HANDELSBANKEN

Annual report and financial statements

Handelsbanken plc, Company No. 11305395
Financial year ended 31 December 2020

handelsbanken.co.uk

Handelsbanken

Contents

Directors and advisors

DIRECTORS
Mikael Hallåker (Chairman)
John Ellacott
Maureen Laurie
Tanya Castell MBE
Agneta Lilja
Martin Björnberg
Mikael Sørensen

COMPANY SECRETARY
Kevin Taylor

REGISTERED OFFICE
3 Thomas More Square
London
E1W 1WY

AUDITOR
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Handelsbanken plc is a public limited company incorporated and domiciled in the UK. The registered office is 3 Thomas More Square, London E1W 1WY

Chairman's statement

It is with pleasure that I introduce Handelsbanken plc's ('the Bank's') 2020 Annual Report and Accounts, noting the strong progress made against our strategic and financial objectives, as we continue to build a bank for the future.

2020 will live long in the memories of all of the Bank's stakeholders, due to the historic personal and economic impact of the COVID-19 pandemic. For a business built on close customer relationships, financial stability and trust in our people, this has been the latest test of our mettle, our first as a UK plc, and I am proud to reflect on how well our model has performed. As the crisis unfolded, we were able to show additional proactivity, flexibility and individual care to our customers. We made special efforts to mitigate the wide-ranging pressures and effects of the crisis on our employees. We worked closely with our regulators to satisfy their need for enhanced information and dialogue. And we succeeded in aligning our operations with an ever-evolving 'new normal', without compromising our standards of customer service or operational rigour.

As a result, the Bank managed to maintain its top rankings for customer satisfaction, while independent surveys showed that colleagues rated the Bank far above industry benchmark for their treatment during the pandemic, as well as for a range of cultural attributes, including openness, honesty, resilience and shared purpose.

From a financial standpoint, I am pleased to report that the Bank has continued to deliver stable year on year growth in average business volumes, with deposits up by 15% and loans up by 1%. At the same time, post-tax profits decreased to £119.6 million (2019: £183.5 million), due in large part to the impact of the Bank of England base rate reduction on our liquidity portfolio and lower benchmark rates on the Bank's floating rate lending. The quality of our assets remains strong and thus I would characterise these results, although muted, as a creditable performance in extraordinary circumstances.

In 2020, Handelsbanken plc made several rate reductions across its deposit portfolio to offset the impact from a lower Bank of England base rate. At the same time, the Bank saw a significant reduction in funding costs from its CD issuance, and downstreamed wholesale funding from its Parent company as a result of a reduction in benchmark rates and funding spreads in the second half of 2020. Both of these actions have mitigated some of the impact from lower rates. In the longer term, Handelsbanken plc will look to put greater emphasis on business that generates fee and commission income. There are also signs in the market for an upward trend in lending margins, following increased risks in the market and the low rate environment. However, any income improvement has a key dependency on competitor behaviour and developments in credit markets.

Despite the considerable headwinds caused by the pandemic, the Bank took further significant steps on its post-subsidiarisation strategic journey of consolidation and adaptation. Change programmes were advanced, new policies and processes embedded, local functions beefed up, and overall governance greatly enhanced. An ambitious climate change response roadmap was developed, with implementation progressing at pace.

At time of writing, the public health crisis appears some months from being resolved, while the depth and exact shape of its economic legacy will be unclear for some time to come. The Bank remains close to its customers and the market, and cautious as always. However, I am convinced, from the Bank's performance to date and all of the work in progress today, that we are well placed to develop a successful business long into the future. On behalf of the Board of directors, I would like to thank our customers for their continuing trust and business, and to express our gratitude to colleagues all over the Bank, for managing to strengthen our business for tomorrow, while keeping our promises today.

Mikael Hallåker
Chairman

17 March 2021

Chief Executive Officer's statement

2020 marked the beginning of an unpredictable path for us all. Society, the economy and people's health and livelihoods were, and continue to be, severely impacted.

With far-reaching ramifications for all of society, the global coronavirus pandemic has brought into sharp focus the crucial role that the financial system has to play, when extreme and unpredictable events take place that cause huge economic disruption.

We have a fundamentally conservative approach to risk at Handelsbanken plc, and a strong credit book and financial position reflective of that, which has meant we were in a solid position to deal with the turbulent economic conditions coming into this crisis. Nevertheless, it is important to recognise that otherwise viable, flourishing businesses and households have found themselves in completely unforeseen economic circumstances – in some cases overnight – because of the impact of this pandemic. As such, the Bank has maintained an unwavering focus on how best we can support all of our customers through this testing time.

Our local relationship banking model, where all of our customers have a dedicated account manager that knows them personally, has come to the fore during this crisis through providing bespoke service and tailored support when our customers have needed it most. We have kept every one of our branches staffed throughout the course of lockdown, meaning that the first class levels of service our customers expect to receive, were never compromised. And with these experienced branch teams retaining a high degree of autonomy and credit discretion, it has meant we have been able to move quickly in providing this support. In practice, the support has taken a number of forms, the most prevalent in terms of our personal customers being mortgage concessions. For our corporate customers, payment holidays and covenant amendments have been offered where applicable, designed to provide temporary cash flow support where income levels have been impacted as a result of the economic effects of lockdown.

When the Chancellor announced a variety of business support schemes, it was right that Handelsbanken plc moved promptly to initiate the accreditation process with the British Business Bank, so that we could begin offering finance through the Coronavirus Business Interruption Loan Scheme, to those of our customers who needed it. Recognising though that some of these schemes, like the Bounce Back Loan Scheme, are designed for rapid and automated disbursement by high street banks, the Bank developed its own solution, the features of which are better-suited to our particular customer base, and with the ability to be administered effectively through our local relationship banking model.

Whilst the impact of coronavirus continues, we must ensure we do not lose sight of the challenges posed to both our customers and to society in general that continue, unrelenting in the background, one of which is climate change. How our customers identify, mitigate and adapt to the risks and challenges presented by this global emergency, will undoubtedly feature heavily in the years ahead. It is our belief at Handelsbanken plc that banks have an important role in financing the transition to a more sustainable economy – helping the UK to realise its net zero carbon by 2050 commitment. That is why we signed up to the Bankers for Net Zero initiative in 2020, led by a cross-party group of parliamentarians, with the support of all the key bodies involved in steering the UK's transition to a green economy – from government departments and regulators – to the United Nations Environmental Programme and the influential Club of Rome. Bankers for Net Zero will formulate a set of ambitious policy recommendations and pledges to action, on how banks can best support key sectors of the economy in transitioning to net zero, and what is needed from policy and regulation to enable this.

As close, trusted advisers to our customers, we are well placed to help them manage the financial risks posed by climate change, not least by helping them to reposition in order to make the most of the opportunities presented by green initiatives and innovations, and thus thrive in the net zero economy we are heading towards.

Given that the challenges and potential opportunities of net zero transition will rise steadily up our customers' agenda in the years to come, we have begun exploring how best we can meet the likely future demand for advice, products and financial support in this area. And this of course is in addition to the options we provide our customers today, such as our four sustainable investment funds, provided by the Bank's subsidiary Handelsbanken Wealth and Asset Management Ltd ('Handelsbanken Wealth'), rated between A and AA by MSCI ESG (Morgan Stanley Capital International Environmental, Social and Governance) ratings.

This is one way in which our customers' behaviours and preferences may begin to shift. Another is the increasing adoption of digital solutions, not least in how they wish to conduct their banking. At Handelsbanken plc, this customer shift has only accelerated during the coronavirus pandemic. So we must continually think about how we adapt to ensure that our customers have good quality digital tools to conduct their everyday banking, whilst also ensuring that they retain their choices over how they meet their local branch. A physical community presence, staffed by local experienced branch teams across the country, continues to be the backbone of the Bank, but we must listen to and reflect on the changing requirements and behaviours of our customers, and in that regard we will be continuing our investment in our digital service offerings.

As book-ends to this extraordinary year we had the UK's formal withdrawal from the European Union in January 2020, and then the end of the transition period on New Year's Eve. The Bank had already moved early to address the operational uncertainties presented by the EU referendum result, through the establishment in 2018 of Handelsbanken plc, the UK subsidiary of Svenska Handelsbanken AB (publ.) ('Svenska Handelsbanken'). Since then, we continued to plan carefully for business life after EU membership, including the possibility - right up to the eleventh hour - of a 'no deal' departure. Although Handelsbanken plc is no longer authorised to provide financial services to customers resident in the European Economic Area, we continue to maintain accounts for existing customers where we are lawfully able to do so. As a relationship bank, we naturally regret having to bid farewell to any of our valued customers, but wherever this is required, we are working with them to ease the process and avoid detrimental outcomes.

This year more than ever, I must pay tribute to all our employees, for the overwhelming commitment to serving our customers that they have demonstrated throughout these difficult circumstances. A special thank you must go to our branch colleagues, who have shown their resilience, adaptability and desire to do the best job possible. So whilst always humbling, it is of no surprise that for the sixth time in a row, Handelsbanken plc was rated best for overall service quality in the Competition and Markets Authority's independent service quality survey for business banking, as well as top in three out of the five overall categories. These results were published in February this year. In addition, for the twelfth year in a row, Handelsbanken plc has been top-ranked for satisfaction, for both personal and business banking, in an independent survey of British bank customers. We are confident that, through continuing to listen to our customers and respond to their evolving needs, we can continue to provide this first-class service, and continue helping our customers to successfully meet their financial aspirations.

Mikael Sørensen
CEO

17 March 2021

Strategic report

OUR BUSINESS MODEL – THE BRANCH IS THE BANK

Handelsbanken plc is a relationship bank, built around satisfied customers, financial strength and sustainable values. We believe banking should be local and personal, and that the interests of our customers should always come first.

The Bank has a decentralised way of working and a strong local presence, due to a nationwide branch network and a long-term approach to customer relations. In around 200 communities across the UK, teams with experienced bankers have the power to take swift, sensible decisions and to provide customers with the best possible service - with solutions tailored to individual financial requirements - day in and day out. In this way, our branches build broad, strong and lasting relationships throughout the communities they serve.

This distinctive approach, where decisions are devolved to employees throughout the organisation, is based on trust and respect for the individual: an unshakable belief in people and their ability and will to do good things well. In this devolved leadership model, virtually all the everyday decisions are made in the customer's local branch. This is because we believe that those closest to their customers take the best decisions and provide the best advice. That is how the Bank creates value for its customers: through community-based branches, staffed with experienced bankers who retain a high degree of decision making capability, leading to quicker decisions and more focused and tailored services for all our customers.

We have found our bespoke, high-touch relationship banking service to be particularly well-suited to certain types of customer. These include family-owned and owner-managed businesses, business owners themselves, property investors, corporate executives and professionals. As we refine our business strategy, we are using our knowledge of these groups' particular needs to focus our product and service offering.

The Bank is managed on an entity basis and not by business segment, therefore no segmental information is provided. However, due to our decentralised structure, branches are organised geographically into five regional banks, which provide support and more specialist functions to their branches. Handelsbanken plc's regional banks are not independent legal structures, instead serving only as organisational and oversight structures in the way described above.

CHANGES TO OUR ORGANISATION

Having considered the development of the business model in response to changing customer requirements and the growth of digital engagement, together with the need to ensure branches are easily accessible to our customers, in January 2021 Handelsbanken plc started a project to adapt its organisational design to suit the next stage of growth in the Bank's evolution in the UK.

The Bank's current structure suited a period of rapid geographical growth at a time when Handelsbanken plc was establishing itself in the UK. During that time, the Bank needed functions in the regions to support its geographical growth and ensure its culture and values were embedded throughout.

After establishing a good geographical footprint across the UK, the Bank is now at a stage in its evolution where it needs to adapt its organisational design to create more capacity to invest in the next stage of development. The regional structure with five regional banks will be replaced with one countrywide organisation covering all branches. The branch network will be divided into districts, each covering a geographical area. The UK head office will provide support and specialist functions to the branches, whilst carrying out other tasks required by the Bank.

This adaption involves creating more efficient processes and bringing expertise and support closer to branches, empowering them to deliver the best possible customer service. It will also improve the efficiency and cost effectiveness of the UK business, and simplify governance and responsibilities.

As part of the reorganisation, the Bank is creating a new department called 'Handelsbanken Digital' that will focus on improving the Bank's digital solutions and support the branches in their interactions with customers. We are seeing a greater demand for our digital solutions, with instances where customers prefer to self-service and do business with us without always having to involve the local branch. Our aim is to offer our customers better choices on how to liaise with us, with seamless service across all of our meeting places.

The implementation of the changes will be gradual throughout 2021 and will, if implemented as proposed and subject to employee consultation, result in reductions in our workforce. They are a natural next step in Handelsbanken plc's plan to build a bank for the future – a better Handelsbanken that is governed by its values, and poised for the Bank's next stage of evolution.

OUR GOAL

Svenska Handelsbanken AB (publ.), and its group of subsidiaries ('Handelsbanken Group') which includes Handelsbanken plc, has one corporate goal: attaining a higher return on equity than the average of its competitors in its home markets, of which the UK is one. This goal is achieved through focusing on two fundamental means within the Handelsbanken Group - having more satisfied customers and lower costs (including credit losses) than our competitors.

KEY PERFORMANCE INDICATORS

Key figures for the Bank are as follows:

	2020 £'000	2019 £'000
Profit before credit (losses) / gains	171,231	250,344
Net credit (losses) / gains	(10,046)	1,255
Operating profit	160,600	251,680
Profit for the year, net of tax	119,609	183,542
Total assets	33,813,925	31,561,734
Total equity	2,392,453	2,272,844
Credit loss / (gain) ratio*[1]	0.04%	-0.01%
Cost / Income ratio[2]	66.17%	55.79%

* The credit gain ratio in2019 was due to a net credit gain of £1.3 million)

FINANCIAL PERFORMANCE

The year in review – a stable result in turbulent times

Profit before loan losses decreased by 32% compared to the previous year, to £171.2m. Loan losses were £10.0m (2019: -£1.3m gain), contributing to a 36% fall in operating profit, to £160.6m.

Total income fell by 11%, or £60.2m. A reduction in net interest income was the main contributor, while there was also a broad decrease in fee and commission income. The sharp cuts in both the Bank of England Base Rate and the LIBOR rate towards the beginning of the year put strong pressure on our net interest margin. This pressure was only partially relieved by an uplift in volumes, and net interest income consequently fell by 10%. Income not related to net interest income contracted by 13% due to lower business activity and demand as a result of the pandemic.

Expenses increased by 6%, due to an uplift in staff costs. This uplift was driven largely by the effects of provisions made in relation to the Oktogonen all-employee profit sharing scheme. The 2020 figures include a £3.6m cost provision for Oktogonen, whereas 2019 included a £11.2 million credit resulting from a reversed 2018 provision - thus, the net 2020 increase in costs for Oktogonen was £14.8 million. Excluding this impact, expenses rose by 1%.

Our financial resources in terms of capital were further strengthened, such that our total capital ratio was 20.6% and our Core Equity Tier 1 (CET1) ratio was 17.6% - well above our risk tolerances.

Chief Financial Officer commentary - continued resilience coupled with investment and growth opportunities

Despite the clear challenges faced throughout the year, we were able to demonstrate a continued resilient and strong performance, allowing us to fully support our customers' financial requirements through this turbulent period. Alongside the whole retail banking sector, our income came under pressure following the drop in interest rates, which impacted net interest income negatively. The low interest rate environment will continue to bring challenges to our income into next year, and managing income and rates will be one of our priorities in 2021.

Low rates do, however, harbour some opportunities for growth. Leveraging our experience across the Group, we know there are good opportunities to broaden the business, particularly in relation to wealth management and fee-related income. We also expect pent up demand for customer investments driving a subsequent need for lending, which could bring good opportunities for growth on individual and corporate lending. We know our relationship-driven approach continues to enjoy very high relevance and appreciation from our core customers.

The development of expenses has reflected the enhancement of local capabilities needed for a subsidiary, and also in investment for combatting financial crime. After a few years of investing focus, time and resource into both these areas, we expect these expenses to stabilise next year, and start to come down over the coming years, to reflect a business as usual position. In addition, the Bank has decided to make some structural changes in the organisation, enabling it to free up resources beyond 2021, to further invest in our customer proposition.

This year's development also puts loan losses in focus. Our loan loss provisions, despite increasing, were by all comparisons relatively low. In the coming year, customer-centric, proactive credit management will continue to be the bedrock of our model.

During the year we maintained a strong liquidity position, and our capital position strengthened further.

In summary, the results for 2020 - combined with our financial position - contribute towards the continued successful development of Handelsbanken plc's operations, and enables us to continue investing in order to further capitalise on new opportunities in the marketplace.

[1] Losses / (gains) on loans to the public in relation to loans to the public at the beginning of the year
[2] Total expenses in relation to total income

A summary of the financial performance is as follows:

	2020 £'000	2019 £'000
Net interest income	451,524	503,633
Net fee and commission income	35,175	39,919
Net gains on financial transactions	19,411	22,729
Total income	**506,110**	**566,281**
Personnel costs	(207,178)	(177,199)
Depreciation, amortisation and impairment of property, equipment and intangible assets	(21,498)	(19,199)
Other operating expenses	(106,203)	(119,539)
Total expenses	**(334,879)**	**(315,937)**
Profit before credit (losses) / gains	**171,231**	**250,344**
Net credit (losses) / gains	(10,046)	1,255
Net (losses) / gains on disposal of property, equipment and intangible assets	(585)	81
Operating profit	**160,600**	**251,680**
Taxes	(40,991)	(68,138)
Profit for the year, net of tax	**119,609**	**183,542**

Key points of note

- Operating profit is down 36% to £160.6 million (2019: £251.7 million) partly due to the reduced interest rates in the UK putting pressure on margins, and a slight increase in costs
- Return on equity is 5.1%[3] (2019: 8.3%), which has been achieved whilst maintaining a leverage ratio of 6.7%
- Profit after tax is down 35% to £119.6 million (2019: £183.5 million)
- Income is down 11% to £506.1 million (2019: £566.3 million), mainly due to the reduction in UK interest rates seen throughout 2020
- Net interest income is down 10% to £451.5 million (2019: £503.6 million)
- Net fee and commission income is down 12% to £35.2 million (2019: £39.9 million) largely due to reductions in domestic payments and unutilised loan commitments
- Net gains on financial transactions are £19.4 million (2019: £22.7 million)
- Expenses of £334.9 million are 6% up on last year (2019: £315.9 million), partly due to a £3.6 million provision to the Oktogonen profit sharing scheme (2019 included a £11.2 million credit to expenses in regards to a reversed Oktogonen provision relating to 2018). Adjusted for this, underlying expenses rose by 1%
- The cost income ratio (before credit gains / losses) is 66.2% (2019: 55.8%)
- Net credit losses are £10.0 million (2019: £1.3 million gain due to reversals of provisions from 2018), primarily due to a £6.2 million increase in model-based provisions, a net £3.5 million increase in management overlays relating to Brexit and COVID-19 and an increase in actual losses booked in the year, slightly offset by a drop in stage 3 provisions
- The average number of employees is 2,518 (2019: 2,423)

[3] Return on equity is calculated as the year's profit in relation to average equity for the last four quarters

Total income for the year is £506.1 million, mainly consisting of £451.5 million net interest income and £35.2 million net fee and commission income. Net gains on financial transactions during the period are £19.4 million. See the income statement and notes 3, 4 and 5.

Total expenses of £334.9 million, largely consist of £207.2 million personnel costs and £127.7 million other expenses, depreciation, amortisation and impairment. For further detail on these expenses, see the income statement and notes 6, 7, 14, 15 and 27.

Operating profit for the year is £160.6 million after a net credit loss of £10.0 million. See the income statement and note 9.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

- Average Deposits from the public increased 15% in 2020 to £17.7 billion
- Average Loans to the public increased 1% in 2020 to £21.7 billion
- Average number of active[4] Individual Banking customers increased 2% from 2019
- Average number of active[4] Corporate Banking customers decreased 1% from 2019

RISK

The Bank adopts a Risk Management Framework and Risk tolerance metrics to monitor risks, which are approved at Board level. The Bank has a low risk tolerance and this strict approach means that it deliberately avoids high-risk transactions, even if the remuneration is high. This is maintained through a strong risk culture that is sustainable in the long-term and applies to all areas of the Bank. The low risk tolerance is defined in a set of Board risk tolerance statements and feeds into the Bank's approach to risk management which is outlined in the Risk Management Framework.

Our business model focuses on taking credit risks in the branch operations, and the only risks we are prepared to take are credit risks on customers whom we know well and with whom we build long-term relations. The objective is therefore to reduce other risks, such as market risk, so that we have a business model that is relatively independent of changes in the business cycle.

- **Credit risk** - the risk of facing economic loss as a result of counterparties being unable to fulfil their contractual obligations;
- **Operational risk** - the risk of loss due to inadequate or failed internal processes, people and systems or external events. This includes financial crime risk which is the risk that the Bank may be used for, or to facilitate, money laundering, terrorist financing and tax evasion and the risk of the Bank or its members of staff breaching financial sanctions;
- **Capital risk** - the risk of not fulfilling all capital requirements set out for banks by public authorities;
- **Liquidity risk** - the risk the business cannot meet its liabilities and payment obligations when they fall due, and;
- **Compliance risk** - the risk that the Bank does not comply with laws, regulations and international rules, or accepted business practices or standards. Compliance risk is a sub-set of operational risk.

Following recent years of growth and the establishment of Handelsbanken plc, in some areas the level of operational risk is higher than the Board's tolerances and action is being taken to address this. The implementation of the reorganisation announced in early January will add some level of operational risk during 2021.

Further description of the principle risks and uncertainties faced by the Bank can be found in the Risk and capital management section starting on page 44.

[4] Active customers are defined as having transactions during the month, or a debit or credit balance equal to or greater than £1,000

Sustainability report

OUR STRATEGIC APPROACH

Long-term sustainable development is fundamental to our business model and we believe an integrated approach to sustainability and environmental considerations to be essential to long-term value creation. In 2020 the Board supported a long-term sustainability strategy for Handelsbanken plc that encompasses the Bank's response to climate change, as well as other broader environmental, social and economic impacts of our business and the way that it is governed. During the year we formally established sustainability forums throughout the Bank, with the purpose of steering and focusing the Bank's sustainability work. This includes supporting the Handelsbanken Group in their work to develop and pursue Group-wide targets relating to the Principles for Responsible Banking (PRB); which has been announced in February 2021. The Bank also joined the Sustainability Committee of our trade association, UK Finance, in February 2020, with the committee acting as a focal point for banking sector discussions around green finance, climate-related risk and sustainability.

How we embed sustainability
Being a responsible business in society both when it comes to lending and investment, creating satisfied loyal customers and remaining a progressive attractive employer is fundamental to how we work.

We achieve responsible lending through our low-risk tolerance, with our credit process taking the borrower's approach to human rights as well as environmental and climate-related risks into account as part of evaluating the customer's repayment capacity. During the year a sustainability survey was circulated to gauge branch and customer engagement around areas such as climate-related risk and net zero transition, which will further inform the Bank's sustainability strategy in this area.

At the Bank's subsidiary, Handelsbanken Wealth & Asset Management, we offer four sustainable multi-asset funds that work to incentivise better behaviour and further positive social impact. These funds are rated between A and AA by MSCI, and as of 31 December 2020 assets under management was £207 million.

Through our network of branches, we have a natural, active involvement in our many local business communities. Being decentralised, our branches decide the most appropriate initiatives to lead or participate in at the local level. Such initiatives typically involve our branch teams contributing their time, energy and knowledge to activities aimed at improving conditions for people and businesses in the local community. Naturally, they often also involve financial donations to good causes selected by the local team, from local healthcare services to disability charities. As well as these wide-ranging local initiatives, the Bank has chosen, due to the reduction in local initiatives caused by COVID-19, to give additional, national support to four charities dealing with the direct consequences of the pandemic. The charities we chose to support in this endeavour were The Trussell Trust, Mind, Support in Mind Scotland and NHS Charities Together.

