>	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%
<i>of which hedging net investment in foreign operations</i>	-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%
<i>of which cash flow hedges</i>	-613	376		228		-159	517	
<i>of which available-for-sale instruments</i>				-14			-5	
<i>of which debt instruments measured at fair value through other comprehensive income</i>	3	0				3		
<i>of which hedging net investment in foreign operations</i>	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 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
<i>of which reclassified within equity</i>			<i>1</i>		<i>-5</i>	<i>-1,388</i>			<i>-1,392</i>
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 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 36 for the Group and on page 70 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

IFRS 16 Leases

IFRS 16 Leases has been adopted by the EU and is to be applied as of the 2019 financial year. The main change arising from the new standard is that all leases (with the exception of short-term contracts and contracts of minor value) must be recognised as an asset (right-of-use asset) and as a liability on the lessee's balance sheet. In the income statement, the straight-line expense for the operating lease is replaced by a charge for depreciation on the leased asset and an interest expense attributable to the 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.

IFRS 17 Insurance contracts

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

Others changes in IFRS

None of the other changes in the accounting regulations issued for application are assessed to have a material impact on Handelsbanken's financial reports, capital adequacy, large exposures or other circumstances according to the applicable regulatory requirements.

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	IAS 39 Carrying amount 31 Dec 2017	IFRS 9 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 assets available for sale	Fair value through OCI	201	201			
Loans to other credit institutions	1) Financial assets available for sale	Amortised cost	773	773			
Loans to the public	2) Loans and receivables	Amortised cost	20,250	20,245	-5		
Loans to the public	3) Fair value in IS, other	Amortised cost	377	353	-24	-24	-5
Value change of interest-hedged item in portfolio hedge	2) Loans and receivables	Amortised cost	2,065,384	2,064,875	-509		-509
Bonds and other interest-bearing securities	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 assets 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 assets 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	instrument s	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 assets 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 instrument	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 shareholders	10)		108,746	108,245	-501	-20	-481
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	<i>Effect on retained earnings due to new rules for impairment</i>
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%
<i>of which interest income according to the effective interest method and interest on derivatives for hedging</i>	<i>12,708</i>	<i>12,559</i>	<i>1%</i>	<i>10,743</i>	<i>18%</i>	<i>48,341</i>	<i>41,657</i>	<i>16%</i>
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%
<i>of which interest expense according to the effective interest method and interest on derivatives for hedging</i>	<i>-4,373</i>	<i>-4,235</i>	<i>3%</i>	<i>-2,572</i>	<i>70%</i>	<i>-15,114</i>	<i>-10,302</i>	<i>47%</i>
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%
<i>of which loans</i>	103	83	24%	111	-7%	357	372	-4%
<i>of which interest-bearing securities</i>	0	0	0%	-	-	0	-	-
<i>of which issued securities</i>	-54	-35	-54%	-58	7%	-177	-216	18%
Fair value through other comprehensive income	0	0	0%	-	-	0	-	-
<i>of which expected credit losses</i>	-1	0	-	-	-	-1	-	-
Financial instruments available for sale				2			8	
Fair value through profit or loss, fair value option	501	-624		-		-129	-	
<i>of which interest-bearing securities</i>	501	-624		-		-129	-	
Other financial instruments at fair value through profit/loss				-184			-553	
<i>of which interest-bearing securities</i>				-182			-524	
<i>of which loans</i>				-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%
<i>of which net gains/losses on fair value hedges</i>	-17	5		-8	-113%	-4	-7	43%
<i>of which cash flow hedge ineffectiveness</i>	-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 losses 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		
<i>of which loans to the public</i>	-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	
<i>of which reverse repos</i>	2,756	9,353	11,116	11,032	
Loans to the public	2,189,092	2,193,712	2,194,038	2,143,107	
<i>of which reverse repos</i>	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
<i>of which reverse repos</i>					6,607
Loans to other credit institutions					20,250
<i>of which reverse repos</i>					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	
<i>of which Stage 1</i>	2,506,117	2,584,909	2,610,556	2,508,066	
<i>of which Stage 2</i>	58,576	53,838	60,469	49,965	
<i>of which Stage 3</i>	7,731	7,876	7,416	8,258	
Provisions	-3,813	-3,965	-3,851	-4,309	
<i>of which Stage 1</i>	-316	-314	-360	-378	
<i>of which Stage 2</i>	-560	-537	-582	-612	
<i>of which Stage 3</i>	-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	
<i>of which Stage 1</i>	2,126,983	2,136,226	2,130,147	2,089,295	
<i>of which Stage 2</i>	58,179	53,568	60,319	49,860	
<i>of which Stage 3</i>	7,731	7,876	7,416	8,258	
Provisions	-3,801	-3,958	-3,844	-4,306	
<i>of which Stage 1</i>	-312	-311	-357	-377	
<i>of which Stage 2</i>	-552	-533	-578	-610	
<i>of which Stage 3</i>	-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				
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				
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
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
SEK m							
Private individuals	1,075,441	21,118	2,326	-117	-110	-755	1,097,903
<i>of which mortgage loans</i>	881,551	14,777	588	-35	-33	-36	896,812
<i>of which other loans with property mortgages</i>	145,349	4,267	509	-12	-17	-119	149,977
<i>of which other loans to private individuals</i>	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
<i>of which mortgage loans</i>	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
<i>of which Swedish national debt office</i>	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
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
SEK m							
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
<i>of which mortgage loans</i>	95,995	1,341	5	-4	-4	-	97,333
Other property management	124,384	2,485	193	-12	-13	-114	126,923
<i>of which mortgage loans</i>	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			
SEK m	Loans gross	Provisions	Loans net
Private individuals	1,040,638	-710	1,039,928
<i>of which mortgage loans</i>	850,962	-39	850,923
<i>of which other loans with property mortgages</i>	128,728	-133	128,595
<i>of which other loans to private individuals</i>	60,948	-538	60,410
Housing co-operative associations	205,984	-18	205,966
<i>of which mortgage loans</i>	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			
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
<i>of which mortgage loans</i>	92,260	-	92,260
Other property management	125,224	-126	125,098
<i>of which mortgage loans</i>	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
<i>of which reverse repos</i>	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
<i>of which reverse repos</i>	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
<i>of which guarantees, credits</i>	10,319	10,248	10,079	9,729	10,177
<i>of which guarantees, other</i>	75,290	72,333	73,291	72,274	57,878
<i>of which letters of credit</i>	7,330	7,371	6,034	6,631	7,611
Commitments	458,772	463,080	459,482	457,688	443,383
<i>of which unutilised part of granted overdraft facilities</i>	123,744	124,264	125,580	129,845	131,121
<i>of which loan commitments</i>	314,437	310,331	309,984	299,383	290,643
<i>of which other</i>	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

SEK m	Goodwill		Other intangible assets		Total	
	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
<i>of which repos</i>	-	49	-	157	126
Deposits and borrowing from the public	1,008,487	1,099,384	1,126,480	1,065,678	941,967
<i>of which repos</i>	-	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				Amortised cost	Total carrying amount	Fair value
	Mandatory	Fair value option	Derivatives identified as hedge instruments	Fair value through other comprehensive income			
SEK m							
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		Derivatives identified as hedge instruments	Loans and other receivables	Financial assets available for sale	Other financial liabilities	Total carrying amount	Fair value
	Trading	Other						
SEK m								
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 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 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 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								
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
<i>of which corporates</i>	493,278	147,086	160,461	34,663	163,535	24,514	5,090	1,028,627
<i>of which households</i>	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
<i>of which corporates</i>	238,197	86,964	42,505	23,915	106,423	21,444	2,830	522,278
<i>of which households</i>	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								
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
<i>of which corporates</i>	481,250	133,080	145,245	33,661	143,347	27,955	6,324	970,862
<i>of which households</i>	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
<i>of which corporates</i>	221,345	86,046	36,994	22,164	98,176	27,633	4,666	497,024
<i>of which households</i>	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%
<i>of which capital conservation buffer requirement</i>	2.5%	2.5%	2.5%	2.5%	2.5%
<i>of which countercyclical capital buffer requirement</i>	1.5%	1.2%	1.3%	1.2%	1.2%
<i>of which systemic risk buffer requirement</i>	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**