As an organisation we strive to continuously improve sustainability in our everyday operations through being a responsible employer. A new initiative the Bank is rolling out in 2021 is a Corporate Social Responsibility day, allowing all employees to take one day's leave each year in order to give back to their communities and/or charities and thereby enhancing their wellbeing experience whilst working for the Bank.

In Handelsbanken plc there has been an 11% increase (2016: 15%, 2020: 26%) in women in leadership positions since 30 June 2016. 45% of our new employees are now women with women making up 47% of new recruits in the 12 months to 30 June 2020. Handelsbanken plc's gender equality goal is to have 30% female leaders by June 2021 and 40% by 2026. In 2020 we created a long-term Diversity and Inclusion (D&I) strategy, which we have since begun to implement across the organisation. As a relationship bank, reflecting the diversity of the communities we serve helps to build trust, while as an organisation, we benefit from welcoming a diversity of experience and perspective, in terms of our decision making and culture.

As stated in the Bank's Modern Slavery Act statement, which is available on our website, we have processes in place to make sure that modern slavery or human trafficking do not occur in our supply chain or operations. This is supported by our supplier code of conduct, ethical standards policy and mandatory annual sustainability training completed by all employees.

ENVIRONMENTAL RESPONSIBILITY

Climate change presents significant evolving risks to the banking sector at the same time as it presents commercial opportunities to support our customers in mitigating and adapting to the risks posed to their assets and businesses. We have, during the year, set up a climate change response steering group, tasked with designing and mobilising the Bank's strategy in this area. More information about this is detailed in the section describing our business development and change programmes on page 12 of the strategic report.

We believe that, together with our duty as a responsible corporate citizen to reduce our own carbon footprint, the banking sector has an important role to play in financing the overall transition to a net zero economy, and thus help the Government to achieve this by its 2050 target. This is why, in May 2020, we joined the Bankers for Net Zero, a sector initiative run by the All Party Parliamentary Committee of Fair Business Banking, with the involvement of a wide range of climate finance stakeholders and a cross section of banks. Bankers for Net Zero aims to identify ways in which key sectors can be supported through a combination of policy and finance to adapt to the requirements of a net zero economy. Through our active involvement, we are contributing to, and learning from, evolving stakeholder thinking on how to make transition not only viable, but also an attractive, long-term and financially beneficial decision for businesses.

Whilst we have limited direct environmental impact as a bank, we work to continuously reduce our own carbon footprint. This year our total emissions were 2156 tonnes CO2e, a 21% decrease from 2019, and a 46% decrease from the 2013 baseline[5] . Emissions per employee also decreased by 30% from 0.71 tonnes CO2e per employee to 0.50 tonnes CO2e per employee. Details of the methodology for calculating our emissions can be found in our Parent company, Svenska Handelsbanken's Annual Report 2020.

5 The year 2013 was when Handelsbanken Group acquired its current structure, with six home markets, and is the base year for Handelsbanken Group's comparisons of emissions over time

Environmental data:

GHG emissions (CO2e)	Unit	2020	2019
Emissions Scope 1[6]	tonnes	N/A	N/A
Emissions Scope 2[7]	tonnes	1,938	2,078
Emissions Scope 2 without GO electricity	tonnes	2,840	3,124
Emissions Scope 3[8]	tonnes	218	668
Total emissions[9]	tonnes	2,156	2,746
Total emissions per employee	tonnes/employee	0.50	0.71

Energy consumption	Unit	2020	2019
Total energy consumption (in buildings)	MWh	13,278	13,624
Electricity consumption	MWh	3,871	4,092
Proportion renewable energy[10]	%	100	100
Total electricity consumption per employee	MWh/employee	1.5	1.7
Use of heating and cooling	MWh	9,407	9,532

Business travel	Unit	2020	2019
Total business travel	km	1,367,541	4,907,210
Business travel per employee	km/employee	531	2,010
Travel by air	km	347,286	1,361,365
Travel by car	km	705,620	2,376,122
Travel by train	km	314,635	1,169,722

Resource efficiency	Unit	2020	2019
Paper usage	tonnes	142	1,138
Paper usage per employee	tonnes	0.06	0.47

Reductions achieved can be attributed to a reduction in energy use in buildings, business travel and paper usage. At the end of 2019 we sent out an environmental checklist to all branches to help them improve the environmental efficiency of their premises. We have since been addressing the issues raised from the checklist, for instance ensuring branches have access to LED lighting and waste separation facilities. 'Paper reduction' has also been included as a goal for all our branches and departments for 2021, meaning they must evidence what they have done to reduce paper consumption by the end of the year. The unprecedented nature of 2020 has seen the majority of our meetings, both with customers, employees and other stakeholders move to a digital setting. This has also meant reduced air, car and business travel. Although we value face to face meetings, and will continue to hold them when safe to do so, we also recognise that we can utilise technology to reduce our environmental impact and will continue this shift to remote meetings where appropriate.

The Handelsbanken Group offsets its emissions, including those accumulated by Handelsbanken plc. The Group purchases carbon offsets for the reported CO2 emissions generated by the operations. The Bank purchases carbon offsets through projects with verified climate benefits which have been registered with the UN Clean Development Mechanism (CDM). The projects are certified based on the Gold Standard, a certification endorsed by more than 80 non-governmental organisations (NGOs) that ensures the projects contribute to long-term sustainable development.

Further climate related information can be found in Svenska Handelsbanken's 2020 Annual Report, and in the Risk and capital management section starting on page 44.

FINANCIAL CRIME PREVENTION, ANTI-BRIBERY AND ANTI-CORRUPTION

Handelsbanken plc has a zero tolerance against financial crime, including bribery and corruption, the criminal facilitation of tax evasion, money laundering, non-compliance with financial sanctions and fraud. As part of our obligations as a regulated firm, we are required to have robust governance, effective risk procedures and adequate internal systems and control mechanisms in place to mitigate the risk the Bank might be used to commit financial crime.

Svenska Handelsbanken is responsible for establishing and maintaining consistent and effective financial crime compliance processes throughout the Handelsbanken Group. As a result, Handelsbanken plc's financial crime policies set out the strategy and approach to identify financial crime arising in connection with all its business activities and transactions, both in the UK and any other relevant jurisdiction.

All employees are required to comply with the Bank's financial crime policies and a mandatory annual training framework is in place to remind employees of their obligations.

During 2020 the Bank has continued certain financial crime related customer file remediation activities, and these are anticipated to be concluded by the end of 2021.

[6] Scope 1 – Direct emissions from stationary and mobile combustion of diesel, city gas and Eo1 fuel oil
[7] Scope 2 – Indirect emissions from purchased electricity, heating and cooling
[8] Scope 3 – Other indirect emissions from business travel, transport and use of paper
[9] Emission factors (see method description) are updated for the respective year when the relevant figure becomes available. This also applies historically.
[10] Refers to electricity from wind power and hydroelectric power

BUSINESS DEVELOPMENT AND CHANGE PROGRAMMES

There are a number of current business development and change programmes. Some of the most significant are summarised below:

Climate change response
Handelsbanken plc has been advancing its climate change strategy, noting the opportunity it presents to assist our customers in moving to more sustainable models of working, in particular models that will thrive in the green economy of the future. Our close relationships, combined with the depth of knowledge our local branches retain, means we are uniquely positioned to assist in this. Engaging with our customers in this way also means we are able to measure and manage the associated risk in our own portfolio.

Transition from LIBOR
Following on from the 2017 announcement by the Prudential Regulation Authority ('PRA'), that banks should transition away from LIBOR, Handelsbanken plc has developed alternative SONIA and Bank of England rate lending capability during 2020, and will – as per regulatory requirements – cease issuing products linked to LIBOR by 31 March 2021. The Bank will now focus its efforts on transferring existing LIBOR contracts maturing past 2021 onto these alternative rates. The majority of existing GBP LIBOR lending will transition to Bank of England Base rate in Q1 2022, following cessation of GBP LIBOR. The remainder will transition to compounded overnight SONIA. Any LIBOR loans being refinanced in 2021 will in the majority be referenced against a Risk Free Rate.

Handelsbanken plc is following industry standards and regulatory guidance in relation to the transition, with conduct risk and treating customers fairly at the fore.

Internal Ratings Based approach (IRB)
On 15 September 2020, the Swedish Financial Supervisory Authority (SFSA) decided that from 1 January 2021, Svenska Handelsbanken is to use the standardised approach at Group level when calculating the capital requirements at Handelsbanken plc, following the cessation of temporary permissions granted to the Group prior to the subsidiarisation of the UK organisation. During 2020 Handelsbanken plc has been working through the requirements in preparation for obtaining an IRB permission from the PRA for calculating the credit capital requirement. This work will continue throughout 2021 and beyond. Further detail on how we manage our capital and associated risks can be found in the Risk and capital management section on this report starting on page 44.

Core banking system
To support the Bank's digital transformation process a project has been assigned to assess replacement options for our core banking systems. This presents an opportunity to better align with changing customer behaviours and digitisation agenda, to consider the automation of our business processes, the possibility of digital products and modernisation of our technology infrastructure.

SATISFIED CUSTOMERS

In October 2020, for the twelfth year in a row, following on from the UK branch of Svenska Handelsbanken, the Bank has been ranked top for both satisfaction and loyalty, in an independent survey of British banking customers. The annual assessment conducted by EPSI Rating returned an index score of 81.2 for personal customers, compared with a sector average of 73.7. For corporate customers the Bank had an index value of 77.0, compared with a sector average of 70.3.

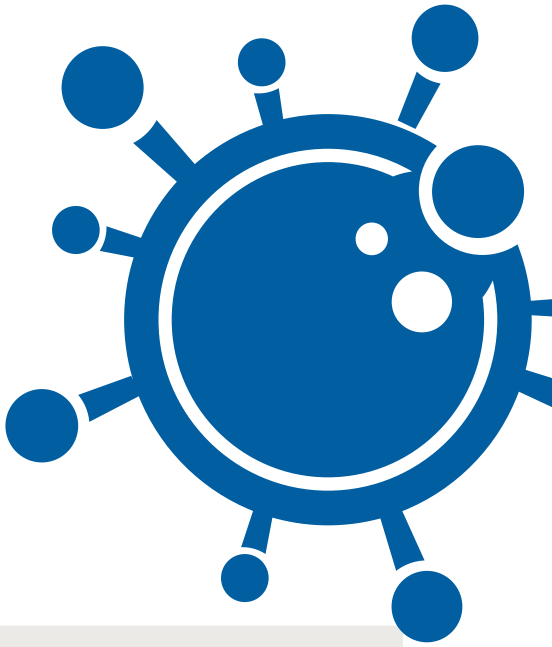
In February 2021, the Competition and Markets Authority's (CMA) independent service quality survey was updated. The survey looks at small and medium size enterprises (SME) customers' willingness to recommend their bank to other SMEs. For the sixth time in a row, following on from the UK branch of Svenska Handelsbanken, the Bank was rated best for overall quality of service amongst the largest 14 providers of SME banking services in Great Britain. It was also ranked top in three out of the five overall categories.

STAKEHOLDER ENGAGEMENT

Further detail on how the directors have had regard to the matters set out in section 172(a) to (f) and forms the directors' statement required under section 414CZA of The Companies Act 2006 and can be found in the Strategic report on page 38.

Our response to **COVID-19**

COVID-19 has had an unprecedented impact on our society and economy. Whilst the roll out of promising vaccines provides light at the end of the tunnel, some long-term economic scarring seems inevitable.



PUTTING CUSTOMERS FIRST

Handelsbanken plc's primary focus throughout the pandemic has been, and continues to be, supporting our customers through turbulent and challenging economic circumstances, as they look to refocus, reorganise and recover in 2021.

Our decentralised business model, financial strength and customer-oriented culture helped us respond effectively to the challenges presented by the pandemic. Since the start of the crisis, our branches have been in proactive contact with their customers to offer support and guidance, and to keep them updated on how the Bank is responding to developments.

To complement this personal communication, a letter was sent to all customers highlighting where to keep abreast of updates and key information from Handelsbanken plc, while our website and social media feeds have been continually updated with details of how the Bank is able to support its customers throughout the pandemic.

In these circumstances, it has been even more important to consider the situation for our vulnerable customers, with branches provided with further guidance and material to support discussions with customers showing signs of difficulty or distress.

The strong relationships we enjoy with our customers have also enabled us to monitor their individual circumstances and needs. This in turn has allowed us to support them specifically and sensitively wherever required, something we will continue to do as we move through 2021.

As well as the bespoke flexibility our branches have been able to show in extending further finance and amending or relaxing certain requirements, the Bank has offered customers a number of crisis-specific support measures.

For our SME customers, we were pleased to participate in the Coronavirus Business Interruption Loan Scheme (CBILS), gaining accreditation in June 2020 to offer eligible customers loans of up to £5 million, backed by an 80% UK Government guarantee. Under the scheme, operated by the British Business Bank (BBB), there are no arrangement fees, while the Government pays the first year's interest on the loan. This scheme has provided some much-needed financial respite for viable firms unduly affected by the pandemic, and we have been happy to extend its offer in line with Government extensions to the end date.

As at 31 December 2020 Handelsbanken plc had the following lending under the CBILS scheme:

Number of loans*	Balance	Average loan size	% of total business lending
111	42,101	379	0.3%

In addition, the Bank created its own Small Business Crisis Loans Package, designed to allow greater individual flexibility in line with our decentralised customer offering. Through this, crisis-affected customers have been able to access emergency loans of up to £50,000, for up to six years, at heavily discounted interest rates and with no arrangement fees and the option to pay only interest during the first year.

For our personal banking customers affected by COVID-19, our branches have been proactive in offering payment deferrals on their mortgages, and a range of temporary relief measures to support users of certain consumer credit products, in line with Financial Conduct Authority (FCA) guidance as it has developed through the crisis.

Being a bank built on strong and lasting relationships, we are determined to remain a trusted, dependable partner to our customers, as the individual and economic impacts of this extraordinary health crisis continue to unfold.

SUPPORTING OUR COLLEAGUES

The talent and dedication of our highly empowered employees creates the Handelsbanken difference, and their mental and physical health has naturally been a particular focus. Effective and timely communication is critical in any crisis. Early on, we established a central information hub for all employees, enabling us to share wellbeing advice and practical support. So far, this has included guidance on how to manage remote working effectively, dealing with stress and anxiety, maintaining

* During the year, the Bank issued 114 loans under the CBILS scheme, totalling £42.7 million, three loans were paid in full by 31 December 2020

perspective, and the importance of physical activity and regular rest, along with signposts to mental health first aiders, our employee assistance programme and other support services. Mandatory e-learning has also been rolled out for those employees working on the Bank's premises (primarily those deemed critical workers), to ensure familiarity with the protocols introduced to protect colleagues from catching or transmitting COVID-19.

In parallel, we have guided and equipped our managers to engage with their teams throughout the crisis, in order to identify and address any individual needs, while maintaining a healthy, 'connected' working environment - vital with most colleagues operating remotely and in diverse conditions. Training has been provided for managers on how to support their teams in a virtual environment, leading through uncertainty, and coping with the pressures of managing through a crisis.

A Virtual GP service was made available to all employees and their families, while we partnered with BUPA to make Bank-funded antibody tests available to all employees. Recognising the increased importance of flu-resistance to the current fight against COVID-19, we have promoted the continuing availability of flu vaccinations, again funded by the Bank.

The UK Works Council, a forum established to ensure a strong employee voice on important issues, was engaged from the outset, holding regular meetings with the Chief HR Officer to discuss issues concerning employees and the Bank's response to the pandemic.

During the summer, the Bank commissioned an independent, all-employee survey to gauge the effectiveness of its support measures, and to enhance these where possible. Overall the survey found that, in context of our crisis response, 93% of UK employees felt Handelsbanken plc cares about them as individual employees.

MANAGING THE CRISIS

In the early stages of the pandemic, the Bank's operational response was coordinated through the crisis management team (CMT). At the height of the initial COVID-19 outbreak and UK-wide lockdown, the CMT met daily to deal with evolving issues. The Board was kept closely informed of developments, decisions and actions through a detailed, weekly report, while fortnightly extraordinary Board meetings were convened, virtually. Further details of each Board committees' actions in relation to COVID-19 can be found in the individual committee reports in the Governance report starting on page 33.

Having carefully prepared our response, including a mass testing of remote working in the period leading up to March lockdown, the Bank was able to transition relatively smoothly to a model where the great majority of employees worked remotely from home. Day-to-day operations continued without significant interruption, as did our internal meetings and communications, facilitated by digital and video conferencing tools. Protocols were established for engagement with customers and other external stakeholders, with an emphasis on ensuring physical wellbeing and compliance with Government guidelines.

Beyond monitoring the mental and physical health of our employees, a range of areas have naturally been subjected to heightened scrutiny throughout the crisis period to date. These include the Bank's capital and liquidity position, credit performance, potential fraud activity, and impacts on vulnerable customers. We have also stayed in regular contact with our main suppliers throughout, to understand their continuity processes and to offer support if needed, especially where service to our customers could be impacted.

Thus far, impacts across all of these areas have been reassuringly limited; conditions are being kept under close review by the Coronavirus Response Steering Group, established in the latter part of 2020, once our operations had settled at a business-as-usual level and the CMT had been stood down. The CMT remains on a state of high alert, to be reconvened should there be any significant changes to our operating environment.

IN THE COMMUNITY

As a local bank that develops through reputation and word-of-mouth, Handelsbanken plc has long played an active, responsible role in the communities it serves. However, this is perhaps most evident in times of crisis. As well as being there to support our customers' particular financial needs, our branches have contributed to a range of initiatives within their local business and professional networks. More information about how the Bank has engaged with its local communities can be found in the Sustainability report on pages 9-11 and in our Stakeholder engagement statement starting on page 27.

LOOKING AHEAD

The COVID-19 public health crisis continues while its longer-term economic impacts are uncertain. However, throughout the last unprecedented financial year, the Bank was able to prove once again, the resilience and effectiveness of its culture and business model. Our financial strength is reflected in the credit ratings issued by the major international rating agencies, with Fitch reaffirming its AA rating for Handelsbanken plc in September, and Standard & Poor's rating remaining at AA-. Recently Handelsbanken Group was again ranked one of the safest banks in the world (Global Finance, September 2020), with its ratings also remaining stable throughout the pandemic.

These ratings reflect the Bank's robust liquidity and capital position as well as our strong asset quality, and having considered potential market stress such as widespread uncertainties in global financial markets, we feel well equipped for the extended market turbulence that will undoubtedly be a legacy of the pandemic.

In line with our values of long-term responsibility, we will continue to take steps to ensure we are able to support our customers as well as possible through the challenging conditions ahead. As well as remaining a financially strong and stable bank, our branch teams will continue to provide customers in difficulty with the level of individual care and flexibility they have come to expect.

As ever, the wellbeing of our colleagues remains a priority. Using technology more extensively has saved time, reduced travel and made our operations more streamlined and efficient. At the same time, this remote way of working has contributed further to the work-life balance for our colleagues. As a relationship bank, we are convinced of the unique value that results from people getting together - in terms of creativity, collaboration, empathy and development. Therefore, we will look to fuse these with the new-found benefits of increased working efficiency and flexibility to create our own 'new, improved normal' after the pandemic.

Corporate Governance report

CHAIRMAN'S INTRODUCTION

On behalf of the board of directors, I am pleased to present the governance report in which we describe the key areas considered by the Board and its committees this year and how those responsibilities were discharged. The Board remains committed to high standards of corporate governance and recognises that effective Board oversight is vital to a successful organisation.

BOARD AND ACTIVITY

In an already busy year, the monthly scheduled Board meetings were supplemented by fortnightly meetings at the height of the pandemic to ensure adequate oversight and responsiveness to COVID-19. This commitment by the Board has also been evident in a number of other areas, where training, briefing sessions and ad-hoc meetings have been scheduled to address other key areas, including strategy and execution, financial performance, risk management and corporate governance. Highlights of our work and decisions can be found summarised below:

- **COVID-19:** A large part of the Board agenda during the year has been influenced by the pandemic and the subsequent lockdowns throughout 2020. During the height of the pandemic, weekly updates were produced for the Board, which included detail on the impact on the Bank and its customers and the actions taken by management, to ensure the Board had adequate and timely access to information. The weekly updates were supported by fortnightly Board meetings, held remotely, which specifically focused on COVID-19
- **Strategy:** The Board has decided to simplify and streamline the organisational structure in order to increase efficiency, clarify responsibility and to prepare the Bank for the next phase of growth in line with the details found in the Strategic report on page 5. The Board also considered the Bank's Business plan and oversaw updates to its strategy, ensuring alignment of strategic objectives with those of the shareholder as appropriate
- **Financial performance:** In line with its Terms of Reference, the Board has received regular updates from the CEO and Chief Financial Officer on the Bank's performance, including business volumes, with specific attention paid to the effect on the balance sheet and income statement from COVID-19 and the Bank's participation in the Coronavirus Business Interruption Loan Scheme ('CBILS'). In addition, the Chief Financial Officer has during the year highlighted, amongst other things, the effect on the Bank of the reduction in interest rates and the capital and liquidity position of the Bank. The Board also reviewed and approved the Annual Report and the necessary disclosures upon recommendation of the Board Audit Committee
- **Brexit:** The Board has reviewed and considered the outcome of a hard Brexit and the potential impact on the Bank in the event that no agreement would be reached between the EU/UK. The Board noted that the Bank had appropriate processes in place in order to respond and mitigate the regulatory impact of Brexit
- **Governance & Risk management:** During the year the Board has approved updates to policies, reviewed the policy framework and approved the governance framework of the Bank. In addition, the Board reviewed, challenged and approved the Bank's prudential documents including the Internal Capital Adequacy Assessment Process ('ICAAP'), Internal Liquidity Adequacy Assessment Process ('ILAAP'), recovery plan, risk tolerance statements and risk frameworks. Whilst these documents are still evolving, the Board noted improvement in the consistency and content of all documents and were given the ability to challenge the prudential documents thoroughly before approval through briefing sessions chaired by the Chief Risk Officer. The Board also convened a number of meetings in the course of the year to monitor progress and performance of the AML remediation programme
- **Regulations:** The Board has challenged the Bank's response in relation to changes in LIBOR regulations, climate change and operational resilience as well as the Bank's transition to an Internal Ratings Based (IRB) approach to calculate risk-weighted exposure amounts for credit risk
- **Culture:** During the ongoing COVID-19 pandemic colleagues' fundraising activities showed resolve and the Board has approved a larger donation to four registered and nationally known charities (all in some way supporting communities through the COVID-19 pandemic). The Board also reviewed and considered the outcome of the Banking Standards Board ('BSB') 2019 survey on employee engagement, a specific employee survey in relation to the Bank's COVID-19 response and noted that the Bank had improved its response in respect of employee wellbeing by establishing a wellbeing portal where employees have access to resources for mental and physical health. The Board noted that the Bank also held training sessions on the importance of mental health in response to the number of employees having to work remotely during the lockdown periods

In addition to the above, regular updates have been provided on Financial Crime Prevention, IT Strategy, Diversity, Product approach and by the Bank's Chief Economist.

The Board's committees continued to play an important role in the governance and oversight of the Bank by ensuring adherence to strong governance practice and principles and providing appropriate oversight. In order to support the Board, a Board IT Strategy Committee was created in the year to help in the formulation, and to have oversight of, the Board approved UK IT Strategy. A report from the main Board committees, which sets out their approach and considerations can be found in the Governance report section starting on page 33.

The Board and Senior Management are supported through continuous development and training. The Nomination Committee reviews succession planning each year to ensure the optimum balance of expertise, skills and experience is available across senior management in the Bank. The Board has female representation of 43% and the Bank remains committed to continuing to be a member of the Women in Finance Charter. In line with the recommendations from the Parker Review, the Board is committed to increasing ethnic diversity and this will be a specific consideration in future appointments.

There were no changes to board composition in 2020.

BOARD EFFECTIVENESS REVIEW

In 2020, Independent Audit Limited, an independent third party, was appointed to undertake an externally facilitated Board effectiveness evaluation. The review concluded that the Board and its individual members operate effectively and possessed the right balance of skills and expertise, with some enhancements suggested. Further details can be found on page 22 of this report.

CULTURE AND VALUES

The Board recognises the importance of its role in setting the tone of the Bank's culture and embedding it throughout the organisation. The Bank is characterised by a clear division of responsibility where each part of the business operations bears full responsibility for its business and risk management. As a consequence, there are strong incentives for high risk awareness and for prudence in the business operations. The decentralised business model is combined with centralised controls. A number of information sources are used to gauge the company's culture and these include: the Banking Standards Board survey, which measures culture within organisations, customer complaints and the COVID-19 survey on home working and employee welfare. In addition, management also looks at feedback from leavers and grievances raised.

LOOKING AHEAD

Handelsbanken plc continues to be committed to the highest standards of governance and I am pleased to confirm that the Bank has complied with the Wates Principles for the reporting period ended 31 December 2020. Our corporate governance priorities for the year ahead will be to reflect and further embed the learnings from the 2020 Board effectiveness review, resulting in the continued strengthening of governance across the Bank.

MEETING AND ATTENDANCE TABLE

The Board and Board committees held a number of scheduled meetings in 2020 at which senior executives, external advisors and independent advisors were invited, as required, to attend and present on business developments and governance matters. Sufficient time is scheduled at the start of every Board meeting, and as required, for the Chairman to meet separately with the non-executive directors to discuss any matters arising. There is a comprehensive board pack and agenda which is circulated beforehand so that directors have the opportunity to consider the issues to be discussed. The Company Secretary attended all Board meetings and is responsible for documenting discussions and actions arising at meetings.

The table below sets out the attendance at formally scheduled meetings in 2020. Additional Board and Board committee meetings were convened during the year to discuss ad-hoc business development, governance, and regulatory matters. In addition the Board met regularly to discuss COVID-19. These ad-hoc meetings have not been included in the table below but are referenced in a footnote:

Board and Committee attendance at scheduled meetings in 2020

Board Member	Board Meeting	Remuneration Committee	Audit Committee	Risk & Compliance Committee	Nomination Committee	IT Strategy Committee
Mikael Hallåker (Chair)	11/11	8/8				3/3
Tanya Castell	11/11		5/5	6/6	5/5	
John Ellacott	11/11	8/8	5/5	6/6		
Maureen Laurie	11/11	8/8			5/5	3/3
Agneta Lilja	10/11			6/6	5/5	2/3
Mikael Sørensen	11/11					
Martin Björnberg	11/11					

1) The IT Strategy Committee's first meeting was July 2020
2) The Board met on five separate occasions in the year to consider one-off items where a Board approval was required
3) The Board met informally, on 17 separate occasions, to consider ad-hoc matters such as those related to COVID-19 or the AML remediation project
4) The Board welcomes directors to attend meetings where they are not members

Wates principles

Handelsbanken plc is committed to delivering high standards of governance, corporate and social responsibility, ethics and risk management with sound and prudent management being central to the Bank's values and governance structure. For the year ended 31 December 2020, the Bank has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website). The principles enable companies within their scope to demonstrate good governance by setting standards in respect of purpose and leadership, board composition, remuneration, risk management and stakeholder relations.

Principle 1 - Purpose and Leadership

"An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose."

The Wates Principles

Purpose

Handelsbanken plc was this year highlighted as an example of a purposeful business, in both the British Academy's ongoing 'Future of the Corporation' programme and a Financial Conduct Authority ('FCA') essay series. Our purpose remains best understood through our goal, mission and the core values the Handelsbanken Group has stayed true to for the last 50 years; it finds clearest expression in colleagues' actions and the stakeholder outcomes these produce.

The Bank's only corporate goal is shared with the wider Handelsbanken Group: 'to have higher profitability than the average of comparable peer banks in its home markets'. This goal is achieved through continual focus on having more satisfied customers and lower costs than the Bank's competitors.

Our mission is to be a trusted, long-term financial partner, meeting customers' needs now and for the future. We are a relationship bank, both inside and out. We aim to build close, lifelong relationships with each of our customers, by showing them consistent care and high quality service, and by remaining financially strong enough to support them throughout the economic cycle. We also aim to attract and develop our employees for life, thereby strengthening both our customer relationships and our culture.

Handelsbanken plc's core values are fundamental and timeless. The first of these, to 'trust in the individual' and their desire and ability to do worthwhile things well, makes it natural to decentralise and empower colleagues throughout our business, with all employees working within the Bank's central framework of principles, policies and control. As well as fostering a high degree of cooperation and engagement, this approach - free of centrally-set targets, financial incentives or sales campaigns - gives our local branch teams space to get close to their customers, leading in turn to swifter, better and more cost-effective decisions.

The second guiding value, to 'take a long-term, sustainable view in everything we do', steers us to forge deep and lasting customer relationships, to limit the bank's risks and those of our customers, and to take sensible, sustainable decisions.

Together, our goal and mission that define what we do, and our core values that steer how we do it, give us our common, strongly-held sense of purpose. Referred to collectively as 'Our Way', after the book of principles and practices all employees receive when joining the Handelsbanken Group, they have been discussed in everyday contexts right across the organisation for many years, as they continue to be today.

Strategic objective
The above-noted corporate goal has been deemed appropriate for the UK business by the Board of directors. One of its purposes is to offer the Bank's shareholder long-term, high growth in value, expressed in increasing earnings per share over a business cycle.

Knowing how we are performing against our chosen focuses of having the most satisfied customers and lower costs than our competitors is important. To do this we regularly assess the detailed results of independent customer satisfaction surveys, while monitoring the published cost-income ratios of our peers against our own.

Together, the above purpose and goal guide the way we think and work throughout the Bank. They are communicated consistently to all employees, using training, 'Our Way', and through frequent examples of how these ideas are being put into practice in various parts of our business.

The Board's role
The Board's primary role is to provide leadership and to ensure that the Bank is appropriately managed within a framework of prudent and effective controls and core values, while delivering long-term shareholder value. The Board is responsible for the Bank's strategy, corporate culture, governance framework, risk management and internal controls, risk tolerances, and its compliance obligations under the regulatory system.

The Board is committed to ensuring good governance throughout the Bank and for instilling the culture of decentralisation, customer focus, sustainable decision making, and social responsibility. These values are reflected in the policies and directions from the Board, as well as in its support, review and challenge of the Bank's affairs when engaging with executive management and other stakeholders of the Bank.

Further details about stakeholder engagement can be found in our Strategic report starting on page 27.

Highlights of the work completed by the Board during 2020 can be found in the Corporate governance report on pages 15-16.

Principle 2 - Board Composition

"Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company."

The Wates Principles

The Bank has one shareholder, Svenska Handelsbanken AB (publ.). The shareholder approves the appointment of the Board members, based on recommendations from the Nomination Committee. Members of the Board bring a range of skills and experience to the Bank through the combination of three independent non-executive directors, two non-executive directors (including the Chairman) and two executive directors.

Their diverse skillset and experience gives the Board a strong understanding of the Bank's operation and its stakeholders and allows it to provide useful challenge and support to executive management.

Board directors

Mikael Hallåker
Chairman

Mikael Hallåker has worked for the Parent company Svenska Handelsbanken AB (publ.) since 2001 and is currently the Chairman of the Board for two other Group subsidiaries: Handelsbanken Liv (life insurance) and Handelsbanken Fastigheter (property company). He is also a board member of Stadshypotek (a mortgage subsidiary), the Group's pension fund and the Group's pension trust. Mikael was previously Head of Investor Relations and Rating at Svenska Handelsbanken AB (publ.) since 2010 and has experience in investment banking and from the insurance industry in Sweden.

Board committee memberships
Board Remuneration Committee, Board IT Strategy Committee

Tanya Castell MBE
Independent Non-Executive Director, Chair of the Board Risk and Compliance Committee

Tanya Castell is a former senior global banking executive with expertise in risk management, regulation and corporate governance, with most of her career spent at J.P. Morgan and UBS. She now has a portfolio of non-executive directorships (NEDs). This includes being an independent NED on the board of Border to Coast Pension Partnership. She is also a member of the FCA's Regulatory Decisions Committee, as well as the founder of the Scottish based charity Changing the Chemistry, a charity that she founded to promote diversity of thought in the boardroom. For her work in this area, she was awarded an MBE in the New Year Honours in 2017. Previous board roles include Chair of the Quality Assurance Scheme for the Institute and Faculty of Actuaries, an Independent Director of the Faster Payments Scheme, Societe Generale International and Standard Life Savings.

Board committee memberships
Board Nomination Committee, Board Risk and Compliance Committee (Chair), Board Audit Committee

---

Maureen Laurie
Independent Non-Executive Director, Chair of the Board Remuneration Committee

Maureen Laurie's background is in international financial services, news and the public sector, having held senior HR roles for Reuters, the European Bank for Reconstruction and Development, Standard Chartered Bank Plc, Barclays International and Private Banking, London International Financial Futures and Options Exchange (LIFFE), Euronext NV/NYSE Inc and the British Council. She has also served as a Non-Executive Trustee Director and Independent Governor for London Metropolitan University; Independent Non-Executive Director and Remuneration Committee Chair for the Cooperative Bank Plc, and as an elected Trustee Director for Reuters Pension Fund Limited/Refinitiv.

Board committee memberships
Board Remuneration Committee (Chair), Board Nomination Committee, Board IT Strategy Committee

John Ellacott
Independent Non-Executive Director, Chair of the Board Audit Committee

John Ellacott worked at KPMG for 33 years, including 21 years as a Partner, before retiring in September 2017. At KPMG, John was primarily an auditor, but also provided advisory services covering strategy, regulatory transactions and listings both in the UK and internationally. John specialised in the financial sector and has worked with many of the UK's leading banks and building societies. John was a Governor of Giggleswick School and has also served on the regional board of the Prince's Trust.

Board committee memberships
Board Audit Committee (Chair), Board Risk and Compliance Committee, Board Remuneration Committee

---

Agneta Lilja
Non-Executive Director, Chair of the Board Nomination Committee

Agneta Lilja started her career in Svenska Handelsbanken AB (publ.) in 1981 and during her time in the bank has held senior positions as Head of Handelsbanken International as well as an area manager in the Bank's Stockholm region. Between 2010 and 2019 she has been a member of Handelsbanken AB (publ.) senior management, as Head of Central Infrastructure, Chief Information Officer and Executive Director. Agneta retired from Handelsbanken AB (publ.) in March 2019 and from 1 April became an appointed non-executive director of Handelsbanken plc.

Board committee memberships
Board Nomination Committee (Chair), Board IT Strategy Committee (Chair),
Board Risk and Compliance Committee

Mikael Sørensen
Chief Executive Officer

Mikael Sørensen was appointed CEO of Handelsbanken UK in September 2016, joining from the Netherlands where he was CEO from 2007. Prior to that, Mikael was general manager of Handelsbanken Poland, and regional area manager in Handelsbanken Denmark. Mikael started his Handelsbanken career as an account manager in Denmark at the Copenhagen City branch in 1994, and was appointed branch manager in 1997. In 2018 Mikael joined the board of the UK Banking Standards Board as a practitioner member – a body established to promote high standards of behaviour and competence across UK banks. He also serves as a council member of the Swedish Chamber of Commerce in the UK.

Board committee memberships
None

Martin Björnberg
Chief Financial Officer

Martin Björnberg joined Svenska Handelsbanken AB (publ.) in 1989. Martin started working in the Bank's branch operations as an account manager before moving to IT and business development operations where he led improvement and efficiency programmes for the Bank's retail processes. Between 2002 and 2017 Martin moved on to hold senior management positions in one of the Swedish regions. He was also Head of HR for the Swedish Regional banks unit in Stockholm. Martin has held his current position of Chief Financial Officer for Handelsbanken's UK operation since April 2017.

Board committee memberships
None

Balance and diversity
The Bank operates on the basis that diversity and inclusion in its workforce is fundamental in order to reflect the societies within which it operates. In practice, this requires working towards being a truly diverse bank, in every sense. Diversity and inclusion is supported through recruitment policies as well as career development initiatives.

The diversity of the Board reflects the Bank's continuous focus on and commitment to gender equality. The Board members bring a broad base of corporate and professional experience, which is seen as the best way to support the achievement of our corporate goal. The independent non-executive directors have experience in relevant areas of financial services and banking, with a strong focus in financial management, regulatory affairs, credit, risk, compliance, human resources and conduct. The Nomination Committee is responsible for reviewing the composition and balance of skills of the Board, to ensure they remain appropriate and diverse. The Nomination Committee will also oversee the comprehensive and tailored induction programme offered in the event of a new director joining the Board.

Effectiveness
The Board exercises supervision over and evaluates the CEO on an annual basis, through a process led by the Chairman. In addition, the Chairman of the Board carries out an annual evaluation of its work and whilst not obliged to comply with the UK Corporate Governance Code ('the Code'), an external independent Board effectiveness review is carried out every three years in line with the Code. As a separately regulated entity, the Board shows independent judgement from the shareholder. Matters reserved for the Board and escalation processes are in place to provide objectivity.

Upon appointment, directors take part in an induction programme to provide information on the business needs, stakeholder interests, activities, strategy, corporate culture, governance framework, risk management and internal controls, risk tolerance, and its compliance obligations. To maintain this, the training needs of the Board are continuously surveyed to assess the needs for further training and education from which an annual training plan is developed. During 2020 training has incorporated amongst other things deep dive sessions in respect of digitalisation, cloud technology, financial crime and corporate governance.

Board effectiveness review
The Board performs an annual evaluation of its performance, which is externally facilitated every three years. During the year, an externally facilitated Board effectiveness review (BER) was conducted by Independent Audit Limited, an external review specialist. The review took place between December 2019 and March 2020 and was presented to the Board at the March 2020 Board meeting. The review involved an evaluation of Board and Board committee papers, interviews with all members of the Board, the Company Secretary and executive management as well as observation of committee meetings.

The Review concluded that the Board operated effectively, however highlighted some areas for improvements which the Board formally considered on the 5 June 2020, resulting in a BER action plan.

A summary of the highlights from the review, and the agreed actions, is detailed below:

Highlights from the 2020 review	Comments	Actions
Reframe risk conversation to focus on desired outcomes	• Broader than risk so apply across the business. Increased visibility of those presenting at meetings, such as ExecutiveCommittee members and different business areas • Move conversation towards shared objectives of good management and sensible risk taking	• Reporting process enhanced to ensure that key matters of importance to management and committee members are addressed. This takes the form of detailed planning and consultation throughout the process • Scope of presenters and information presented has increased • More dedicated time for specific topics and business areas
Find time to acknowledge what has been achieved to date	• Subsidarisation resulted in sustantial organisation change, however the Bank has adapted well • The unique culture of the Bank has remained intact even though there has been an increase in staff numbers	• Overall a positive statement to continue to build upon • Plan for increased visits to meet parts of the business and increase visibility • Board agendas to continue moving towards regional, functional and departmental updates to provide new insight
Consider adding an additional INED to the Board	• There were not thought to be any immediate or concerning skills gaps, however would support workload and succession planning • Nomination Committee had already considered and had instigated steps	• Process commenced with a view to a new INED joining in 2021 • The new director will join as a member of the Audit Committee resulting in the committee having three members instead of two satisfying a recommendation that came out of the review
Continue to think about succession planning for the chairman and the NEDs	• The current Chairman was highly valued and has been a strong advocate of the Bank to Group, as well as being an asset in investigating autonomy and championing the Bank's needs • NED succession planning to continue	• The Chairman was supportive of the Board's independence from Group • Process commenced for developing succession plan for Chair and NEDs • Succession supported by the decision to appoint an additional INED and Senior Independent Director (SID)
Introduce regular NED-only sessions before or after each board meeting	• There were only four scheduled NED-only sessions for the year, with others taking place on an ad hoc basis • Sessions should be scheduled immediately before or after each board meeting	• NED meetings have been scheduled before each Board meeting and extended in time • CEO is updated, as necessary, after each meeting

The recommendations and comments from the review will be used in the work of continuously improving the effectiveness of the Board.

Principle 3 - Director Responsibilities

"The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge"

The Wates Principles

Accountability
Handelsbanken plc works with clear governance processes and direction throughout its corporate structure. The Group CEO establishes steering guidelines for the plc with the purpose of aligning the plc's model, culture, strategy, policies and guidelines with those of the Parent. The steering guidelines contain a requirement to notify Group of material issues arising and reserves certain matters for shareholder approval, for example, material transactions, credit approvals in excess of delegated limits, approach to remuneration and board composition. The Steering guidelines are supported by agreements between Group and the Bank in relation to, for example, balance sheet netting, capital and liquidity. Similarly to its Parent, the Bank issues steering guidelines to its subsidiary Handelsbanken Wealth, providing high level guidance to its Board of directors, setting out certain matters reserved for the plc. The steering guidelines for Handelsbanken Wealth are formally established by the UK CEO.

There is a clear division of responsibilities between the Board and the executive leadership of the Bank, with a separate Chairman and CEO to ensure a balance of power and effective decision-making. The responsibilities of the Chairman and the CEO are clearly prescribed and separated with the day to day running and management of the Bank delegated to the CEO, save for the specific matters reserved for the Board, as set out in the Board Matters. The CEO and the Chief Financial Officer have been delegated authority by the Board to allocate formal decision powers to executive management.

Policies are formally documented so that responsibilities are allocated in compliance with prevailing laws and regulations. All policies and corporate governance practices are available to all employees in line with the Bank's culture of transparency and is translated into detailed instructions, supported by training where appropriate.

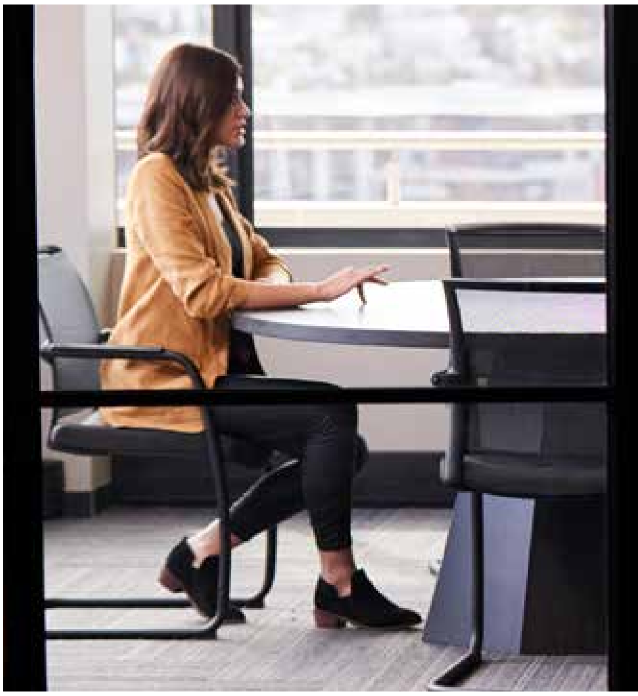
The Senior Managers Regime applies to individuals performing a senior management function (SMF). A SMF is a function that requires the person performing the role to be accountable for managing one or more aspects of the Bank's affairs (so far as relating to regulated activities). The regime means employees in scope are assessed annually to ensure they are fit and proper in their roles. A Senior Managers Regime responsibilities map is approved annually by the Board, having gone through review and challenge by the Executive Committee and the Board Risk and Compliance Committee.

Directors are under a statutory duty to exercise independent judgement. This includes avoiding conflicts of interest or other circumstances likely to compromise their judgement. In the Bank, all employees, including the directors of the Board, must adhere to the Bank's Conflicts of interest policy and disclose any potential conflicts of interest. The Board discloses potential conflicts of interests at every Board or Board committee meeting, with a complete conflict of interest register for directors formally noted by the Board once a year. The directors' conflicts of interest register is managed by the Company Secretary and where there are potential conflicts, these are mitigated or managed appropriately.

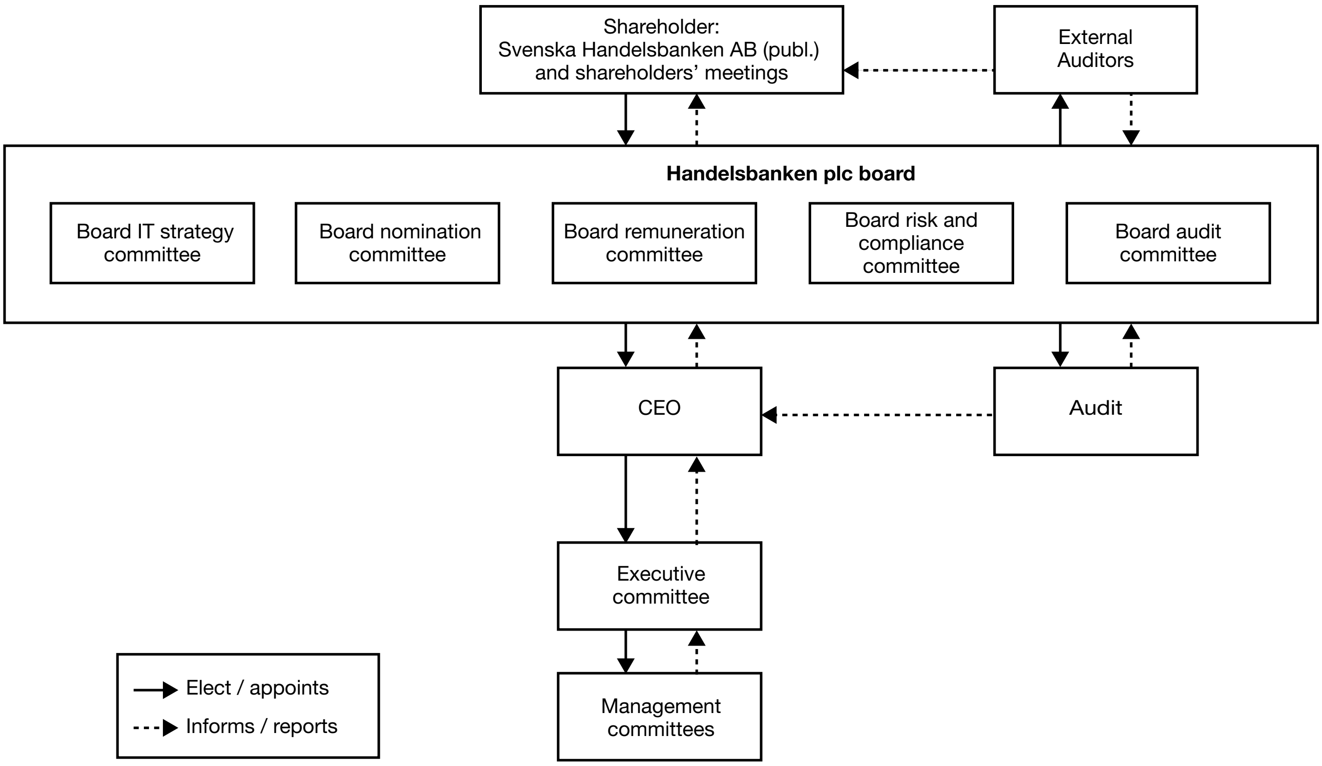
Committees
The Board is supported by its committees, to which it delegates power to make decisions and recommendations within their areas of expertise. The Chair of each committee reports the outcome of committee meetings to the Board, ensuring that necessary oversight is maintained.

The Board and its committees are governed by matters reserved for the Board and Terms of Reference respectively. The composition and Terms of Reference of the Board and each Board committee are reviewed annually to ensure that each committee is operating effectively. Independent non-executive directors are represented on all Board committees, to allow for independent challenge.

Management committees are established by the CEO and report to the Executive Committee whose purpose is to be an advisory body to the CEO in order for the CEO to make informed decisions. The CEO reports formally to the Board, at each Board meeting, on any material matters raised and decisions taken by the CEO since the previous Board meeting. Terms of Reference are issued for the Management committees, and other governance bodies as appropriate, and these specify the responsibilities, membership, roles, responsibilities and reporting lines of the respective body.