SEK m	Exposure amount		Risk-weighted exposure amount		Capital requirement		Average risk weight, %	
	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		Risk-weighted exposure amount		Capital requirement		Average risk weight, %	
	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec
	2018	2017	2018	2017	2018	2017	2018	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
<i>of which other loans foundation approach *</i>	125,126	109,608	37,526	32,467	3,002	2,598	30.0	29.6
<i>of which other loans advanced approach *</i>	763,865	726,057	210,238	201,240	16,819	16,099	27.5	27.7
<i>of which large companies</i>	154,297	152,189	57,241	58,176	4,579	4,654	37.1	38.2
<i>of which medium-sized companies</i>	85,130	80,590	37,275	37,839	2,982	3,027	43.8	47.0
<i>of which property companies</i>	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
<i>of which property loans</i>	991,558	925,491	62,459	51,092	4,997	4,087	6.3	5.5
<i>of which other loans</i>	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
<i>of which property loans</i>	7,280	6,929	1,409	1,707	113	137	19.4	24.6
<i>of which other loans</i>	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
<i>of which repos and securities loans</i>	10,379	7,667	455	173	36	14	4.4	2.3
<i>of which derivatives</i>	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
<i>of which listed shares</i>	545	661	1,581	1,916	126	153	290.0	290.0
<i>of which other shares</i>	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
<i>of which Traditional securitisation</i>	22	20	51	22	4	2	229.2	106.0
<i>of which Synthetic securitisation</i>	-	-	-	-	-	-	-	-
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
<i>of which general risk</i>	631	706	827	698	572
<i>of which specific risk</i>	133	140	259	239	236
Equity price risk	7	8	10	9	9
<i>of which general risk</i>	2	3	4	3	3
<i>of which specific risk</i>	5	5	6	6	6
<i>of which mutual funds</i>	0	0	0	0	0
Exchange rate risk	-	-	-	-	-
Commodities risk	7	8	12	8	5
Options					
Scenario approach	3	5	4	4	3
<i>of which interest rate risk</i>	0	0	0	0	0
<i>of which equity risk</i>	3	5	4	4	3
<i>of which exchange rate risk</i>	-	-	-	-	-
<i>of which commodity risk</i>	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
<i>Assets reported off the balance sheet, gross (before adjustment for conversion factor)</i>	<i>535,815</i>	<i>529,010</i>	<i>531,614</i>	<i>523,691</i>	<i>501,292</i>
<i>Deduction from assets off the balance sheet after application of conversion factor</i>	<i>-343,827</i>	<i>-336,752</i>	<i>-336,998</i>	<i>-334,267</i>	<i>-320,747</i>
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	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017
SEK m					
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
<i>of which in SEK</i>	<i>137,910</i>	<i>165,373</i>	<i>165,423</i>	<i>152,986</i>	<i>142,452</i>
<i>of which in EUR</i>	<i>140,720</i>	<i>122,782</i>	<i>127,949</i>	<i>125,582</i>	<i>94,685</i>
<i>of which in USD</i>	<i>133,306</i>	<i>174,921</i>	<i>193,998</i>	<i>117,281</i>	<i>74,168</i>
<i>of which in other currencies</i>	<i>115,154</i>	<i>130,782</i>	<i>144,574</i>	<i>130,322</i>	<i>133,020</i>

31 December 2018

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)

	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017
Liquidity coverage ratio (LCR) - sub-components, SEK m					
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		
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		
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 11-25.

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		
<i>of which equity instruments measured at fair value through other comprehensive income</i>	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	
<i>of which hedging net investment in foreign operations</i>	-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%
<i>of which cash flow hedges</i>	-358	132		93		-178	-9	
<i>of which available-for-sale instruments</i>				-13			-5	
<i>of which debt instruments measured at fair value through other comprehensive income</i>	3	0				3		
<i>of which hedging net investment in foreign operations</i>	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

January – December 2018 SEK m	Restricted equity			Unrestricted equity				Retained earnings incl. profit for the year	Total
	Share capital	Statutory reserve	Fund for internally developed software	Share premium	Hedge reserve *	Fair value reserve *	Translation reserve *		
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
<i>of which reclassified within equity</i>						-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

January – December 2017 SEK m	Restricted equity			Unrestricted equity				Retained earnings incl. profit for the year	Total
	Share capital	Statutory reserve	Fund for internally developed software	Share premium	Hedge reserve *	Fair value reserve *	Translation reserve *		
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%
<i>of which capital conservation buffer requirement</i>	2.5%	2.5%	2.5%	2.5%	2.5%
<i>of which countercyclical capital buffer requirement</i>	1.5%	1.4%	1.4%	1.3%	1.2%
<i>of which systemic risk buffer requirement</i>	-	-	-	-	-
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
<i>of which property loans</i>	1,068	1,015	1,021	819	795
<i>of which other loans</i>	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
<i>of which listed shares</i>	126	145	-	-	1
<i>of which other shares</i>	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
<i>of which positions in securitisation instruments</i>	-	-	-	-	-
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
<i>Assets reported off the balance sheet, gross (before adjustment for conversion factor)</i>	517,183	568,462	571,106	563,474	542,726
<i>Deduction from assets off the balance sheet after application of conversion factor</i>	-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	IAS 39	IFRS 9	Effect	of which	of which
			Carrying amount 31 Dec 2017	Carrying amount 1 Jan 2018	on equity 1 Jan 2018	remeasur ements due to new rules for class- ification and measurement	remeasur ements 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	Derivatives identified as hedge instruments	Derivatives identified as hedge instruments	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							
Share capital			683	683			
Share premium			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	<i>Effect on retained earnings due to new rules for impairment</i>
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.