The below illustrates the committee structure as at 31 December 2020:



Integrity of information
The Board receives regular, timely and accurate information on the business including financial data, risks, compliance and strategy. Financial information is collated by the Finance function whose team members are appropriately qualified to verify the integrity of such information. The financial statements are externally audited by Ernst & Young LLP annually, and financial controls are reviewed by the Internal Audit function. The departments that make up the second line of defence (e.g. Compliance and Risk) play an important role in reviewing non-financial data. Processes for collecting financial data, as well as the reporting of that data, are reviewed on a risk-based approach by the Internal Audit function with aggregate results reported to the Board Audit Committee.

All submissions for consideration at Board and Board committee meetings are reviewed by the Governance function for consistency and appropriateness. Where appropriate this is challenged with the business area, second line or the functions that oversee or specialise in risk management and compliance.

The Chairman of the Board maintains an ongoing and transparent dialogue with the shareholder about all significant matters. In 2020, Group established a new Board committee, called the UK Shareholder Committee. The aim is to have five meetings a year, four of which follow the Group financial results timetable. Although it does not possess any decision making capability, it was established to provide additional time, focus and support on matters of importance to the Group and the Bank.

Principle 4 - Opportunity and risk

> "A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risk."
>
> *The Wates Principles*

Opportunity
The Executive Committee reviews and agrees the annual business plan for submission to the Board which includes opportunities to create and preserve value over the long term. The Executive Committee continuously works to ensure the business meets its objectives and strategy, having regard to the interests of the shareholder and customers, employees and other stakeholders. The CEO presents any identified long-term strategic opportunities to the Board for approval. The culture fostered by the Board, Board committees and Management committees allows for regular dialogue on innovation and opportunity and the flat structure of the organisation enables timely decisions to be made by the appropriate body.

Risk and responsibilities
Handelsbanken plc's key risks are outlined in the Risk and capital management report starting on page 44.

The Board has the ultimate responsibility for ensuring the effective management of risk. It also has overall responsibility for setting the strategy and corporate objectives, and in doing so the level and type of risks that they are prepared to allow the business to take in pursuit of the corporate goals. The Board and Board committees oversee the establishment of the risk policies, to support the governance of risk management and control in the Bank.

The Board Risk and Compliance Committee is responsible for maintaining oversight of all key risk categories relevant to the business. In doing so, it assists the Board in fulfilling its own risk oversight responsibilities, as well as monitoring risk control and risk management and the process for monitoring compliance with laws and regulations.

There are a number of Management committees, including the Management Risk and Compliance Committee which oversee, review, assess and challenge risks and controls and, where appropriate in line with its Terms of Reference, make recommendations and report to the Board Risk and Compliance Committee.

Handelsbanken plc's risk tolerance statements, which articulate the level and type of risks the business is prepared to take, are documented and communicated across the organisation; they are also reviewed and approved by the Board on an annual basis. The Board risk tolerance metrics feed into the Bank's approach to risk management which is outlined in the Risk Management Framework, owned by the Chief Risk Officer. Risk tolerance statements and metrics are reflected in a range of documents including the Board-approved risk policies, and are translated into a series of risk frameworks. In turn, the Bank's operating standards and procedures are translated into instructions which allow implementation of risk policies through the risk management activities which are performed across the organisation as a whole. As part of the risk management framework, there is a stress testing framework which outlines the Bank's approach to stress testing.

Principle 5 - Remuneration

> "A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company."
>
> *The Wates Principles*

Handelsbanken plc's principles for remuneration to employees are long established. In general, the Bank has low tolerance of risk and is of the opinion that fixed remuneration contributes to healthy operations; this is, therefore, the main principle. Remuneration is set locally, at business level, as part of the Bank's devolved leadership model, and is based on competence, skills, nature and difficulty of job, performance, leadership, market conditions and culture. Although our all-employee profit sharing scheme Oktogonen has recently been reclassified by Group as variable remuneration, the Bank's employees do not receive any individualised financial remuneration beyond their fixed salary, only an equal Oktogonen allocation in a successful year for the Bank. Variable remuneration linked to an individual's activities or performance is used as appropriate in the subsidiary, Handelsbanken Wealth, and only for a limited number of non-customer facing employees.

The Remuneration policy outlines Handelsbanken plc's approach towards remuneration and is approved by the Board. The objective of the policy is to attract, retain and motivate high quality employees, thus contributing to the achievement of the Bank's corporate goal and culture. The policy applies to all departments, units and branches and all employees, including directors and non-executive directors. Remuneration at the Bank is compliant with all relevant regulations and rules including the PRA remuneration rules and the FCA dual-regulated firm Remuneration Code. The views of the shareholder and alignment with shareholder policies (where deemed appropriate) are taken into account and, as necessary and where appropriate, reporting is escalated to the shareholder.

The Remuneration policy is reviewed by the Chief HR Officer taking account of feedback from all relevant stakeholders, evaluating whether the remuneration system is fit for purpose and supports the corporate goal. The Executive Committee is responsible for developing and implementing an appropriate remuneration system, with overall governance and oversight by the Remuneration Committee.

The Board Remuneration Committee makes recommendations on the remuneration and other terms of employment for the executive directors and senior management. It also monitors the level of remuneration for senior management, taking into account prevailing market terms, and that it is compliant with the Bank's culture and risk tolerance and otherwise in accordance with legal and regulatory requirements. An evaluation is conducted on whether the remuneration system promotes sound, efficient risk management, whether it counteracts excessive risk taking, and is in keeping with the Bank's risk tolerances. The Committee also reviews the ongoing appropriateness and relevance of the Remuneration policy. The Bank is committed to gender equal pay and reports relevant data to the Board Remuneration Committee as part of its ongoing annual reporting requirements. The gender pay statement is available on the Bank's website.

For true independence and to avoid conflicts of interest, the remuneration for the heads and deputy heads of control functions are decided by the Board, following recommendations by the Board Remuneration Committee. The Shareholder is ultimately responsible for approving the remuneration of all non-executive directors, including the Chairman, within the limits set in the Bank's Articles of Association.

For transparency, employees are informed of the criteria that affects their remuneration and how their performance is assessed. The Bank produces a remuneration disclosure statement which is published on the Bank's website. The statement provides detail on the Remuneration policy, as well as governance and responsibility in the area of remuneration.

Annually the Bank sets guidance on the overall level of salary increase taking into account factors such as business performance, affordability, and external market trends. This guidance applies to executive director remuneration as well as that of the wider workforce. The Directors' Remuneration disclosure can be found in note 8.

Principle 6 - Stakeholder relationships and engagement

"Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions."

The Wates Principles

Playing an active, responsible role in our communities and maintaining the trust of our various stakeholders is a Handelsbanken Group value. The needs of different stakeholders are considered when making decisions, and with our reliance on word-of-mouth recommendation rather than brand or product marketing, the outcome of any decisions on our business conduct and reputation remain central to our thinking.

The Handelsbanken Group is a recognised leader in several areas relevant to our stakeholder groups, including empowering employees, creating customer loyalty, and running a stable bank that contributes to both local and national economies through the cycle.

The Board recognises its central role in ensuring that well informed decisions are made, taking thorough account of the interests of our various stakeholders, as detailed in the following section on the Bank's stakeholder engagement.

Stakeholder engagement

The following disclosure describes how the directors have had regard to the matters set out in section 172(a) to (f) and forms the directors' Statement required under section 414CZA of The Companies Act 2006. Further details on key actions in this area are also contained within each of the Committee reports starting on page 33 and the Sustainability report on pages 9-11.

OUR COLLEAGUES

Why we engage

At Handelsbanken plc, we have a fundamental belief in our colleagues and their desire and capacity to do a good job. We know that empowering our employees leads to high levels of ownership and engagement, and thus in turn to customer satisfaction, which is crucial to the success of the Bank. Working this way over many years has also led to a mutually respectful, collaborative and entrepreneurial culture within the Bank. Colleagues are encouraged and supported to develop their careers in whichever directions their particular talents and interests steer them: this cross-pollination of experience further strengthens the Bank's culture and effectiveness.

How we engage

Our flat structure and open culture encourage colleagues to engage directly, day-to-day with executive directors and senior management.

Direct

- Employees in the business (including all of the Executive Committee members and SMF holders) have presented to the Board during the year which provides an overview of various business areas and first hand exposure
- The Board has been involved in steps to formulate a Diversity & Inclusion strategy
- The Chair of the UK Works Council, which is a forum to ensure a strong voice for employees, attended one Board meeting during 2020. The intention is to enhance the Board's insight and provide further direct exposure to employee concerns, and that attendance will be made more regular
- The CEO has held physical or digital sessions with colleagues across the Bank, and has travelled around the Bank holding mixed group discussions. There have been 'town-hall' sessions to address first-hand questions from the business. Due to COVID-19, many of the CEO's engagements have continued virtually
- Board briefing and training sessions have included participation from a variety of colleagues providing the Board with access to a wide-ranging group of employees
- As well as regular presentations to the Board and Board committees' the NEDs have held individual meetings with members of executive management throughout the year

Indirect

- The Board receives reporting from the Bank, either directly or to its Board committees
- The CEO's regular report to the Board provides insights from across the Bank and has during 2020 been expanded, in response to suggestions by the Board, to provide additional understanding of issues and challenges faced by the Bank
- The Board has asked for inclusion of quarterly HR metrics into Board papers, to provide a broader overview of employee matters

Insights and outcomes

In addition to periodic surveys to assess engagement, participation in the Banking Standards Board's annual survey into firms' cultures formally captures the views of employees and forms one key part of how the Bank tracks colleague engagement. Presentation of the results to the Board provides an opportunity to consider the embedment of the Bank's culture and to objectively support and challenge the results, in order to maintain them at consistently high levels. This year the survey was supplemented by an independent survey considering employee sentiment in relation to COVID-19; this revealed levels of employee engagement and endorsement for the Bank's crisis response substantially above the industry benchmark, while guiding further improvements to help colleagues feel safe through heightened focus on employee welfare and communication. It contributed, among other things, to the Employee Handbook being updated to include working from home provisions and new additional benefits, such as a virtual GP service.

The completion of the implementation of a system through which whistleblowing concerns can be anonymously reported supports colleagues by ensuring they can raise concerns in a confidential and safe way.

Structurally, the Bank's straightforward, fixed salary remuneration approach promotes a collaborative, customer-oriented culture, as well as prudent decision making, particularly in challenging economic conditions. Colleague engagement is also supported by the high levels of employee retention.

OUR CUSTOMERS

Why we engage
The Bank provides its customers with bespoke advice and services to actively help them transform and develop their business prospects and financial future. We want to develop long-term, personal relationships with each of our customers, ensuring they are highly satisfied with the service we provide. As a demand-led organisation, customer feedback is integral to how the Bank develops, for instance, informing and shaping which products and services we develop and how we deliver them. Through this highly engaged approach, we are able to develop our position as a 'trusted partner', while further reinforcing our local, relationship banking difference.

How we engage

Direct

- COVID-19 led to a series of branch visits by the Board being cancelled which will resume as soon as practical and which have been rescheduled for 2021, in which it is planned to have some customer interaction, to be done virtually if necessary

Indirect

- The CEO report to the Board includes an overview of branch performance which is compiled using information from the regional banks. This gives the Board insight into competitor and industry developments locally as well as customer feedback, emerging trends and general customer sentiment
- The CEO also reports on infrastructure and operations which supports the Board's understanding of the Bank's operational performance and subsequent ability to serve customers
- The Board receives updates from the Chief Product Officer in respect of developments in the product area, as well as briefings on vulnerable customers and the steps being taken to make improvements in this area
- The results of the Competition and Markets Authority (CMA) banking quality survey of SME customers, and of the EPSI Rating survey of personal and corporate banking customer satisfaction, are analysed and areas of potential improvement considered by the Board. This has promoted debate and supported enhancement of our digital offering to meet the needs of our customers

Insights and outcomes
Long-term success is only possible with a customer centric business model and therefore the customer outcome forms a core part of Board deliberations. The EPSI Rating and CMA survey results show that the Bank continues to perform well, however there is no complacency, only a continued desire to improve. This desire is demonstrated by the Board's response to the CMA survey, recognising the need to increase focus on technology, and thus implementing an increased focus on digitalisation at Board meetings during the year. The Bank continues to invest in its digital platforms to improve capabilities and, to increase focus and oversight in this area, a Board IT Strategy Committee was established.

The Board receives continual information in relation to market developments, supporting strategic and competitor insight. Management reporting incorporates complaints statistics and customer satisfaction trends, while making suggestions for product, service and process developments that would improve the customer experience and meet their evolving expectations. One example is the Board's decision to take part in CBILS and to support the implementation of associated crisis support that have helped our customers through these exceptional times.

In light of public health guidance, in order to maintain high levels of customer contact the Bank increased the use of digital meeting places and improved social media interaction.

PUBLIC AUTHORITIES

Why we engage
As a responsible bank, Handelsbanken plc is naturally inclined to engage constructively with all relevant public authorities, and to take a straightforward, conservative approach to meeting their expectations. The Board oversees the Bank's engagement with its regulatory supervisors and takes all obligations arising from this engagement extremely seriously, scrutinising plans to ensure due resource and attention is given to fulfilling the Bank's obligations. The Bank engages openly with parliamentarians, government officials and other groups involved in public policy discussions, wherever they deem our perspectives can add value to their deliberations. A current example is our participation in the Bankers for Net Zero initiative.

During the year, an External Affairs department was established, to harmonise engagement with these various stakeholders. The department has functional responsibility for engagement with our regulators and with government officials, parliamentarians, banking industry bodies and business representative groups.

How we engage

Direct

- Throughout the year, executive directors have participated in meetings and conferences with our regulators at both the strategic and supervisory level
- Some of our independent non-executive directors have also met with regulators at a supervisory level and participated in discussions with our prudential regulator in order to share their perspectives and benchmark the Bank's focuses against regulatory expectations

Indirect

- Regulatory updates are provided to the Board Risk and Compliance Committee with updates on financial regulatory horizon scanning. To improve oversight by the Board, regulatory engagement updates have been included in the Board packs during 2020
- The CEO, Chief Financial Officer, Chief Risk Officer and Chief Compliance Officer raise matters of importance to the Board. They also provide a view of key areas of focus, alongside progress made addressing regulatory actions and other relevant areas of activity
- The Bank has established an External Affairs function to ensure transparency and alignment of views and enhanced proactive engagement with authorities

Insights and outcomes
Handelsbanken plc has constructive and transparent relationships with its regulators and with other public authorities including HMRC and HM Treasury. Regular liaison ensures the Bank remains aligned to the evolving regulatory framework and aware of policy changes under consideration. The Board is committed to complying with all relevant legislation, in particular that relating to prudential and conduct regulation. Applicable regulation is considered in all Board decision making and forms an integral part of the Bank's control frameworks. The Bank continues to adapt its engagement strategy to ensure public authorities are provided with the necessary information about the Bank's model and values and to share our perspectives where these are invited by relevant stakeholders.

OUR SUPPLIERS

Why we engage
We liaise on a range of issues with our suppliers to minimise any risks to the Bank and also to embed best practice in a number of areas throughout our supply chain. Supporting and engaging with our suppliers ensures the Bank is in a position to receive the best possible outcomes for customers. It also gives our suppliers an opportunity to demonstrate that, in addition to providing the service, they also meet our expectations in terms of corporate, social and environmental areas.

How we engage

Direct

- All contracts are subject to rigorous due diligence, follow up and cost management governance and material outsource and high risk third party arrangements are approved by the Board in accordance with policy

Indirect

- Updates on key supplier risks are provided to the Board Risk and Compliance Committee that maintain oversight of high risk and material outsourced contracts
- The Board recognises the importance of engagement with suppliers. Via management reporting they get updates about business relationships with suppliers
- The Board has a zero tolerance attitude towards modern slavery in our supply chain and annually approve the Modern Slavery statement

Insights and outcomes
The Bank has a dedicated procurement and supplier management department which engages with suppliers as part of the on-boarding process. As part of the ongoing monitoring of key suppliers, this department undertakes general due diligence regarding the financial soundness and credibility of suppliers.

2020 has seen further enhancements to the procurement process including a review of the controls relating to information security. These changes reinforce the framework within which the Bank sources and manages its suppliers responsibly, giving comfort as to their adherence to regulatory and legislative requirements.

During the year the follow up of suppliers subsequent to engagement has been strengthened; this now includes regular reviews of supplier performance against agreed deliverables. As a result of COVID-19 our supplier management team has been in weekly contact with some of our key suppliers with a focus on their business continuity plans in respect of the pandemic, whether any difficulties were experienced or anticipated and where we might support them. Our suppliers have been able to continue to provide us and our customers with the contracted services throughout the year, and we continue our regular discussions with them.

OUR COMMUNITIES

Why we engage
Handelsbanken plc chooses to grow locally and sustainably through word-of-mouth referral. As such we rely on the trust and support of our communities to prosper. The Bank's high degree of empowerment, coupled with a decentralised structure, provides branches with both the discretion and the motivation to engage actively and responsibly within their own communities. Our branches' locally distinct constellations of stakeholders typically include business and professional networks, charitable and cultural initiatives, public institutions, and constituency MPs, among others.

At the central, UK level, the Bank actively engages with representative organisations, business groups and industry peers, to ensure the Bank understands these stakeholders' interests and concerns, and that they understand the Bank's values, approach and impacts. We remain committed to being a responsible taxpayer and corporate citizen and to meeting the evolving expectations of the communities we serve.

How we engage

Direct

- The Board has during the year received an update on the Bank's sustainability work giving them an overview of initiatives in this area
- The Board approved central donations to four charities supporting COVID-19 community projects, chosen by colleagues during the year

Indirect

- Board reporting provides insight into branch matters

Insights and outcomes
Topics are diverse and often esoteric to the individual community, which is a benefit of our decentralised model. However, local and regional economic development, access to finance and banking expertise, and philanthropic causes are common threads with the Bank recognising the benefits of developing meaningful, long term networks with the local community.

Updates to the Employee Handbook allowed for each colleague to take a 'charity day' in order to give back to their local community through initiatives important to them. The introduction of match-funding in respect of colleagues' charity fundraising activities reiterates the Bank's desire to support causes close to colleague's hearts.

The Board recognises that tax is one significant way in which a business contributes to society, and continues to develop Handelsbanken plc's transparent approach, building on the Group's strong reputation in this area. The Board has supported development of a tax policy, to spell out and formalise the Bank's long-held commitment to pay all taxes due.

Further details about the Bank's community work can be found in our Sustainability report on pages 9-11.

THE ENVIRONMENT

Why we engage

The Bank believes that responsible actions are essential to long term value creation. Stable, productive and resilient ecosystems are pivotal to sustainable development, but such systems are under threat from climate change. In turn, this can impact both the global and local economy, and thus the Bank's long-term operations. From a risk perspective, it is important the Bank is able to identify and manage the risks climate change poses to its customers and their business or assets. At the same time, the opportunities of engaging with our customers to support their transitions to a net zero economy are significant, both from a commercial and relationship perspective.

How we engage

Direct

- The Board engages through its credit risk framework and policy by ensuring that due regard is given to the environmental impact of credits granted
- To demonstrate commitment to tackling climate change the Board receives updates on climate and green environmental initiatives, including development towards further Green Finance products
- The Bank's approach to Climate change risk is overseen by the Board Risk and Compliance Committee, which reviews and challenges the Bank's approach in this area

Indirect

- Policies, guidelines and instructions assist with alignment on corporate strategy, governance and sustainability
- Our sustainability manager sits on the UK Finance Sustainability Committee and is part of their working group to promote financial institutions working sustainably
- A common measurable environmental goal relating to the use of paper has been established for our branches and departments in 2021 while the Bank is working to enhance data in relation to its operational impacts, to inform the focus and ambition of further planned activities

Insights and outcomes

The Bank seeks to minimise its adverse impact on the climate and environment and act as a responsible employer and business. Each branch and department is encouraged to complete an environmental checklist annually, and to follow this up with actions, sustainability goals have been mandatory in every department's business plan since 2020. This results in managers as well as employees within the Bank taking responsibility for incorporating environmental risks and opportunities into the way they adapt their operations and conduct business.

During the year we have formally established sustainability forums across the Bank with the purpose of supporting the sustainability work locally as well as from a Group perspective.

Making business decisions that further long-term, sustainable development, and not taking such decisions in cases where the negative environmental impact is too high is important for the Bank, and is reflected in the fact that Handelsbanken Group was one of the founding signatories of the UN's Principles for Responsible Banking initiative (PRB). The purpose of this global initiative is to set out and increase the contribution to sustainable development from the global banking sector, within which the Bank is committed to align its climate impact with the Paris Climate Agreement's 1.5 degree goal.

While we already offer our UK customers a range of sustainable investment funds and continue to evolve these, the Bank will engage with customers to raise awareness of the need to mitigate and adapt to climate change, while exploring how best to support their developing requirements for green finance.

Further details about the Bank's community work can be found in our Sustainability report on pages 9-11.

SHAREHOLDER

Why we engage
The Bank's strategy, values and policies are closely aligned with its Parent and only shareholder Svenska Handelsbanken AB (publ.). Understanding and sharing these perspectives is important in order for the Bank to maintain the necessary independence as a subsidiary while adding value as a key contributor to the performance of the Handelsbanken Group.

How we engage

Direct

- The Board, whilst independent in its judgement, understands the need to align with Group policies and the proven Handelsbanken Group model. This is supported by the Chairman, but also by presentations or attendance at UK Board meetings of representatives from Svenska Handelsbanken, such as the Group Head of Sustainability, the Group Head of Investor Relations or the Group Chief Information Officer attending the IT Strategy Committee
- The Parent issues 'Steering guidelines' directly to the Board clarifying matters reserved for the shareholder
- In 2020, Group established a new Board committee called the UK Shareholder Committee with the purpose of providing additional time, focus and support on matters of importance to Group and the Bank

Indirect

- Through reporting Board members are kept informed and receive regular feedback on initiatives at Group level
- The Remuneration Committee are cognisant of Group when considering the remuneration policy
- Policies and processes are aligned with the Parent to the extent this is appropriate and not contradicting local regulation
- Members of the Executive management liaise regularly with their counterparts within the Handelsbanken Group

Insights and outcomes
We deem our engagement with the shareholder to be effective. The relationship is supported by clear guidelines and agreements clarifying responsibilities between the Bank and its shareholder, and by the Chairman engaging with the shareholder regularly as well as attending the UK Shareholder Committee together with the CEO. Given the proposed continuing investment in the UK, engagement between executive management in the Bank and Handelsbanken Group will intensify over the coming years. Senior Managers interact with their Group counterparts on a regular basis to ensure alignment of processes and policies, supported by the annual review of policies and CEO guidelines.

To further embed the relationship with the shareholder and the UK Board it is proposed that in 2021 a Board meeting be held in Stockholm.

ACADEMIA

Handelsbanken Group is proud of the reputation it has gained for progressive corporate leadership, and at both Group and plc level takes time to engage with those students and academics who find aspects of the Bank's model of relevance to their studies. A number of universities featured our unique model in their business teaching during 2020, while several well profiled management thinkers have featured our model as a case study in their published works. We have also been pleased to provide essays to the FCA and the Chartered Bankers Institute on the subjects of operating a purpose-led business and a stakeholder business respectively.

Committee reports

BOARD NOMINATION COMMITTEE

The Nomination Committee's purpose is to periodically review the composition and effectiveness of the Board, approve descriptions of roles, capabilities and time commitments required for Board appointments and make recommendations to the Board and to the shareholder for new Board members, and members of Board committees. The Committee is also responsible for reviewing the current succession plan for both executive and non-executive directors. The Committee comprises three members of the Board, with the majority of the members being independent non-executive directors. Appointment of the Committee Chair, as well as of the members of the Committee, are made by the Board. The appointment is for a period of three years, which can be extended for a further three years provided the director still meets the criteria for membership of the Committee, and is subject to annual re-appointment at the AGM.

In addition to the members, the Chief HR Officer attends meetings and other directors of the Board are invited to join meetings as appropriate.

Details of meeting attendance can be found in the Corporate governance report on page 16, and individual members in the Wates principle 2 section on pages 19-20.

Full details of the Committee's Terms of Reference can be found on the Bank's website.

Activities and considerations during the year:

- The Committee played an integral role in the appointment of Independent Audit Limited, an independent third party, who undertook the externally facilitated board effectiveness review. Although appointed in 2019, the review was completed in 2020 and the results were considered by the Board and the Committee. Further detail on the outcomes can be found on page 22
- The Committee discussed the approach to employee engagement and how it could be improved, with focus on employee views being escalated to the Board, and the necessity for it to evolve over time. As a result of these discussions a process was implemented to ensure the Chair of the UK Works Council attends a number of Board meetings during the year, with the first attendance taking place at the November 2020 Board meeting
- The Committee oversaw the succession planning in place for the Board and senior management as well as the recruitment of a new independent non-executive director, in line with recommendations coming out of the board effectiveness review, and the appointment of the members of the IT Strategy Committee
- During the year the Committee has reviewed those in the business deemed to be Material Risk Takers (MRTs). As part of this process the Committee reviewed and challenged the methodology of identifying these individuals, resulting in improved reporting in respect of MRTs identified in more than one regulatory category and in respect of MRTs moving between roles. The Committee also ensured its qualitative responsibility in respect of identifying the MRTs was clarified in its Terms of Reference
- The Committee supervised the update of the Board Skills Matrix to reflect market developments and areas of increasing prominence. The Committee discussed the process of assessing board skills and the use of the matrix, and identified that the tool used to define skills would benefit from improvement to minimise any inadvertent bias and fairly reflect the breadth and depth of experience of the Board in addition to technical expertise. It also considered training to be undertaken by the Board
- In response to the intention of the Board to comply with high standards of corporate governance, the Committee recommended that all directors should annually stand for re-election by the shareholder

Governance

The Committee reviews its Terms of Reference annually, making any updates considered necessary. In addition, the Committee performs an annual self-evaluation of its performance based on a survey submitted to all members and relevant standing attendees taking part in meetings. The outcome of the Committee's self-evaluation was considered formally at the October 2020 meeting and based on the feedback received as part of the review the Committee concluded that its performance continued to be effective.

Additional information

The Chair informs on matters dealt with at each Committee meeting at the subsequent Board meeting. The Committee has during the year had unrestricted access to management, external advisors and training. The Committee is satisfied it has received appropriate, timely and reliable information in order to discharge its responsibilities effectively.

BOARD REMUNERATION COMMITTEE

The Board Remuneration Committee makes recommendations on the remuneration and other terms of employment for executive members of the Board of directors of the Bank, taking into account relevant policy, regulatory, legal and market terms. The Committee also recommends to the Board the remuneration for certain other senior management and control functions, in addition to reviewing and recommending proposals on the variable remuneration awards at Handelsbanken Wealth to the Board and shareholder, ensuring that remuneration reflects the Handelsbanken Group's culture and risk tolerance. Remuneration of non-executive directors are determined by the shareholder, in consultation with the chairman.

The Committee comprises three members of the Board, with the majority of the members being independent non-executive directors. Appointment of the Committee Chair, as well as of the members of the Committee, are made by the Board, on the recommendation of the Nomination Committee. The appointment is for a period of three years, which can be extended for a further three years provided the director still meets the criteria for membership of the Committee, and is subject to annual re-appointment at the AGM.

In addition to the members the Chief HR Officer attends all meetings and other directors of the Board are invited to join meetings as appropriate.

Details of meeting attendance can be found in the Corporate governance report on page 16, and individual members in the Wates principle 2 section on pages 19-20.

Full details of the Committee's Terms of Reference can be found on the Bank's website.

Activities and considerations during the year:

- With increased regulatory and corporate governance focus on the alignment between company performance and remuneration, the Committee reviewed and challenged the Bank's method to achieve this and how success or failure against delivering on the respective supervisory priorities will feed into the senior manager remuneration awards
- The Committee considered the approach to any pay increases during 2020 and as part of that looked at the remuneration paid, or due to be paid, whilst preserving adequate capital in order to support customers and absorb loan losses in the context of COVID-19
- As a result of a Handelsbanken Group decision to transfer the responsibility for the profit-sharing scheme Oktogonen to the home markets, various alternatives were considered by the Committee during the year, supported by an external remuneration consultant. The unique nature of the existing scheme was discussed including the way in which the Bank can maintain these features and preserve its culture and values using another option. A UK approved HMRC Share Incentive Plan (SIP), was identified as the most suitable alternative, with the Committee overseeing the transition during the remainder of 2020 and into 2021. More information about the changes can be found in the Directors report on page 41.
- The Committee has undertaken an annual evaluation of the remuneration system which it found to be aligned with the Handelsbanken Group and fit for purpose, with no evidence of it driving poor behaviours. The remuneration system was also found to be correctly implemented and in line with the Remuneration policy and therefore capable of supporting the Bank's corporate goals
- During the year the Committee has overseen updates to the Remuneration policy and recommended the updates for Board approval. The Committee has also been informed by a review of the Remuneration policy completed by the Compliance function that the policy was being adhered to and met regulatory requirements
- In line with its Terms of Reference the Committee has reviewed and challenged relevant remuneration disclosures including the report required under Capital Reporting Regulation Article 450 and the High Earner Disclosure under Article 75 (3) of Directive 2013/36/EU relating to the oversight of remuneration policies

Governance

The Committee reviews its Terms of Reference annually, proposing any updates considered necessary. In addition the Committee performs an annual self-evaluation of its performance based on a survey submitted to all members and relevant standing attendees taking part in meetings. The outcome of the Committee's self-evaluation was considered formally at the October 2020 meeting and based on the feedback received as part of the review the Committee concluded that its performance continued to be effective.

Additional information

The Chair informs on matters dealt with at each Committee meeting at the subsequent Board meeting. The Committee has during the year had unrestricted access to management, the external advisors Mercer and training. The Committee is satisfied it has received appropriate, timely and reliable information in order to discharge its responsibilities effectively.

Mercer act as advisors to the Remuneration Committee and in the year presented on a variety of matters including, but not limited to, reporting disclosures and treatment of variable remuneration. Mercer also undertook benchmarking reviews, provided analysis of benefits and/or incentives, in addition to helping with the new Oktogonen Scheme options and the transition to a UK approved HMRC Share Incentive Plan.

BOARD RISK AND COMPLIANCE COMMITTEE

The Board Risk and Compliance Committee maintains oversight of all key risk categories relevant to the business of the Bank. In doing so it assists the Board of directors of the Bank in fulfilling their risk oversight responsibilities. This Committee also monitors risk control and risk management in the Bank, and oversees the Bank's processes for monitoring compliance with laws and regulations. It also provides oversight, review and challenge of the suitability of the Bank's Risk Management Framework and considers reports from, and oversees the work of, the Chief Risk Officer, the Chief Credit Officer and the Chief Compliance Officer.

The Committee comprises three members, with the majority of the members being independent non-executive directors. Appointment of the Committee Chair, as well as of the members of the Committee, are made by the Board, on the recommendation of the Nomination Committee. The appointment is for a period of three years, which can be extended for a further three years provided the director still meets the criteria for membership of the Committee, and is subject to annual re-appointment at the AGM. According to its Terms of Reference the Chair of the Board Audit Committee shall be a member of the Committee.

In addition to the members the Chief Risk Officer, Deputy Chief Risk Officer, Chief Compliance Office, Chief Credit Officer and Chief Audit Officer attend all meetings and other directors of the Board are invited to join meetings as appropriate. The Committee welcomed the appointment of Matthew Handley as the new Chief Risk Officer on 1 June 2020, and the appointment of Matias Eklöf as the new Deputy Chief Risk Officer on 1 August 2020.

Details of meeting attendance can be found in the Corporate governance report on page 16, and individual members in the Wates principle 2 section on pages 19-20.

Full details of the Committee's Terms of Reference can be found on the Bank's website.

Activities and considerations during the year:

- During 2020 the Committee oversaw the annual review of the Bank's risk tolerance statements and the risk assessment that underpins the Bank's ICAAP and ILAAP for 2020. The alignment of the timing of the ICAAP and ILAAP with the Group submission, meant that the process was brought forward to the first quarter, however the impact of COVID-19 was considered relative to the worst downside scenario. The Stress Test results demonstrated that the Bank could withstand stress with only minor reliance on capital buffers. The Committee also reviewed and recommended for Board approval the Liquidity Contingency Plan (LCP), the ILAAP and the Recovery and Resolution Plan
- The Committee provided oversight and advice to the Board in relation to current and potential future risk exposures of the Bank, including reviewing management's approach for mitigation of these risks. The Committee has focused on ensuring that there

is appropriate attention and action being taken where the Bank is outside the Board's risk tolerance, including escalation to the Board where required. Discussions have focused around the operational risks, including data quality, information security, operational resilience and the Bank's approach to regulatory risk and delivery of change

- The Committee reviewed the determination and monitoring of the risk tolerances and challenged the suitability of scenarios used for stress testing, in light of the changing macroeconomic environment and its impact on the Bank's wider risk profile and tolerance. The risk profile against risk tolerances was monitored by the Committee throughout 2020 and to facilitate the review of ICAAP and ILAAP, dedicated briefing sessions were held with the Committee at relevant points throughout the year to enable members to question and challenge the prudential capital and liquidity analysis work
- The Committee has continued to focus its oversight of risk management and support to the Board by assessing key current and emerging risks and their mitigation, and by leading the embedding of the risk culture. During the period, the Committee also gave consideration to the Bank's approach to the risks associated with climate change
- The Committee approved the 2020 Compliance Monitoring plan and received reports and updates from the compliance function on various issues including, but not limited to, regulatory developments, routine and non-routine interactions with the Bank's regulators and any significant instances of non-compliance with regulatory or internal compliance requirements
- There has been continual focus on the oversight of the Bank's financial crime controls, including sanctions monitoring and fraud, with the Committee reviewing and recommending relevant policies related to this for approval to the Board

Governance
The Committee reviews its Terms of Reference annually, making any updates considered necessary. In addition the Committee performs an annual self-evaluation of its performance based on a survey submitted to all members and relevant standing attendees taking part in meetings. The Committee's performance was considered and deemed to be effective in July 2020, with a new self-evaluation currently in progress.

Additional information
The Chair informs on matters dealt with at each Committee meeting at the subsequent Board meeting. The Committee has during the year had unrestricted access to management, external advisors and training. The Committee is satisfied it has received appropriate, timely and reliable information in order to discharge its responsibilities effectively.

BOARD AUDIT COMMITTEE

The Board Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the internal system of financial controls and the internal and external audit process. The Committee is also responsible for overseeing the Bank's arrangements for whistleblowing. The Committee comprises two members of the Board, both members being independent non-executive directors. Appointment of the Committee Chair, as well as of the members of the Committee, are made by the Board, on the recommendation of the Nomination Committee. The appointment is for a period of three years, which can be extended for a further three years provided the director still meets the criteria for membership of the Committee, and is subject to annual re-appointment at the AGM. According to its Terms of Reference the Committee shall include at least one member of the Board Risk and Compliance Committee.

In addition to the members, the Chief Audit Officer, Chief Risk Officer, Chief Credit Officer, Chief Accountant and the External auditor attend all meetings and other directors of the Board are invited to join meetings as appropriate. The members also have closed sessions with the Chief Audit Officer and the External Auditor.

Details of meeting attendance can be found in the Corporate governance report on page 16, and individual members in the Wates principle 2 section on pages 19-20.

Full details of the Committee's Terms of Reference can be found on the Bank's website.

Activities and considerations during the year:

- During 2020 the Committee has considered a number of issues related to the Bank's financial reporting, including the macroeconomic scenarios and the key judgements and assumptions used by the Bank in the model-based calculation of expected credit losses (IFRS 9). As part of reviewing this area, the Committee has also evaluated the impact of Brexit as well as COVID-19 on provisions and actively challenged the related management overlays incorporated in the total provision amount as at 31 December 2020. To support its review of the financial statements, external subject-matter experts have been invited to Committee meetings during the year to discuss areas such as IFRS 9, corporate governance and the IT control environment.
- The Committee is striving to continually improve governance and annual reporting. Last year the Committee's work resulted in the Bank adopting the Wates Principles, which is the minimum reporting threshold expected for a large non-listed private company, to assist in delivering and ensuring high standards of governance. Whilst the Bank is not obliged to comply with the UK Corporate Governance Code, the Committee has during the current financial year continued to actively encourage governance and reporting that goes above and beyond the minimum requirements. This has resulted in improved and more outcome focused disclosures as well as bringing to the forefront the Board process and the work of its committees in the 2020 annual report. In line with recommendations from an external Board effectiveness review finalised during 2020, the Committee has also decided to appoint a third independent member.
- The Committee has monitored the work according to a plan of both internal and external audit, with specific focus on changes to working arrangements and risk assessments as a result of COVID-19. The Committee has sought assurance that work according to revised plans can continue, resources are sufficient and that remote working arrangements are appropriate and enable the Committee to form an opinion about the financial statements being fair, balanced and understandable at the end of the financial year.
- During the year the Committee has pursued outstanding internal audit findings with senior management which has resulted in improved reporting to the Committee, clearly setting out the progress of internal audit recommendations for high risk audit findings.
- In line with good industry practice the Committee decided that in addition to the Bank's Tax strategy, a Tax policy be established setting out the approach of the Bank and its UK subsidiaries to conducting its tax affairs and dealing with tax risks. As part of its ongoing oversight of policies, the Committee recommended and approved updates to the policies covering credit provisions, whistleblowing, financial accounting and external audit.

Internal audit
The Internal Audit department operates as the third line of defence in the Bank providing independent assurance to the Board. It reports directly to the Chair of the Board Audit Committee and has an

unrestricted scope based on an impartial assessment of the risks in the business operation and how effectively these are being managed. The work of Internal Audit is focused on the Bank's most material risks as determined by a formal risk assessment process. The outcome of the risk assessment is summarised in an internal audit plan that is approved by the Committee annually. The Committee monitors progress against the audit plan during the year and approves any updates or changes. The appointment and removal of the Chief Audit Officer is the responsibility of the Committee.

The Internal Audit department's scope, areas of responsibility and authority are defined in the Internal Audit Charter. The Charter is adapted from the Handelsbanken Group policy for Group Audit operations and is approved by the Committee annually.

During 2020 Internal Audit carried out a substantial number of audits in line with an audit plan that was revised in early 2020 due to the new risks faced by the Bank as a result of COVID-19. Thematic audits concentrated on the credit process, credit provisions, and customer on boarding. Other audits during the year centred on the risk and control environment across the organisation including financial crime, information security, changes to the credit process as a result of COVID-19 and the Bank's participation in CBILS, plus an audit of the payments process.

Audit reports in the Bank are risk assessed and given an audit rating according to a 5 graded scale (of which 5 indicates severe weaknesses in internal control). The Chief Audit Officer reports regularly on the outcome of the audits undertaken and the status of outstanding audit findings, with the Committee receiving a copy of the audit reports with the most severe risk grading (audit rating 4 and 5).

The effectiveness of the Internal Audit department is reviewed and monitored by the Committee annually using feedback from the Board, Senior Managers and other relevant stakeholders. The Committee also ensures that Internal Audit is sufficiently resourced and has full, free and unrestricted access to all departments, functions, records, property and personnel within the Bank and its subsidiaries enabling the department to fulfil its responsibilities. At the Committee meeting in December the Committee concluded that the Internal Audit department had continued to be effective during the financial year ending 31 December 2020.

External audit

The external auditor used by the Bank is the same firm that is used by its Parent Svenska Handelsbanken AB (publ.). The Committee appoints the external auditor in liaison with the appointment of the Group auditors and oversees the relationship with the external auditor during the year. The Committee considers the external auditor's engagement including remuneration, effectiveness, objectivity and independence. The Committee also agrees the external audit plan and the levels of materiality proposed by the external auditor.

The external auditor attends all Committee meetings and meets regularly with the Committee members without executive management present. During the year, the Committee received regular detailed reports from the external auditor including formal written reports detailing the audit objectives, the auditors' qualifications, resources and expertise, the effectiveness of the audit process, procedures and policies for maintaining independence and compliance with the ethical standards issued by the Auditing Practices Board and the FRC.

External audit independence and objectivity

The effectiveness of the external audit process is contingent on maintaining an independent and objective relationship with the external auditor. The Committee is responsible for monitoring and annually assessing these aspects of the external auditor relationship taking into account relevant UK law, regulation, other professional requirements, ethical standards and the guidance on rotation of audit partner and staff.

Ernst & Young LLP ('EY LLP') was appointed as auditor of the Bank in 2018. The rotation of the external auditor is intended to take place at regular intervals in line with the Bank's External audit policy and is recommended by the Committee for Board approval. As the appointment of external auditors in the Bank will form part of the selection of external auditors for the Handelsbanken Group, it is completed in conjunction with the Group Board Audit Committee.

The Committee concluded that the external auditor had continued to be effective at the Committee meeting in June 2020.

Non-audit services

A policy is established for managing the use of the external auditor for non-audit services detailing a list of prohibited and permitted non-audit services. Where there is a reasonable alternative, engaging with the elected external auditors of the Group and the Bank for services other than external audit is to be avoided. Where appropriate, due to for example specific skill set, there is a formal process for approval of any non-audit services provided by the elected external auditor prior to engagement, ensuring the Committee monitors the provision of non-audit services by the external auditor throughout the year. Below the value of £25,000 the Chief Audit Officer can approve the engagement. Any non-audit services with a value above £25,000 up to £50,000 is approved by the Chair of the Committee or a delegate. If the value of the service requested is above £50,000 approval by the Committee has to be sought. During 2020 there were two non-audit services performed by EY LLP, a CASS (Client Asset Assurance Standard) audit and the interim profit verification. Each of these services are permitted and approved by the FRC Ethical Standards, and EY LLP confirmed their independence and ability to perform the work. The fees for all audit services paid to EY LLP during the financial year are set out in note 6.

Whistleblowing

The Committee reviews the adequacy and security of the Bank's arrangements for anyone with a serious concern, including its customers, employees and contractors to raise concerns, in confidence, about possible wrongdoing, ensuring the arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. A representative from the Compliance function attends all Committee meetings and presents the status of outstanding whistleblowing reports for the period to the Committee. Due to the confidential nature of the reports the members of the Committee also meet separately with the Compliance function to go through whistleblowing data. In respect of the financial year ending 31 December 2020 the Committee has deemed the arrangements in relation to whistleblowing working satisfactorily.

Governance

The Committee reviews its Terms of Reference annually, making any updates considered necessary. In addition the Committee performs an annual self-evaluation of its performance based on a survey submitted to all members and relevant standing attendees taking part in meetings. The outcome of the Committee's self-evaluation was considered formally at the January 2021 meeting and based on the feedback received as part of the review the Committee concluded that its performance continued to be effective.

Fair, balanced and understandable

The Committee concluded that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provided the information necessary for stakeholders to assess the Bank's performance, business model and strategy. In its review of the financial statements the Committee focused on significant matters and judgements which were challenged and discussed with the business as well as the external auditor.

Additional information
The Chair informs on matters dealt with at each Committee meeting at the subsequent Board meeting. The Committee has during the year had unrestricted access to management, external advisors and training. The Committee is satisfied it has received appropriate, timely and reliable information in order to discharge its responsibilities effectively.

IT STRATEGY COMMITTEE

With consideration to be given to the definition and implementation of an overarching IT Strategy for the UK, the Board requested establishment of a Board IT Strategy Committee during the year to consider matters in this area. The Committee does not have any decision-making authority, with its remit limited to strategic review and oversight, whilst providing guidance and support. The Board IT Strategy Committee helped in the formulation, and has oversight, of the Board approved UK IT Strategy. The Committee comprises of three non-executive directors, one of which is independent. Appointment of the Committee Chair, as well as of the members of the Committee, are made by the Board. The appointment is for a period of three years, which can be extended for a further three years provided the director still meets the criteria for membership of the Committee, and is subject to annual re-appointment at the AGM.

In addition to the members the Chief Information Officer attends all meetings and other directors of the Board are invited to join meetings as appropriate. The Group Chief Information Officer is also a regular attendee, which provides a beneficial connection and a regular forum at which Handelsbanken Group dependencies and service levels can be discussed and challenged.

Details of meeting attendance can be found in the Corporate governance report on page 16, and individual members in the Wates principle 2 section on pages 19-20.

Full details of the Committees Terms of Reference can be found on the Bank's website.

Activities and considerations during the year:

- The Committee has held three meetings since its establishment with the primary focus being providing input to, and the oversight of, the formulation of the Bank's IT Strategy and the tender process for suppliers to assist with the core banking solution. The IT Strategy helps to maintain pace with evolving demands in financial services and a more digitalised society.
- In considering the IT strategy, alignment with the Group-wide IT principles, information security and data management obligations, the Committee has endeavoured to ensure synergies cross the Group are utilised and an integrated approach is adopted where appropriate. The Committee received presentations from other 'home markets', forming part of the Group, to assist with this process. The relationship between the business strategy and the IT strategy have also been considered.
- In response to the CMA survey, the Committee has also reviewed the core banking solution from a customer point of view and ways of improving the customer experience within a standardised, simplified and integrated IT environment, whilst retaining robust security.

Additional information
The Chair informs on matters dealt with at each Committee meeting at the subsequent Board meeting. The Committee has during the year had unrestricted access to management, external advisors and training. The Committee is satisfied it has received appropriate, timely and reliable information in order to discharge its responsibilities effectively.

Directors' duty to promote the success of the company

Following a comprehensive review of the UK Corporate Governance Code, new reporting requirements have been introduced via the Miscellaneous Reporting Regulations, under Section 172 of the Companies Act 2006.

The requirements are applicable to companies with year ends commencing on or after 1 January 2019.

Section 172 requires company directors to act in a way that he/she considers, in good faith, would most likely promote the success of the company for the benefit of its members, and in doing so have regard (amongst others) to:

- the likely consequences of any decisions in the long term
- the interests of the bank's employees
- the need to foster the bank's business relationships with suppliers, customers and others
- the impact of the bank's operations on the community and the environment
- the desirability of the bank maintaining a reputation for high standards of business conduct
- the need to act fairly as between members of the bank

The Bank's business model revolves around empowering employees to make the right decisions with a focus on the long-term, wherever they are employed within the Bank. This has the benefit of not only improving the quality of the service to the customer, but also ensuring that the employees can see that their individual efforts are making a contribution to the performance of the Bank.

The directors believe in building long-term relationships with customers, employees, and also with the communities and markets where the Bank is active. The Bank always wants to be close to the communities that we call home, so we believe in a decentralised business model where the local branch is the hub of the customer relationship, based on personal meetings combined with digital services and solutions.

One indicator that high standards of business conduct and reputation are being kept is in the results of both the annual EPSI Rating assessment and the CMA independent service quality survey. Both of which focus on the customers' view of their Bank, and their willingness to recommend the Bank to others. The Bank's performance in both of these surveys indicates that the Bank is maintaining high standards, setting it up for a long lasting relationship with its customers, close to where the customers are.

The Bank also values its suppliers and supply chain network. Throughout the year, work has been undertaken to improve internal controls regarding how the Bank identifies, on-boards and manages supplier relationships. The Bank's due diligence process has been enhanced and monitors our suppliers' activity and compliance with relevant legislation. The Bank also aims to adhere to the payment terms of all suppliers.

For further information on stakeholder engagement, please see the stakeholder engagement section on pages 27 to 32.

Approved by the Board of Directors and signed on behalf of the Board

Mikael Sørensen
CEO

17 March 2021

Directors' report

The directors present their report and the financial statements for the Bank for the year ended 31 December 2020. The strategic report and corporate governance report, together with this section fulfils section 414C of the Companies Act 2006 by including, by cross reference, details of the Bank's position on the Business Model and Strategy, Financial Risk Management Objectives and Policies, Business Overview, Future Prospects and Corporate Social Responsibility activities during 2020.

PROPOSED DIVIDEND

The directors do not recommend the payment of a dividend for the period (2019: nil).