For further information, please contact:

Anders Bouvin, President and Group Chief Executive

Tel: +46 (0)8 22 92 20

Rolf Marquardt, CFO

Tel: +46 (0)8 22 92 20

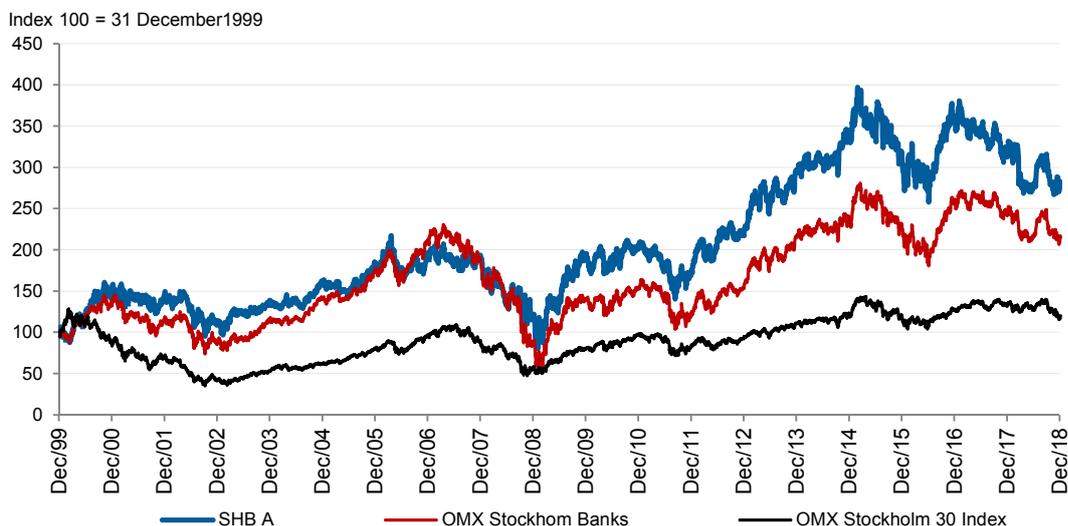
Lars Höglund, Head of Investor Relations

Tel: +46 (0)8 701 51 70, laho01@handelsbanken.se

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



ANALYSTS WHO MONITOR THE BANK

Company	Analyst	Email address
ABG SUNDAL COLLIER	Magnus Andersson	magnus.andersson@abgsc.se
ARCTIC SECURITIES	Roy Tilley	roy.tilley@arcticsec.no
AUTONOMOUS	Jacob Kruse	jkruse@autonomous-research.com
BANK OF AMERICA MERRILL LYNCH	Sofia Carlström	sofia.carlstrom@baml.com
BARCLAYS	Paulina Sokolova	paulina.x.sokolova@barclays.com
BERENBERG BANK	Adam Barrass	adam.barrass@berenberg.com
CARNEGIE	Jens Hallen	jens.hallen@carnegie.se
CITIGROUP	Ronit Ghose	ronit.ghose@citi.com
CREDIT SUISSE	Jan Wolter	jan.wolter@credit-suisse.com
DANSKE BANK	Matti Ahokas	matti.ahokas@danskebank.com
DEUTSCHE BANK	Kazim Andac	kazim.andac@db.com
DNB	Nicholas McBeath	nicholas.mcbeath@dnb.se
EXANE BNP PARIBAS	Jeremy Sigee	jeremy.sigee@exanebnpparibas.com
GOLDMAN SACHS	Pawel Dziedzic	pawel.dziedzic@gs.com
JEFFERIES INTERNATIONAL	Kapilan Pillai	kpillai@jefferies.com
J P MORGAN	Connor Middleton	connor.middleton@jpmorgan.com
KEEFE, BRUYETTE & WOODS	Richard Smith	smithric@kbw.com
KEPLERCHEUVREUX	Robin Rane	rrane@keplercheuvreux.com
MEDIOBANCA	Riccardo Rovere	riccardo.rovere@mediobanca.it
MORGAN STANLEY	Bruce Hamilton	bruce.hamilton@morganstanley.com
NORDEA	Rickard Henze	rickard.henze@nordea.com
PARETO	Simon Julin	simon.julin@paretosec.com
REDBURN	Chris Hartley	chris.hartley@redburn.com
ROYAL BANK OF CANADA	Adrian Cighi	adrian.cighi@rbccm.com
SEB ENSKILDA EQUITIES	Peter Kessiakoff	peter.kessiakoff@seb.se
SOCIETE GENERALE	Geoff Dawes	geoff.dawes@sgcib.com
UBS	Johan Ekblom	johan.ekblom@ubs.com

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Svenska Handelsbanken AB (publ), Corporate identity no. 502007-7862
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