DIRECTORS

The directors of the company who held office during the period, and up to the date of signing the financial statements were:

Mikael Hallåker
John Ellacott
Maureen Laurie
Tanya Castell MBE
Agneta Lilja
Martin Björnberg
Mikael Sørensen

DIRECTORS' THIRD PARTY INDEMNITY INSURANCE

A third party indemnity provision was in place for directors throughout the period and at the date of the approval of the financial statements via Svenska Handelsbanken AB (publ.) indemnity insurance.

POLITICAL AND CHARITABLE DONATIONS

There were no political donations made or political expenditure incurred in the financial year (2019: nil).

During the year, the Bank made £56,645 (2019: £32,553) donations to charitable organisations.

BRANCHES

The Bank operates via a network of around 200 branches in the UK, with no branches outside the UK.

OUR EMPLOYEES

Handelsbanken plc takes a long-term approach to relationships with its employees. It sees each recruitment as a significant and long-term investment in the success of the Bank. Employees with broad knowledge and experience make a vital contribution to the Bank supporting the corporate goal through achieving the highest levels of customer satisfaction. To retain employees, the right conditions must exist for personal and career development, while each individual's work-life balance must be respected. The Bank provides on-the-job training, structured learning through centres of excellence on a wide range of subjects, and corporate culture development by supporting employees understanding of the Bank's model and values.

People with disabilities

Opportunities are provided to all for training, career development and succession, regardless of mental or physical health or disability, with adjustments being accommodated as appropriate. The Bank embraces its duty, where a provision, criterion or practice places a disabled person at a substantial disadvantage in comparison with someone who is not disabled, to make reasonable adjustments to avoid the disadvantage.

Some examples of reasonable adjustments are:

- altering the lighting for someone with restricted vision
- allowing a person with a disability to work flexible hours to enable additional breaks to overcome fatigue, which may arise because of the disability
- adaptation of the working environment, for example seating, desk height, ramps and lifts as well as stairs, or providing a reserved parking facility
- providing extra support for someone whose disability leads to uncertainty or a lack of confidence
- allowing a person with a disability time off for regular medical check-ups and treatment related to their condition

Over the last year the Bank has taken a number of steps to support the well-being of our employees through COVID-19 including the following:

- A range of workshops relating to wellbeing topics for employees included managing sensitive conversations, mental health and stress awareness in the workplace, stress management for leaders and positive coping
- The introduction of a Virtual GP service and further support and training for our mental health first aiders
- Published a series of guides for employees e.g. Managing Sleep, Nutrition & Exercise

Employee communication and engagement
High quality and engaging communication between employees in all areas of the Bank is an important tool in achieving our corporate goal, and in continually teaching and embedding the Bank's corporate culture.

Every year all employees have the opportunity to participate in a survey which is designed and facilitated by the UK Banking Standards Board for its members. The survey focuses on nine key characteristics such as respect, accountability, competence, responsiveness, and shared purpose. It helps gather evidence that member firms across the UK can use to develop and maintain the right organisational culture for their employees and customers. Following the distribution of the results, materials are subsequently provided to promote open discussion and feedback regarding areas for improvement. The Board is briefed on the results of the survey and the action plan to address the findings.

The Bank also operates a UK Works Council (UKWC). The aim of the UKWC is to complement the culture of openness and give our employees a strong voice. The CEO and the Chief HR Officer attend these meetings and where necessary provide feedback regarding any important concerns, issues, ideas and views to the Board. In 2020 the Chair of the UKWC attended one Board meeting, with the view of attendance becoming more regular in 2021, and a Board member also presented to the UKWC. On matters that they are consulted upon, the views of the UKWC are taken into account by the Board and senior management.

One member of the UKWC also represents the Bank on Handelsbanken Group's European Works Council (EWC). The aim of the EWC is to ensure that employees in Europe are given relevant and regular information and opportunities to have a dialogue and consultation with Svenska Handelsbanken in relevant cross-border matters.

All employees have access to the Bank's intranet, where regular updates and articles are provided about developments that may have an impact on the roles and day-to-day tasks of employees, and on the Bank as a whole. This includes minutes of both the UKWC and EWC meetings, which are published as soon as possible after each meeting.

The Bank also communicates its quarterly results to employees via the intranet and/or through face-to-face presentations from senior managers and executive directors, including the CEO and Chief Financial Officer. Internal news articles from the Group CEO and Group Chief Financial Officer provide wider information on Group performance. Regular economic updates are disseminated through the business providing analysis of the economic environment within which it operates.

The Bank has continued to focus on internal communications to ensure that all employees are fully aware of upcoming events and changes, and its ongoing strategic objectives. Before COVID-19, the CEO held a number of brunches/lunches with a range of employees from around the Bank and continued with these digitally during the lockdown period.

In January 2021, the Bank began engagement with employees regarding a programme of reorganisation to be implemented during 2021, refer to the Strategic report on page 5 for details, a programme which will result in a substantial number of role changes, as well as some redundancies. An overview of the reorganisation and reasons behind it was initially presented by the CEO on the intranet, with managers of all departments, whether directly affected or not, following up this presentation with team briefings the same morning. Colleagues were encouraged to share any feedback on the proposed plans, so that they could be discussed and escalated to the team overseeing the reorganisation, in order to inform and adjust the Bank's approach if necessary. For example, the suggestion to make current UK role vacancies more easily accessible to employees potentially displaced by the reorganisation programme was quickly actioned by the Human Resources and Communications teams. As consultations within affected parts of the organisation continue, the Bank remains sensitive to the anxiety caused by such uncertainty and upheaval, and has recently launched a new series of masterclasses, in partnership with its private healthcare provider, to help employees manage any stress or mental health issues they may be facing. The CEO and Chief Human Resources Officer are regularly engaging and consulting with the UK Works Council throughout the process.

To ensure employees are kept abreast of regulatory and economic changes, they are required to undertake a programme of continuing professional development throughout the year to develop and maintain their standards of competency and skills. This in turn helps to promote customers receiving the best standards of service and care. At Handelsbanken plc, we have always focused on running the Bank in a prudent, risk-averse manner and view the values of personal responsibility, empowerment and accountability as fundamental to our way of doing business. That is why the Bank is fully committed to the principles of the Senior Managers and Certification Regime ('SMCR') which was introduced to increase individual accountability within the banking sector. An annual reassessment of fitness and propriety is conducted for those employees whose roles fall within the scope of SMCR.

The Bank's Training & Competence Scheme ('TC Scheme') was developed to be consistent with the regulatory requirements, applicable to the Bank and applies to all employees, including all individuals in scope of SMCR. When an employee joins the Bank, they receive induction training which is personalised to their specific role. The TC Scheme provides a framework to deliver training and development that is consistent and effective in developing the capability, competence and culture of the Bank's employees. Including the requirements for SMCR, Conduct Rules, MIFID II, CPD and wider training and development, as appropriate, ensures all employees maintain the skills, knowledge and expertise necessary for discharge of the responsibilities allocated to them.

Equal opportunities
The Bank is committed to providing equal opportunities in employment for all employees and does not discriminate against job applicants or employees of the Bank on the grounds of their sex, gender reassignment, marital or civil partner status, pregnancy or maternity, sexual orientation, disability, age, race, religion or belief (protected characteristics).

The Bank's aims in this regard are:

- to create an environment in which individual differences and the contribution of everyone is recognised and valued
- to provide a working environment that promotes dignity and respect for all
- not to tolerate any form of intimidation, bullying or harassment
- to provide training, development and progression opportunities to all
- to promote equality in the workplace as good management practice that makes sound business sense
- not to discriminate unlawfully against customers, suppliers or others using or seeking to use the Bank's services

Promotion within the Bank is made without regard to whether someone has a protected characteristic, and is based on merit.

Additionally the Bank is continuously working to promote gender equality and diversity, and was one of the initial signatories of the Women in Finance charter, a pledge for gender balance across the UK financial services industry. Work in this area is focused on ensuring diversity in recruitment, succession planning and leadership development programmes. To provide further insight and support in this important area, a diversity and inclusion forum has been established.

Our commitment further extends to eliminating any gender pay gaps and we undertake Gender Pay Reporting in line with The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017.

Changes to Oktogonen - our equal profit share scheme
The Bank's long-term approach extends as much to its employees as it does to its customers and other stakeholders. For employees, it is in part facilitated by the Bank's employee profit-sharing scheme, Oktogonen. Instead of short-term bonuses, Oktogonen creates a long-term reward for all employees of the Bank, regardless of their position. Until now, upon the Bank reaching its corporate goal of having better profitability than the average of peer competitors in our home markets, an equal monetary allocation of the profit can be made on behalf of employees. The highest possible annual allocation to Oktogonen for the Handelsbanken Group stays at SEK 850m, this is equivalent to approximately £5,500 per employee; hitherto these allocations have been made to the Oktogonen Foundation based in Sweden.

The funds have been managed collectively by the Foundation, investing predominantly in Svenska Handelsbanken shares, with an employee's accumulated allocations, and any commensurate growth in value, distributed to them close to retirement age.

Over the years, the challenge of administering Oktogonen in different jurisdictions has grown. The scheme's unique composition has found it exposed to complex regulatory and taxation treatment, including in the UK. As a result, Svenska Handelsbanken has chosen to decentralise the Oktogonen scheme so that the disbursement of these allocations will be designed and managed locally. Svenska Handelsbanken has reclassified Oktogonen as variable pay and the UK has also adopted this approach. However, where a disbursement is made to the UK for a successful year, all eligible employees of Handelsbanken plc will receive the same allocation.

In the UK, the disbursement model we plan to implement in 2021, in respect of the 2020 payment, will see the majority of an employee's allocation diverted to an all employee UK approved HMRC Share Incentive Plan (SIP), itself invested in Handelsbanken shares. In this way, we will continue to align this employee reward with both the current and future performance of the Bank, whilst continuing to promote employee ownership and a long term perspective.

It is our belief that, unlike short-term bonus systems, the introduction of a SIP will continue to encourage share ownership, in keeping with the fundamental premise that we all contribute to the Bank's success and therefore we all share in the benefits. This approach cements how important we view long termism in all aspects of the Bank. Profit sharing allocations are decided by the Board of Svenska Handelsbanken AB (publ.) based on the attainment of our corporate goal, and following an overall assessment of Handelsbanken Group's performance. In addition, Handelsbanken plc's Board approves the final allocation for eligible UK employees, taking into account UK relevant circumstances and conditions.

STAKEHOLDER RELATIONSHIPS

To see how the Bank engages with its stakeholders and the impact of this engagement, please see the Stakeholder engagement report starting on page 27 and the Bank's Section 172 statement, on page 38.

RESEARCH AND DEVELOPMENT

The Bank undertakes research and development on projects that will improve its technological and operational infrastructure, and create efficiencies. The aim is to improve the service provided to its customers, to increase operational efficiency, and to improve compliance with regulatory and economic requirements. Examples of these are the investments in ongoing anti-money laundering and financial crime prevention projects, alongside a focus on process automation, through the introduction of robotics. This is automating and simplifying labour-intensive processes, particularly those that are non-value adding administrative tasks. This means we can free up time for our branch colleagues to spend serving their customers.

The costs of development are capitalised when they have economic value that will extend into the future, and when the relevant accounting requirements are met.

FINANCIAL INSTRUMENTS

For the financial risk management objectives of the Bank, including an assessment of the exposure to credit risk, liquidity risk and cash flow, please see note 2 and the Risk and capital management report starting on page 44.

SECURITIES AND SHARES

The Bank has no listed securities. There were no shares:

- purchased or acquired by the Bank under Section 659 of the Companies Act 2006
- acquired by the Bank's nominee, or by another with company financial assistance, the company having a beneficial interest under Section 662(1) of the Companies Act 2006
- made subject to a lien or other charge taken (whether expressly or otherwise) by the company and permitted by Section 670(2) or (4) of the Companies Act 2006 (exceptions from general rule against a company having a lien or charge on its own shares)
- acquired as prescribed by Article 22(2), Directive 77/91/EEC

REGULATION

The Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. Its Financial Services Register number is 806852. The Bank is incorporated in England and Wales with company number 11305395.

DISCLOSURE OF INFORMATION TO THE AUDITOR

Having made enquiries of fellow directors and of the auditor, each of these directors confirm that:

- so far as each of the directors is aware, there is no relevant audit information of which the auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

EVENTS AFTER THE BALANCE SHEET DATE

For information on the Bank's response to COVID-19, please see the Our response to COVID-19 section on pages 13-14 of the Strategic report.

At the beginning of 2021, it was announced that the Bank would go through an organisational restructure. Other than the information disclosed in the Strategic report on Page 5 and Subsequent events note 31, there is nothing further to report on.

GOING CONCERN

The Directors confirm that they are satisfied that Handelsbanken plc has adequate resources to continue in business for at least 12 months from the date of the approval of the financial statements.

On this basis the Directors consider it appropriate to adopt the going concern basis for the preparation of the financial statements. For further information on the Bank's going concern assessment, please see note 1 of the financial statements.

FUTURE DEVELOPMENTS

The Bank continues to see the UK as an attractive growth market, with solid long-term opportunities to deliver relationship banking to an increasing number of customers. As such, the Bank will continue to play an integral role as an engine for growth for the Handelsbanken Group.

The creation of the UK subsidiary in 2018, and the continued bolstering of capabilities and expertise since then, has provided a solid springboard for further development of the Bank.

In 2021, the Bank plans to modernise its organisational structure, as set out in the Strategic report. This will lead to a further decentralisation and empowerment of branches, reducing the number of management layers and will create a more clear division of responsibilities.

Handelsbanken Digital, a new department responsible for the Bank's digital customer offering, will also be created in order to improve the Bank's digital customer offering.

The Bank is thus continuing on its path of building a bank for the future, and this work progresses well in many areas: not least those that drive efficiencies, and those that simplify or automate manual processes that allow for our branch colleagues to spend more time serving customers.

As ever, our growth strategy remains consistent with our model: organic, customer-by-customer, and through word of mouth, recommendation and referral.

OTHER INFORMATION

For an indication of other likely future developments in the business and information regarding significant events since the end of the financial period, please see the Directors report on pages 39-42.

AUDITOR

Ernst & Young LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

Mikael Sørensen
CEO

17 March 2021

Statement of **directors' responsibilities**

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in international accounting standards in conformity with the requirements of the Companies Act 2006 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance; and
- state that the company has complied with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information including the Bank's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislations in other jurisdictions.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL STATEMENTS

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank; and
- the strategic report and directors' report includes a fair review of the development and performance of the business and the position of the Bank and taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Bank's performance, business model and strategy.

This responsibility statement was approved by the Board of directors and is signed on its behalf by:

Kevin Taylor
Company Secretary

17 March 2021

Risk and capital **management**

Handelsbanken plc works on the basis of a well-tested business model which has been unchanged within the Handelsbanken Group for almost 50 years. The Bank has a decentralised way of working and a strong local presence through its nationwide branch network. The Bank attaches great importance on its availability to customers and long-term relationships with those customers, has low tolerance of risk and achieves growth by expanding business organically. The business model focuses on taking a large proportion of credit decisions in the branch operations and works to minimise other risks.

Handelsbanken plc maintains a robust financial position, with a strong capital position, defined by regulatory and internal ratios, by maintaining liquidity reserves and by matching cash flow to safeguard its low liquidity risk. This is also a natural consequence of the Bank's low risk tolerance.

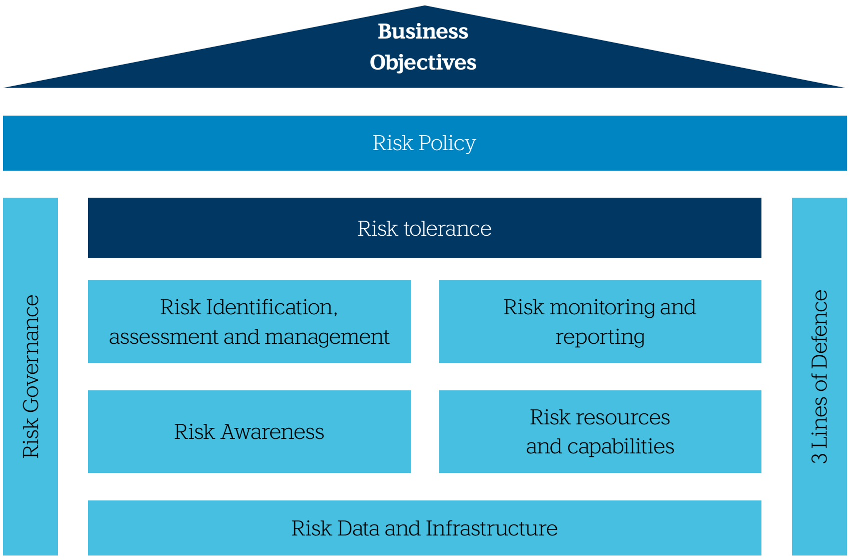
RISK CULTURE

Handelsbanken plc has a strong risk culture. Effective risk management is central to the Bank's approach in maintaining a sustainable bank that is efficient and disciplined. The low tolerance to risks is embedded in the corporate culture, through empowerment, good administrative order and supported by the risk management framework. Every employee in the Bank has a common responsibility to manage risks, through being familiar with risk management policies which are relevant to their responsibilities, know-how to escalate actual or potential risk issues, and have a role-appropriate level of awareness of the risk management process as defined by the Risk Management Framework. The Bank's decentralised organisation, with a local presence, ensures that decision making is managed close to the customer, with the ultimate responsibility residing with the Board.

Handelsbanken plc's core values and operating principles are set out in an internal booklet called 'Our Way'. These core values provide a stable, enduring and long-term perspective for day-to-day decision making. They are integral to every aspect of the Bank's work and are deeply embedded among the Bank's employees, forming the roots of the Bank's distinctive corporate culture. Our Way provides a common reference point, steering how each employee should approach working relationships with customers, colleagues, policymakers, supervisors, business partners, suppliers, industry peers and the broader community. It provides a clear framework of principles for how we manage our bank in a sustainable way, focusing on lifelong customer relationships, mutual trust and respect, strong control of risks and costs, financial stability, and long-term, responsible decision making.

RISK MANAGEMENT FRAMEWORK

Managing risk effectively is fundamental to the Bank's strategy and enabling sustainable growth. The Bank's Risk Management Framework ('RMF'), sets out the approach for the identification and management of risks throughout the business, robust decision making and maintaining balanced outcomes. This is achieved through established risk tolerances and implementing risk management through the three lines of defence model. The RMF is underpinned by processes, policies and standards that are specific to individual risk categories and supported by the Bank's risk management systems and controls.



RISK GOVERNANCE STRUCTURE

The Board of Handelsbanken plc has responsibility for setting UK strategy, corporate objectives and has ultimate responsibility in ensuring risks are managed effectively. The Board or Board committees, monitor the risk management and internal control systems. Annually the Board or Board committees approve risk policies to support the governance of risk management in the Bank.

RISK TOLERANCE

Handelsbanken plc's risk tolerance statements articulate the level and type of risks the Bank is prepared to accept in pursuing its business objectives. These are documented and communicated across the organisation and are refreshed and approved by the Board on an annual basis. The Board aims to ensure that risk tolerances are embedded into risk management processes across the Bank at all levels, and are used to guide Board and management decision making and enforce explicit considerations of risk implications in strategic choices. These risk tolerances are reflected in a range of documents including the board approved policies and guidelines, translated into instructions, which allow implementation of risk policies through the risk management activities which are performed across the organisation as a whole. Roles and responsibilities for the management and control of all risks are clearly defined.

THREE LINES OF DEFENCE

Handelsbanken plc adopts a three line of defence approach to risk management to articulate accountabilities and responsibilities for management of risks, including managing risk across the organisation. The model underpins the Bank's approach to risk management by clarifying responsibility and encouraging collaboration, as well as enabling efficient coordination of risk and control activities. The three lines of defence are summarised below:

- The first line of defence, which comprises all business function lines engaged in the revenue generating and client facing areas of the Bank and all associated support functions, has ownership, responsibility and accountability for identifying and management of risks they generate, including directly assessing, controlling and mitigating risks. This line includes Credit departments, Branches, Finance and Operations
- The second line of defence comprises the Risk Control and Compliance functions. Their role is to provide oversight, review and challenge of the management of risk by the first line and ensure the activities are performed in line with the Board tolerances and policies
- Internal audit is the third line of defence, providing independent and objective assurance to the Board and senior management over the effectiveness and appropriateness of the processes for governance, risk management and internal control

The effectiveness of our RMF relies on the interaction between the three lines, with clear definition, communication and segregation of roles and responsibilities.

RISK IDENTIFICATION

Risk identification is a key process, where business lines, supported by risk control and compliance functions, identify the risks the Bank is exposed to. This entails finding, recognising and describing the risks that can have an impact on the strategic objectives of the Bank.

The key principles for effective risk identification and assessment are:

- Supporting executive management's and the Board's understanding of the risks that could impact the Bank's long-term sustainability via a combination of bottom-up identification led by individual risk owners supplemented by a top-down process, which includes horizon scanning
- Assessing the likelihood and impact of the risks materialising using a systematic approach
- Assessing the robustness of the controls that mitigate the risks

The main objectives of the risk identification and assessment are:

- To support management with day-to-day decision making in the Bank's business, ensuring such decisions are consistent with the strategic objectives and Board risk tolerances
- To support effective capital and liquidity management through the Internal Capital Adequacy Assessment Process, the Internal Liquidity Adequacy Assessment Process and other related processes
- To support the Board's understanding of the risks faced by the Bank

The Chief Risk Officer is responsible for the Bank maintaining a risk register of the key risks within the Bank. This will contain details of the ongoing risk review process, bearing in mind the internal and external environment, as well as other changes in the business or customer perspective. Whilst there is an entity-wide view on risk identification, it is the responsibility of individual risk owners to assess, mitigate and monitor both existing and emerging risks.

RISK MANAGEMENT AND CONTROL

The initial management of risk is determined through risk assessment activities. The risk owner utilises the risk management and control process to identify and evaluate alternatives to determine viable actions, considers each alternative in light of the Bank's priorities and Board risk tolerance levels, and selects and implements the chosen courses of action where required.

The risk management and control process:

- Takes actions to manage and track solutions to material risks by either acceptance or through mitigation
- Understands the effectiveness of controls, or activities undertaken, in response to reducing the impact and probability of a risk occurring

STRESS TESTING

Stress testing is one of the Bank's principal risk management tools, which supports the identification and assessment of potential vulnerabilities in the Bank's portfolio and resilience of the business model to a range of adverse shocks. Stress testing is performed for internal risk analysis, portfolio and business management, capital, liquidity and funding planning. Stress testing is also used to support external reporting to regulators and other external stakeholders.

PRINCIPAL RISK AND UNCERTAINITIES

The principal risks set out below are the key risks relevant to Handelsbanken plc, including those that could result in events or circumstances that might threaten the Bank's business model, future performance, solvency or liquidity and reputation. The Bank's principal and emerging risks are disclosed on pages 46-51 of this report. These risks are broadly categorised and should be read in conjunction with other sections of this annual report, including the forward looking statements section, the Strategic report and the Risk and capital management section. It should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing Handelsbanken plc.

- Strategic Risk
- Credit Risk
- Funding and Liquidity Risk
- Market Risk
- Operational Risks including;
  - Financial Crime Risk
  - Regulatory Compliance
  - Information Technology and Information Security Risk
  - Change Management Risk
  - Third Party Management Risk
  - Climate Change Risk

Strategic Risk
Strategic risk is the risk of failing to take into account a potential change in external circumstances that will disrupt the Bank's objectives and ability to achieve its overall strategy.

The UK has experienced some significant economic challenges since the beginning of 2020. The recession brought on by the coronavirus pandemic has led to the biggest fall in quarterly GDP on record. In Q2 2020 UK GDP fell by 20.4% according to the Office for National Statistics, with declines across all sectors. The latest data available indicates the economy has rebounded on the back of the return of capacity and high levels of policy support (Q3 2020 GDP: 16%; Q4 2020: 1%). However, following the latest lockdown, Britain is facing another sharp downturn and a double-dip recession is a potential reality.

The Bank therefore continues to operate a series of monitoring processes with a range of early warning indicators, including macroeconomic and credit indicators, to provide notice of further deterioration in the macroeconomic environment.

The EU-UK Trade and Cooperation Agreement (TCA), was agreed in principle by the UK government and the European Commission on 24 December 2020 and came into effect on 1 January 2021. The agreement details new terms for the UK's trading relationship with the EU, this includes provisions to support trade in services, including financial and legal services. Whilst the Bank of England has stated that most risks to UK financial stability from Brexit have been mitigated, some market volatility and disruption to financial services could still occur. With effective governance processes in place, the Bank is well placed to support its customers and effectively respond to the second order impacts of Brexit. This includes and is not limited to, the appropriate level of management overlays relating to loan loss provisions as at 31 December 2020.

The Bank operates in a competitive market that is experiencing increasing competition from a range of sources including high street banks and challenger banks, particularly in the offering of traditional bank products and disaggregation of payment services. The heightened competition and current economic climate has resulted in the slower growth of new business and compressed margins. However, the Bank's customers continue to place more deposits with the Bank.

Credit Risk
Credit risk is the risk of losses arising from a borrower or counterparty failing to meet its obligations as they fall due. Handelsbanken plc has a conservative and sustainable approach to credit risk management through the economic cycle, where a weak or uncertain repayment capacity can never be offset by a high margin or by collateral.

By maintaining rigorous credit standards and minimising losses we contribute towards our corporate goals. The credit process is based on a conviction that a decentralised organisation with local presence facilitates high quality in credit decisions and in the ongoing management of the credit portfolio. Handelsbanken plc is a relationship bank where the branches maintain regular contact with the customer, throughout the credit life cycle which gives the branch an in-depth knowledge of each individual customer and a continually updated picture of the customer's financial situation.

Handelsbanken plc is selective in its choice of customers, which means it seeks customers with high creditworthiness. The quality requirement is never neglected in favour of higher credit volumes or to achieve higher returns. The Bank also avoids participating in financing where there are complex customer constellations or complex transactions which are difficult to understand.

When the Bank assesses the credit risk of a specific customer, the assessment must start with the borrower's repayment capacity. According to the Bank's Credit policy, weak repayment capacity can never be accepted on the grounds that good collateral has been offered. Collateral may, however, substantially reduce the Bank's loss if the borrower cannot fulfil his or her obligations. Credits must therefore normally be adequately secured.

The local branch's close contact with its customers also enables the branch to quickly identify any problems and take action. In many cases, this means that the Bank can take action more rapidly than would have been possible with a more centralised management of problem loans. Each branch also has full financial responsibility for granting and managing credits, and therefore addresses problems that arise when a customer has payment difficulties, and also bears any loan losses. If necessary, the local branch obtains support from the Head Office and central departments. The Bank's way of working means that all employees whose work involves transactions linked to credit risk acquire a solid and well-founded approach to this type of risk. This approach forms an important part of the Bank's culture.

In the Bank's decentralised organisation, customer and credit responsibility lies with the branch manager or with the employees appointed by the manager at the local branch. The Bank documentation that forms the basis for credit decisions is always prepared by the branch responsible for the credit, regardless of whether the final decision is to be made at the branch, at the credit department, in the Credit Committee, or by the Board. Credit decision documentation includes general and financial information regarding the borrower and an assessment of their repayment capacity, loans and credit terms, as well as a valuation of collateral.

Ensuring quality and consistency is a key component of decentralised decision making. Within the credit process, an overview of the credit assessment quality is conducted by a higher level examining party. Dependent upon the decision level, this may include credit quality, and rating confirmation, documentation and process adherence.

Credit quality
The quality of the Bank's credit portfolio, which is underpinned by a strong customer base with substantially secured exposure, has meant we were well positioned to face the economic challenges brought about by COVID-19. The portfolio remains strong, with the significant majority of customers assessed to have stronger than normal repayment capacities.

A significant proportion of the Bank's loan portfolio (55%) is provided to Property Management customers, secured on Commercial Real Estate. A further 28% of the portfolio is provided to Private Individuals, the significant majority (26% of total portfolio) secured on properties, mainly private dwellings, securing regulated mortgage contracts. The remaining 17% of our portfolio is to Non-Property Management corporate customers. In total 15% of the Bank's portfolio is unsecured. Of which 11% is provided to Non-Property Management corporate customers.

The composition of our portfolio has been largely unchanged throughout the year. We have followed our principles of managing our lending portfolio on a case-by-case basis, applying a prudent approach to credit decision making, supporting our customers and using our well established credit methodology and conservative appetite for risk to respond to the economic events that have unfolded during 2020.

The Bank's measures to limit its credit risk include the acceptance of collateral from customers. The primary means of reducing credit risk in the Bank is the pledging of immovable property, such as residential properties and other real estate, floating charges on assets, guarantees (including guarantor commitments) and the use of netting agreements. The basic principle applied in property finance is that credits must be covered by collateral in the form of properties. For exposures with properties as collateral, a Loan-to-value (LTV) ratio is calculated by dividing the credit exposure by the market value of the collateral. The Bank follows internal recommendations and external regulations which limit the maximum amount of a loan for which the collateral is property.

The portfolio remains very well secured with modest LTVs. Weighted average LTVs for Property Management customers based on collateral type is 45% for commercial property and 48% for Residential Property exposures.

LTV distribution based on the most up to date, un-indexed professional valuations on charged collateral, by customer classification as at 31 December 2020:

2020 LTV	<50%	50-60%	60-70%	70-75%	75%-80%	80%-90%	90%-100%	>100%
Private Individuals £m	2,180	1,459	1,308	664	357	251	37	66
Private Individuals %	34.4%	23.1%	20.7%	10.5%	5.7%	4.0%	0.6%	1.0%
Property Management £m	7,473	4,294	370	79	28	19	25	23
Property Management %	60.7%	34.9%	3.0%	0.6%	0.2%	0.2%	0.2%	0.2%

2019 LTV	<50%	50-60%	60-70%	70-75%	75%-80%	80%-90%	90%-100%	>100%
Private Individuals £m	2,200	1,518	1,326	638	368	299	42	72
Private Individuals %	34.0%	23.5%	20.5%	9.9%	5.7%	4.6%	0.7%	1.1%
Property Management £m	6,931	4,717	489	74	60	17	23	33
Property Management %	56.1%	38.2%	4.0%	0.6%	0.5%	0.1%	0.2%	0.3%

For further information on the Bank's lending and deposits, refer to the Balance sheet and relevant notes.

Credit risk concentrations

The Bank's branches focus strongly on establishing long-term relationships with customers of sound creditworthiness. If a branch identifies a good customer, it should be able to conduct business with this customer, irrespective of whether the Bank as a whole has major exposure to the business sector that the customer represents. As a consequence, Handelsbanken plc has relatively large concentrations in some individual sectors. However, the Bank monitors the performance and quality of the credit portfolio and calculates concentrations for various business sectors. The Bank also measures and monitors exposures to major individual counterparties.

If the credit portfolio has a concentration in a particular sector or counterparty that can be assumed to increase risk, this concentration is monitored. Concentration risks are identified and assessed when the Bank considers its capital requirements as documented in the ICAAP. This helps to ensure that the Bank has sufficient capital, also taking into account concentration risks. If the concentration risks are judged to be excessive, the Bank has the opportunity and capacity to reduce them.

Credit provisions

The accounting standard IFRS 9 imposes rules for the calculation of provisions for expected credit losses (ECL) on financial assets recognised at amortised cost, as well as on financial guarantees and irrevocable loan commitments.

The calculation of expected credit losses is undertaken at agreement level, whereby the characteristics of the agreement and the assessed credit risk of the counterparty govern the classification and quantification of the provision requirement. Assessment is made at either the collective or individual level, depending on whether the agreement is deemed to be credit-impaired. For information pertaining to the recognition and measurement of expected credit losses and for definitions, please see note 1(i) of these financial statements. The relevant figures can be found in note 9 of these financial statements.

We have recorded an underlying IFRS9 balance sheet provision of £37.2m in the year to 31 December 2020, an increase of £9m when compared with prior year. We have kept this position under close watch throughout the year and updated our view on a quarterly basis. Key indicators of the underlying quality of the lending portfolio are the movement in staging of the provisions over time and the levels of arrears in the portfolios.

Arrears levels have remained at low levels across all customer groups within our portfolio, as government support schemes and payment holiday support has mitigated the immediate impact of increased credit risk.

Model-based provision calculations for credit agreements in Stage 1 and Stage 2
For definitions and additional information on model-based calculations of expected credit losses, see note 1, section (i) Credit Losses.

Handelsbanken Group's central process for model-based calculations of expected credit losses in Stage 1 and Stage 2 incorporates a number of different processes and methods which support the quantification of the provision requirement in Stage 1 and Stage 2. The model-based calculations factor in historical, current and forward-looking data. Historical data forms the basis for the construction of the model and parameters applied, current data comprises the prevailing balances on the reporting date (as included in the calculation requirements) and forward-looking data refers to the macroeconomic scenarios used to calculate future risk parameters and exposures.

The Bank has also used overlays or post-model adjustments to supplement the model based calculations to ensure that the results of the severe economic conditions and uncertainty arising due to COVID-19 and Brexit are reflected in calculating ECL's.

The models use historical risk data, meaning that the accounting of provisions and calculations of capital requirements are based on loss history. The calculations are primarily affected by the risk parameters known as 'probability of default' (PD), 'exposure at default' (EAD) and 'loss given default' (LGD).

There has been increased migrations to stage 2, which reflects a level of increased financial difficulty for some of our customers. A significant proportion of customers who had taken advantage of the COVID-19 payment holidays have already resumed their normal payment patterns and we will continue to closely monitor these customers going forward.

Notwithstanding the quality of the portfolio, including the level of security at low loan to values, the level of prudence we have exercised in measuring ECL's this year, and the recent developments in the rollout of the COVID-19 vaccines, the economic outlook remains challenging. We will continue to monitor and assess the quality of our credit portfolio, and make prudent case by case decisions using our established methodology.

Forbearance
Forbearance occurs when the local branch agrees to grant a concession for a customer experiencing, or about to experience, financial difficulty. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and where the Bank would not have agreed to them if the borrower had been financially healthy.

A key indicator of underlying strength of the credit portfolio is the level of forbearance granted. As of 31 December 2020, forbearance totalled £260.6m (303 customers), an increase from the 31 December 2019 position of £115.7m (124 customers). The increase in forbearance is driven by additional volumes of support arrangements, agreed on a case by case basis based on the specific financial circumstances of each customer. The majority of customers benefitting from these arrangements are expected to return to fully performing status when the temporary support arrangements expire. Payment holidays granted in line with regulation have not been classified as forbearance.

Forbearance allows modification of the terms agreed at the point that the facility was originally drawn, moving them to a basis that would not otherwise be considered in order to support the repayment of the debt. Examples of forbearance include the extension of a repayment period and agreeing respites for payments of interest, capital or fees. The Bank also reassesses whether there has been a significant increase in credit risk, and whether the assets should be classified as impaired or reported as a Stage 3 exposure.

Credit agreements with registered forbearance measures are subject to enhanced monitoring for a period of two years, known as a probation period.

Monitored credits automatically return to normal status following the completion of the probation period if all conditions have been met. The conditions required for the forbearance to be removed are that the payment plan is being followed and there is no default.

In addition to the two year probation period for registered forborne exposures, an additional one year probation period, i.e. a total of three years, is applicable for credits reported as in default when the forbearance was registered.

Handelsbanken plc's approach is based on a commitment to treat customers fairly and to agree forbearance, if, after a full assessment of all financial factors, it is concluded there is a realistic prospect of the customer's financial position stabilising to enable them to repay their facility in full. A request for a concession can either come from a customer or can be identified as appropriate by the branch employees who proactively monitor the financial health of the customer on an ongoing basis.

Customers who have a forbearance concession approved continue to be managed by the local branch where the relationship is already established. This ensures a good understanding of the customer's financial situation and provides a local source of support. Branch employees receive advice from a variety of specialist teams who provide support and guidance throughout the process, from the point of agreeing the concession. Customers are also referred to free debt advice agencies for additional support.

There are a number of situations that in isolation are not considered to be forbearance:

- Facilities that have been subject to a temporary modification for customers that are not considered in financial difficulty
- Late provision of financial information, in the absence of other indicators of financial difficulty, where we do not consider a breach of non-financial covenants has occurred
- Where changes have been made to a borrower's facilities that are considered in line with our commercial risk appetite

COVID-19 response
Customers who requested COVID-19 related support, including payment holidays, but were not in or about to experience financial difficulty and therefore did not exhibit an increase in credit risk, were not considered to have been granted forbearance.

3.5% of total customers (£729.1m), by balance, applied for and were granted a government supported payment holiday. Of the payment holidays which have matured by 31 December 2020, 90% of customers have resumed payment in line with previously contracted terms with only 2% requiring further support or having moved into arrears. Only 8% of customers, across 190 agreements, who received a government concession, still have an active payment holiday in force at 31 December 2020.

We continue to support customers through COVID-19, offering payment holidays where appropriate, although the level of new requests has reduced significantly since the peak during the period March-June 2020. Requests for covenant waivers or payment holidays, that were not covered by a Government supported scheme, where agreed on a case by case basis through the normal credit decision making processes.

Customers have received forbearance where our credit assessments have indicated financial difficulty or where customers were demonstrating signs of financial stress before the COVID-19 crisis. When forbearance is granted, exposures are categorised as Stage 2 and subject to a lifetime ECL assessment.

As at 31st December 2020, there were 121 defaults across the portfolio, totalling £68 million, based on exposure at default. £46 million of this EAD was derived from secured Property Management exposure.

As part of the Bank's response to COVID-19, a high risk population of customers were identified. These were customers that operated in those sectors that were perceived to be most likely to suffer the most significant adverse impact from COVID-19. These sectors included, care homes, hospitality and leisure, hotels, travel and non-food retail.

As at 31st December 2020, our on balance exposure to these sectors totalled £1.008 billion, less than 5% total on balance exposure. £227 million of on balance exposure to those sectors is considered to have weaker than average repayment capacity and subject to enhanced watchlist monitoring.

Funding And Liquidity Risk

Liquidity risk is defined as the risk that Handelsbanken plc will not be able to meet its payment obligations when they fall due or can only do so by bearing unacceptable costs or losses. Funding risk is defined as the risk that Handelsbanken plc does not have stable sources of funding in the medium and long term. It relates to liquidity risk because such risks mean Handelsbanken plc will not be able meet its payment obligations.

Liquidity and funding in the Handelsbanken Group

The Handelsbanken Group has a strong liquidity position. For many years, it has actively worked with liquidity measures and has adopted a conservative approach. Part of this work has involved centralising liquidity management with the purpose of strengthening control of the liquidity risks and of optimising funding in all scenarios.

Handelsbanken Group has a low tolerance of liquidity risks and ensures that liquidity risks are included in internal pricing. Handelsbanken Group's global funding programmes cover the maturities in all currencies that it needs to fund its lending and enables it to issue in all currencies of relevance to it. This minimises liquidity risks at an aggregate level and also in each individual currency.

Liquidity and funding in Handelsbanken plc

Handelsbanken Group Treasury sets the overall funding strategy and approach of the Handelsbanken Group and this sets the principles for the Bank's funding strategy. This covers its sources and types of funding. The strategy is aligned with Handelsbanken Group's business model and implemented by the Bank's Board via the Funding and liquidity risk policy.

Within the Policy, the Bank's Board oversees key decisions for the funding and liquidity strategy. The objective of the policy is to ensure the Bank can continue to operate and meet its obligations as they fall due, even in the event of extensive disruption and stressed market conditions.

This is undertaken by financing illiquid assets with stable funding, and ensuring that incoming and outgoing cash flows are broadly matched. The policy also defines the Bank's liquidity risk tolerance statement. The statement is based on always holding enough liquidity, of sufficient quality, to meet liabilities as they fall due throughout severe, yet plausible, liquidity stress scenarios. Survival time horizons are defined to determine quantitative measures to support the statement and monitor adherence.

The statement also sets quantitative limits to support key regulatory ratios, namely the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) metrics.

The ILAAP document sets out the Bank's approach to liquidity and funding. The ILAAP has been prepared in line with regulation on liquidity and funding risk management defined in the PRA rulebook for Capital Requirement Regulation (CRR) firms and the related guidelines and policy statements.

The purpose of the document is to ensure:

- The Board and senior management is informed about the ongoing identification, assessment and management of liquidity and funding risks
- All material liquidity and funding risks are identified and sufficient management and controls are put in place to effectively manage them
- The overall liquidity of the Bank is adequate under stressed conditions, taking into account a variety of scenarios which cover severe but plausible idiosyncratic and market-wide liquidity stress events
- The Bank has an adequate Liquidity Contingency Plan and a clear understanding of available mitigation actions and sources of funding under stress
- The results of the ILAAP are taken into account as part of business strategy and liquidity planning
- The Bank meets the PRA's Overall Liquidity Adequacy Rule (OLAR)

As of 31 December 2020, the Bank's balance sheet funding includes £19.1 billion (2019: £16.5 billion) of deposits from individual and corporate customers. This is supplemented by £9.2 billion (2019: £9.7 billion) of predominantly long term funding from the Parent. This funding includes £400 million of subordinated Tier 2 debt and £200 million of senior non-preferred debt for MREL (Minimum Requirements for Own Funds and Eligible Liabilities).

The Bank also has a Sterling book of certificates of deposit of £3.0 billion (2019: £3.0 billion) funding short term assets only. The majority of all sources of funding are denominated in Sterling.

Balances in the Bank of England Reserve Account totalled £9.0 billion (2019: £7.0 billion) as of 31 December 2020. The Bank's asset encumbrance is limited to Cash ratio deposits held at the Bank of England only.

Liquidity coverage ratio (LCR)
The Bank reports a LCR, 329% (2019: 338%) as of 31 December 2020, and has maintained a strong level above the minimum regulatory requirement of 100%. The composition of the LCR is shown below:

	2020	2019
Liquidity coverage ratio (LCR)%	329%	338%

	2020 £'000	2019 £'000
High quality liquid assets	9,023,690	6,946,350
Cash outflows	**6,431,789**	**4,966,715**
Deposits from the public and small and medium sized companies	922,406	875,844
Unsecured capital market financing and large corporate deposits	5,117,136	3,730,647
Other cash outflows	392,247	360,224
Cash inflows	**3,685,086**	**2,909,256**
Inflows from fully performing exposures	3,685,086	2,909,256

Market Risk

Market Risk is the risk of adverse financial impact arising from changes in market parameters such as interest rates, foreign exchange rates, asset prices and credit spreads. Handelsbanken plc maintains a simple banking book balance sheet, with simple products and primarily GBP denominated activity and does not engage in proprietary trading and or hold any commodities in either trading or banking book.

Exposure
The fixed income, currencies and commodities department (FICC) of the Bank has adopted an agency model with Svenska Handelsbanken AB (publ.), where all market risk of the trading book is held (including interest rate, FX, credit spread, equity and commodity pricing risks). As such, market risks are only considered for the banking book, which includes the banking activity (lending and borrowing money, holding and issuing securities and gathering deposits) aimed to generate earnings from a cash flow.

Market risk therefore is focused on the banking book and arises as part of meeting customers' lending, investment and risk management needs. Market risk is limited by naturally matching Assets and Liabilities as far as possible, hedging residual positions via Handelsbanken Group intercompany loans/deposits and taking other actions to limit residual risk where appropriate. Market Risk is managed within tight limits by Central Treasury, primarily by an Economic Value of Equity measure that is independently reported by Risk Control.

Outlook
Over the next year the Bank will transition away from LIBOR linked contracts to alternative variable based referenced lending and borrowing, primarily SONIA and Bank of England (BofE) base rate linked. This process is being managed through a 'LIBOR transition steering Committee' to help ensure there is a smooth and measured implementation. GBP LIBOR funding will transition to SONIA in tandem with the transition of customer lending exposures to BoE/ SONIA. It is expected that market risks will remain controlled within the current limit structures.

Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people, systems or external events including legal risk. Operational risk management is a core component of the RMF and is embedded in day to day business activities. Responsibilities are set out in a combination of policies to identify, assess, mitigate, monitor and report operational risk that could impact the achievement of business objectives and ability to stay within tolerance levels set by the Board.

Business operations are responsible for the day to day management of operational risk, with oversight from the risk and compliance functions and independent assurance activities undertaken by Internal Audit.

Exposure
Handelsbanken plc's exposure to operational risk is impacted through the need to engage with third parties; deliver new products and services; and make effective use of reliable data in a changing external environment to deliver on the Bank's strategic objectives. Alongside ongoing risk and control monitoring, operational risk oversight is focused on a number of key areas. Whilst some are currently outside the Board's tolerance, action is being taken to address them.

There are a number of operational risks that are more significant for the Bank:

Financial crime risk

Financial crime risk, is the risk that Handelsbanken plc's products and services will be used to facilitate financial crime against the Bank, its customers or third parties. Financial crime risk, which includes money laundering, fraud, bribery and corruption, terrorism financing and non-compliance with sanctions, continues to be a concern for the financial services industry, while losses to fraud remain a significant threat. Financial crime prevention and sanctions compliance consumes considerable amounts of time and resources for the Banking sector.

The Bank has invested significantly during the year in continuing to develop its systems, controls, technology and competencies to identify and address the risks of its services and products being used for the purposes of financial crime, and will continue to do so as financial markets evolve.

Regulatory and legislative compliance risk

Regulatory and legislative compliance risk is the risk of failing to understand and comply with relevant laws and regulatory requirements; failing to identify, monitor and respond to changes in the regulatory environment; not keeping regulators informed of relevant issues; not responding effectively to information requests or regulator review findings; not meeting regulatory deadlines or obstructing the regulator. It is also the risk of failure to comply with the wider set of rules, regulations, codes of practice and laws relevant to Handelsbanken plc. The Risk control and Compliance functions, monitor the upstream financial services regulatory landscape to identify potential changes in the near and medium term that could impact the Bank. This assists in the mitigation of risks associated with non-compliance with laws and regulations.

The risk of regulatory intervention or change is high due to close regulatory scrutiny of the markets the Bank operates in. These market reviews will be closely monitored, but a risk remains that the outcome could have a material impact on the business.

The ever changing landscape and challenges presented by the payments industry continues to consume considerable amounts of time and resources in the financial service sector. The Bank has successfully completed various payments related attestations during the year which are required by various industry and regulatory bodies. The Bank continues to invest significantly to develop its systems, controls, technology in this landscape and will continue to do so as the payments industry evolves.

Information technology and information security risk
Information Technology (IT) is fundamental to providing the infrastructure, systems and foundations for a large proportion of the Bank's activities. Information Technology risk is the risk of IT solutions not meeting business requirements, customer expectations or failing to deliver consistently against expected service levels resulting in loss. Much of the IT support is provided by Group.

Information Technology is essential in mitigating key Information Security risks. Ransomware and Distributed Denial of Service (DDOS) attacks across the UK, alongside malicious e-mails, phishing attacks and network access compromises, are a concern, in common with other Financial services organisations. The Bank remains alert to ongoing cyber-crime attacks and to new and evolving risks, with monitoring processes in place to identify vulnerabilities and robust controls to manage these risks.

Business continuity planning and IT resilience is critical for the Bank to quickly adapt to unexpected internal or external disruptions while maintaining continuous operations on key and critical processes. Ongoing monitoring and recovery testing of systems and critical processes helps minimise the likelihood of continuity and resilience failures. The Bank responded rapidly to the pandemic conditions, deploying technology, redesigning processes to enable our employees to work from home where possible, in line with social distancing and maintain branch presence in all locations. The Bank is currently enhancing processes to meet the new regulation and standards for operational resilience.

The Bank continues to enhance and invest in IT systems, IT processes and capabilities, including reporting and oversight, aligning these to the IT strategy and the direction of the Handelsbanken Group.

Change management risk
The risk of failure to effectively design, execute or deliver change initiatives and not realising intended benefits and outcomes. The volume and complexity of change programmes across the Bank covering remediation, regulatory and mandatory change, in addition to meeting business needs, heightens both the change delivery risk, and the ability of business to absorb large amounts of change into their processes and systems. These risks are managed through the Bank's change methodology and are reported through governance, up to and including the Board, providing a centralised view of change (including prioritisation), in conjunction with additional assurance activities by the second and third lines of defence in order to minimise the overall risks to the Bank. Given the level of change faced by the Bank, the approach to delivering change has been revised during 2020 to ensure efficient use of resources and to enable more agile working methods.

Third party management risk
The Bank works with a variety of external suppliers to deliver services and products. The business is also reliant on a range of shared enterprise services and supporting systems provided by Svenska Handelsbanken, such as payments and IT management. Ongoing performance management and assurance is undertaken to ensure that supplier relationships are controlled effectively. During 2020 a review of the key suppliers was undertaken to ensure that any contractual or control gaps were identified and can be remediated.

The Bank continues to enhance and embed its third party management framework including procurement management and supplier relationship management with oversight of service providers to ensure they adhere to these requirements.

Climate change risk
Climate change is the risk of negative impact to earnings from events connected to climate change and/or the move to a low-carbon economy. Climate change risk can materialise through physical or transition risk. Severe weather related events result in physical risks that impact our society directly e.g. flooding, storms and drought. Transition risks can occur when moving towards a less polluting, greener economy. The Bank continued work to address the financial risks from climate change in 2019 with the appointment of the chief risk officer as the SMF for climate change risk.

As part of the work to embed climate change into the Risk Management Framework, it has been categorised as a level two operational risk in the risk taxonomy. Physical and transition risks are categorised as level three. Due to the cross-cutting nature of climate change risk, it can materialise across various risk types such as reputational, credit or funding risk. The Bank deems that the risk is best managed as a level two operational risk, because if the Bank fails to embed climate change into the processes effectively, this would constitute a failure of people and processes which falls under the remit of operational risk.

During 2020 climate change specific risks were reviewed. Workshops have been held with stakeholders across the Bank, during which risks have been identified and subsequently assessed to form the basis of a climate change risk register. This has been used to identify risk metrics, which over the course of 2021 will be used to enhance risk reporting and monitoring. The risk register and materiality assessment for each climate change specific risk will be updated on an ongoing basis. The risks identified within the climate change risk register have been assigned to control owners, who will then implement and report controls for each of the risks through a centralised Risk Control Self-Assessment (RCSA) process. As part of the risk identification process, a preliminary assessment has been performed to assess the Bank's exposure to climate risk sensitive sectors and the primary sensitive sector that the Bank is exposed to is real estate. In order to manage physical risk related to real estate, external flood risk data has been purchased and an initial assessment to understand our exposure to flood risk has been performed. Flood risk is also being embedded into the existing credit risk assessment processes. In order to manage transition risk related to energy efficiency of real estate, external Energy Performance Certificate (EPC) data has been purchased to complement internal data and ensure we have an accurate view of the energy efficiency of the collateral in our portfolio. Moving forward, this data will also be used to inform long-term scenario analysis.

MONITORING

The operational risk requirements are defined in the Operational Risk Management Framework, associated policies, standards / instructions and within Board risk tolerance statements, which are aligned with Handelsbanken Group's policies and risk tolerance.

Regular monitoring is undertaken of all key operational risks focusing on the implementation of risk mitigation action plans, operational risk incidents, and the assessment of control design testing. Operational risk reporting is an essential component of the framework providing the Management Operational Risk and Compliance Committee, Management Risk and Compliance Committee, Board Risk and

Compliance Committee as well as the Board with appropriate, accurate and timely information regarding the material operational risks in order to inform decision making including risk mitigation actions.

The Bank undertakes regular, forward-looking scenario analysis to gain insight into the stresses the business could be subject to in the event of extreme plausible operational risk events materialising that could lead to material impact on its ability to deliver on the strategic objectives or result in a significant impact on assessment of operational risk capital.

Outlook
Handelsbanken plc's operational risk outlook is impacted by the environment in which it operates as well as its strategy. The drivers of operational risk are expected to remain broadly consistent over the next year, with the main themes being:

- The scale, complexity and pace of change, particularly in meeting strategic (including technology), regulatory and remediation programmes
- IT and operational resilience and the continued increase in the sophistication of technology and cyber–crime threats
- The regulatory environment and the volume of changes impacting the industry
- The continued reliance on a variety of third-party suppliers, including Svenska Handelsbanken

Handelsbanken plc continues to invest in all these areas to maintain and develop appropriate controls and ensure residual risk exposures are managed within tolerance, whilst at the same time enhancing frameworks and processes to meet the evolving regulations and external requirements, such as operational resilience and climate risk.

CAPITAL MANAGEMENT

Handelsbanken plc aims to maintain a strong capital base, to expand it as appropriate and to utilise its capital efficiently in order to optimise the return to its shareholder while maintaining a prudent relationship between available capital and the underlying risks of the business. Maintaining a strong capital position while having the resources to support further capital efficient growth is a key focus for the Bank.

In carrying out this policy, the Bank measures the amount of capital it requires and holds through applying the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV / CRR), as implemented in the UK by the PRA and supplemented through additional regulation under the PRA Rulebook.

The PRA uses capital ratios as a measure of capital adequacy in the UK banking sector, comparing the bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks).

The minimum amount of total capital, under Pillar 1 of the regulatory framework, is determined as 8% of aggregate risk-weighted assets (RWAs). At least 4.5% of RWAs are required to be covered by Common Equity Tier 1 (CET1) capital and at least 6% of RWAs are required to be covered by Tier 1 capital.

There are also some risks which are not adequately covered by the Pillar 1 requirements (e.g. interest rate risk and credit concentration). These risks are captured within the Bank's Pillar 2A requirements. Pillar 2A capital requirements are determined as part of the ICAAP and subsequently agreed by the PRA through their Capital Supervisory Review & Evaluation Process (C-SREP). Pillar 2A requirements must be met with at least the same capital quality as Pillar 1 and therefore at least 56.25% Common Equity Tier 1 (CET1) capital, no more than 43.75% Additional Tier 1 capital and no more than 25% Tier 2 capital

The PRA sets these additional minimum requirements through the issuance of the Bank specific Total Capital Requirement (TCR), which includes the aggregate of Pillar 1 and 2A requirements. As of 31 December 2020, the TCR for the Bank is set at 10.4%. During 2020, the PRA completed a C-SREP in which they set the Bank's TCR at 10.3%, but this new TCR will not be effective until Q1 2021.

The PRA may also determine that further additional 'Pillar 2B' capital is required to be held as a buffer to cover periods of potential future stress, based on an institution's own stress testing as part of the ICAAP. This buffer is set by the PRA as a minimum level of capital which the institution is required to hold over and above the minimum regulatory capital buffers which are described in the next section. The PRA does not permit firms to disclose if they are subject to such a buffer.

Capital buffers
The regulatory capital buffer framework is intended to ensure firms maintain enough capital above their regulatory minimum to withstand periods of stress. The UK is implementing the provisions on capital buffers outlined in the Capital Requirements Directive to create combined capital buffers including a Capital Conservation Buffer (CCB); a Countercyclical Capital Buffer (CCyB); a Global Systemically Important Institution Buffer; and a Systemic Risk Buffer (SRB). Only the CCB and CCyB are applicable to the Bank of 31 December 2020.

The CCB is a standard buffer of 2.5% of RWAs designed to provide for losses in the event of stress. The CCyB is time-varying and is designed to require banks to hold additional capital to remove or reduce the build-up of systemic risk in times of credit boom, providing additional loss absorbing capacity and acting as an incentive for banks to constrain further credit growth. The amount of the buffer is determined by reference to buffer rates set by the individual countries where the bank has relevant credit risk exposures. Handelsbanken plc's exposures are almost exclusively in the UK, therefore as of 31 December 2020 the bank applies the UK CCyB rate of 0% of RWAs set by the Financial Policy Committee (FPC) in March 2020. The FPC decreased the CCyB rate by 1% compared to 31 December 2019 as a response to the COVID-19 crisis. All buffers are required to be met with CET1 capital. A breach of the buffers would trigger a dialogue between the Bank and the PRA and limit discretionary capital distributions by the Bank.

Handelsbanken plc is not formally subject to the UK leverage ratio framework as it is below applicable regulatory thresholds. However, the Bank is required to meet the leverage ratio requirement of 3% under Regulation (EU) 2019/876 (commonly referred to as CRR2). Under CRR2, the leverage ratio requirement is binding from June 2021, although UK implementation has been delayed to January 2022. Nonetheless, banks are already required to report and disclose their leverage ratio. The leverage ratio framework does not currently give rise to higher capital requirements for the Bank than the risk-based capital framework.

Minimum requirement for own funds and eligible liabilities ("MREL")
The Bank of England issued a Statement of Policy in June 2018 on how MREL requirements will be applied in the UK. MREL is focused on ensuring that the UK banks have sufficient capital resources and liabilities to absorb losses to allow them to return to business as usual following a recovery or resolution event and without recourse to taxpayer funds. Handelsbanken plc, as a material subsidiary of a foreign owned group, is subject to MREL on an interim basis from 1 January 2020, at 18% of RWA, reduced by any applicable Bank of England scalar. End-state MREL requirements will be effective from 1 January 2023.

Handelsbanken plc has considered the impact of MREL as part of the strategic and capital planning process, noting that Svenska Handelsbanken, as the sole shareholder and provider of all the Bank's regulatory capital, will also be expected to provide any future MREL-compliant instruments. As of 31 December 2020, Handelsbanken plc has £200 million of unsecured senior non-preferred debt, which was issued to Svenska Handelsbanken in 2019, to ensure the Bank met its interim MREL requirements from 1 January 2020. With this £200m of MREL-compliant debt and £2.8bn of capital resources, Handelsbanken plc has a total capital and MREL ratio of 22.1% of RWA, as of 31 December 2020.

Reporting and monitoring

The Bank reports quarterly to the PRA detailing the Bank's capital requirements, capital resources and capital adequacy.

In addition, the Bank's Management Financial and Capital Risk Committee monitors the actual capital and forecast positions monthly and reports regularly to the Board and Board Risk and Compliance Committee. This ensures that the capital position is appropriately reviewed and that there is visibility and challenge of the capital ratios, risk tolerance and the outlook.

Capital adequacy management

Handelsbanken plc's goal is to maintain CET1, Tier 1 and Tier 2 ratios of at least 1% above the regulatory minimum set by the PRA in a normal business environment. As of 31 December 2020 the Bank's CET1 ratio and T1 ratio were 17.6%. The minimum CET1% and Tier 1% requirements, including regulatory buffers are 8.3% and 10.3%, respectively. Handelsbanken plc is presently using CET1 capital issued to its Parent, Svenska Handelsbanken, to meet all of its CET1 and T1 requirements and has not issued any Additional Tier 1 instruments. The Bank is continuously reviewing the optimal composition of its capital structure.

In managing the available capital resources of Handelsbanken plc, we consider our minimum regulatory requirements, internal risk tolerances and management buffers. We also take into account the costs of different capital instruments as well as Handelsbanken Group's capital considerations and capital management techniques. We use these to optimise and shape the best capital structure for Handelsbanken plc as well as for Handelsbanken Group.

As part of our strategic capital planning process, we consider what level of capital resources will be required to support our future growth and strategic business investments, meet any forthcoming regulatory requirements, and support Group capital management. We also plan for severe stresses and set out what actions we would take if an extremely severe stress threatened our viability and solvency. This could include managing down costs, reducing our business and issuing more capital.

Capital resources

The Bank's capital resources consist of CET1 capital and Tier 2 capital. The Bank has not issued any Additional Tier 1 capital. The Bank's regulatory capital resources are as follows:

	2020 £'m	2019 £'m
Common equity tier 1		
Paid up capital	5	5
Share premium	2,070	2,070
Retained earnings	197	14
Current year P&L	120	184
	2,392	**2,273**
Less regulatory deductions from common equity tier 1:		
Goodwill and other	(26)	(23)
Common equity tier 1 capital	**2,366**	**2,250**
Additional tier 1 instruments		-
Total tier 1 capital	**2,366**	**2,250**
Tier 2	400	400
Total capital resources	**2,766**	**2,650**

Capital requirements

The Bank's Pillar 1 capital requirements for credit risk are calculated using the standardised approach under CRR, applying the risk-weight factors prescribed in the regulation. Operational risk is quantified using the Basic Indicator Approach (BIA). According to the BIA, the capital requirements are calculated by multiplying a factor specified in CRR by the average of three years' operating income. The Bank has not included capital requirements for market risk in its RWA calculations as it does not hold trading positions and its FX exposures are below the minimum regulatory thresholds.

At 31 December 2020, the Bank's RWAs decreased by c. £1.7 billion, compared to 31 December 2019, reflecting lower lending growth in 2020 and the application of SME support factor under CRR 2 which was implemented at the end of June 2020 following the approval of regulation EU 2020/783 (commonly referred to as "CRR Quick Fix"). The following table summarises the Bank's RWAs:

	RWAs 2020 £'m	RWAs 2019 £'m
Credit risk according to standardised approach	12,483	14,320
Operational risk according to BIA	965	867
Market risks	-	-
Total RWAs	**13,448**	**15,187**

Handelsbanken plc is continually reviewing its RWA calculations and implementing improvements where necessary. In Q1 2021, the Bank will make two such changes, in relation to collateral allocation and credit conversion factors for certain off-balance sheet items. These changes will reduce RWAs compared to 31 December 2020, ceteris paribus.

The table below shows the year-end and average total credit exposures, broken down by exposure class. For on-balance sheet items, the exposure value shown is the gross carrying value of exposure less allowances and impairments. For off-balance sheet items, the exposure value shown is the gross carrying value of the exposure less provisions. The average exposure values shown are the average of the quarter-end values. There was a small increase in average total exposures in 2020, primarily due to increases in the Bank of England balance and lending to Handelsbanken Group.

	2020		2019	
£'m	Value of exposures at year end	Average value of exposures over the year	Value of exposures at year end	Average value of exposures over the year
Central Governments or Central Banks	9,225	8,253	7,134	7,185
Institutions	3,855	3,657	3,122	2,841
Corporates	3,430	3,569	3,618	3,762
Retail	575	608	672	905
Secured by mortgages on immovable property	20,833	20,926	21,049	20,629
- of which, secured by mortgages on residential property	*13,330*	*13,304*	*13,351*	*13,060*
Exposures in default*	69	74	66	73
Items associated with particularly high risk*	154	169	193	202
Equity	44	44	44	44
Other items	104	149	112	146
Total	**38,289**	**37,449**	**36,010**	**35,787**

* Sourced from Common Reporting Framework

Capital adequacy ratios

The Bank's capital adequacy ratios are as follows:

	2020	2019
Common equity tier 1 capital ratio	17.6%	14.8%
Tier 1 capital ratio	17.6%	14.8%
Total capital ratio	20.6%	17.5%

Capital ratios remain well above the TCR and capital buffers set by the PRA.

Leverage ratio
The leverage ratio is the ratio of Tier 1 capital to total exposure. Tier 1 capital is defined according to the CRR. Exposures are defined as the total on and off balance sheet exposures (after application of credit conversion factors) minus assets that are deducted from capital resources, as per CRR2. The Bank's leverage ratio is as follows:

	2020 £'m	2019 £'m
Tier 1 capital	2,366	2,250
Exposure measure	35,325	33,323
Of which, on-balance sheet	*33,852*	*31,608*
Of which, (-) asset deduction	*(26)*	*(23)*
Of which, off-balance sheet	*1,499*	*1,738*
Leverage ratio	6.7%	6.8%

CREDIT RATINGS

Handelsbanken plc aims to have a high rating with the external rating agencies. During the year, prospects for Fitch rating are negative – due to the ongoing pandemic, whilst the outlook for Standard & Poor is stable. the Bank's long-term and short-term ratings which monitor the Bank can be seen below.

31 December 2020	Long-term	Short-term
Standard & Poor's	AA-	A-1+
Fitch	AA (N)	F1+

31 December 2019	Long-term	Short-term
Standard & Poor's	AA-	A-1+
Fitch	AA	F1+

Independent auditor's report to the members of Handelsbanken plc

Opinion
We have audited the financial statements of Handelsbanken plc (the "Company") for the year ended 31 December 2020 which comprise the Income statement, the Balance sheet, Statement of changes in equity, Cash flow statement and the related notes 1 to 32, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Company's financial close process, we confirmed our understanding of Management's Going Concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment.
- We evaluated the Directors' going concern assessment which included reviewing their evaluation of long-term business plans, capital adequacy, liquidity and funding positions. Following this review, we agreed key data points on the financial performance of the Company to supporting information and to regulatory submissions and correspondence relating to key regulatory capital requirements. We also reviewed board meeting minutes and discussed the performance of the Company, regulatory matters, and future intentions with Management and the Audit Committee.
- We obtained and reviewed correspondence with the regulators and established any impact on the use of the going concern assumption. We also used regulatory correspondence to inform our consideration of the regulatory capital requirements on the Company and the surplus forecast over the going concern assessment period.
- We have met with the Prudential Regulation Authority and Financial Conduct Authority in the year to understand their perspectives on the Company as they relate to the going concern assumption, and to inform our risk assessment.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We considered the key relevant going concern assumptions, including those relating to financial performance, regulatory capital and liquidity, and performed independent reverse stress testing and sensitivity analysis, including independently recalculating regulatory capital requirements and surpluses using regulatory submissions and correspondence.
- We reviewed the Company's going concern disclosures included in the Report and Financial Statements in order to assess whether the disclosures were appropriate and in conformity with the accounting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period up to 31 March 2022, which is at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Expected credit loss provisions • The risk of fraud in revenue recognition through the application of Effective Interest Rate (EIR) accounting
Materiality	• Overall materiality of £10m which represents 5% of adjusted profit before tax

An overview of the scope of our audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Expected credit loss provisions *Refer to the accounting policies Note 1(i) and 1(r), and Note 9 of the Financial Statements.* At 31 December 2020 the Company reported total gross loans of £21 billion (2019: £21 billion) and £35 million (2019: £27 million) of expected credit loss provisions. The determination of expected credit losses ("ECL") in the current pandemic environment continues to be highly subjective and judgemental particularly related to assessing the impact of the pandemic on the economy and relevant government support schemes. Key judgements and estimates in respect of the timing and measurement of ECL include: • The appropriateness of staging criteria selected by Management to determine whether a significant increase in credit risk ("SICR") has arisen; • Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple economic scenarios including appropriate weightings for the various scenarios; • Completeness and valuation of Post Model Adjustments ("PMAs"); • Measurement of individually assessed provisions; and • Accuracy and adequacy of the financial statement disclosures.	We understood and evaluated the design effectiveness of key controls over the impairment process and tested the operational effectiveness of key credit monitoring and governance controls. We assessed the methodology for determining the SICR criteria and independently tested the staging allocation by reperforming this across the Company's portfolio and on a sample basis on the corporate loan portfolio, with reference to the SICR thresholds and cure periods. With the support of our EY credit risk modelling specialists, for material ECL models, we reviewed model methodology and performed substantive procedures including model reperformance, implementation testing, sensitivity analysis and ECL benchmarking. This included a review of the completeness and valuation of post model adjustments including those which were applied as a result of Brexit and COVID-19. We performed testing over the integrity of the data used in developing and validating the Company's IFRS 9 models and assumptions and the information used to calculate the provision, including collateral valuations. With the support of our EY economic specialists, we assessed the base case and alternative economic scenarios, including reviewing the appropriateness of probability weights and comparing to other scenarios from external sources, as well as EY internally developed forecasts. We assessed whether forecasted macroeconomic variables were appropriate, such as GDP, unemployment, interest rates and House Price Index.	We communicated that we are satisfied that ECL provisions were reasonable, in compliance with IFRS 9 and that we found them to be within a reasonable range of outcomes, which we reported to the Audit Committee. We highlighted to the Committee that there is increased uncertainty in determining forecast losses due to the economic uncertainties resulting from COVID-19. Following our assessment of specifically provided stage 3 provisions we concluded that the estimates of impairment were reasonably estimated, with immaterial variances. We considered the multiple economic scenarios incorporated in the IFRS 9 models to be materially appropriate. We concluded that disclosures relating to loan impairments were in compliance with the requirements of IFRS.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The level of judgement and estimation has increased as a result of COVID-19, leading to greater uncertainty in forecasting future economic scenarios, the weightings to be applied to these scenarios and the determination of SICR. As such, the risk of material misstatement associated with expected credit loss provisions has increased.	For a sample of stage 3 assets we considered the reasonableness of provisions recorded by assessing the valuation of collateral, and through considering alternative forecast cash flow scenarios relating to the specifics of the borrower. We considered the impact COVID-19 had on collateral valuations and time to collect as well as whether planned exit strategies remained viable. We involved our EY valuation specialists to support in the assessment of the value of collateral for a sample of cases. We assessed the adequacy and appropriateness of disclosures made within the financial statements, including the disclosures provided in relation to the credit risk related impacts of COVID-19.	
The risk of fraud in revenue recognition through the application of the Effective Interest Rate (EIR) accounting *Refer to the accounting policies Note 1(o) of the Financial Statements.* In the year ended 31 December 2020 interest income recorded was £655m (2019: £774m) and fees and commissions income was £38m (2019: £43m). Recognition of income on financial instruments using the effective interest rate involves judgemental assumptions and complexity in the recording of revenue. The majority of income recorded is low value, automatically calculated and based on the contractual terms of the financial instrument. The audit risk is focused towards income where accounting judgement is applied. The impact of COVID-19 results in the modification of contracts with customers which increases the risk that these are not accounted for appropriately. The increase in Stage 3 population due to COVID-19 also increases the complexity in the recording of interest income. As such, the risk of material misstatement has increased.	We have understood and evaluated the design effectiveness of key controls and tested the operational effectiveness to enable us to rely on key controls, including automated application controls in the Company's banking system. For a sample of revenue items where our audit risk is focused, we performed an independent recalculation of the revenue recorded through obtaining and reviewing original product documentation and performing a cash flows analysis alongside relevant assumptions specific to the financial instrument. We then compared our independent calculation of revenue to that recorded by the Company. For a sample of loan contracts we established the impact of payment deferrals on the recording of income, through independent recalculation and comparison to that recorded by the Company.	We communicated that we were satisfied that the selection and application of accounting polices applied to the Company's income was appropriate, including the application of effective interest rate accounting. We communicated that our risk focused independent recalculation of income did not identify any material differences. We concluded that the introduction of loan payment deferrals did not materially impact the recognition of interest income.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £10 million (2019: £12 million), which is 5% of adjusted profit before tax (2019: 4.8% of profit before tax). The COVID-19 pandemic has impacted the Company's performance primarily through increased expected credit losses and reduced interest income driven by the reduction of the Bank of England base rate to 0.1%. In order to determine materiality, we have added back a proportion of these impacts in order to establish a reasonable and sustainable profit before tax measure on which to base our assessment. We believe that profit before tax provides us with the most appropriate basis for materiality given the Company is a profit orientated entity.

Starting basis	• Profit before tax: £161m
Adjustments	• £8m added back relating to the loan impairment charge • £32m added back relating to reduced interest income
Materiality	• Totals £201m adjusted profit before tax • Materiality of £10m (5% of Profit before tax)

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £5m (2019: £6m). We have set performance materiality at this percentage (which is at the lowest end of the range of our audit methodology) based on various considerations including the past history of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m (2019: £0.6m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 43, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are:
  - Companies Act 2006.
  - Tax Legislation (governed by HM Revenue and Customs).
  - Financial Conduct Authority ("FCA") rules.
  - CRD IV (Basel III) and Prudential Regulation Authority ("PRA") rules.

- We understood how the Company is complying with those frameworks by attending the Company's Risk Committee, reviewing relevant committee minutes and reports, holding discussions with the Company's legal team and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, internal audit and the Audit Committee and through an analysis of financial reporting information and areas of estimation which could be subject to manipulation.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged with the Company's Regulators, who we meet with annually, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken. We also focused our testing on key areas of risk and estimation, as referred to in the key audit matters section above.
- The Company operates in the financial services industry, which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team, including auditor's specialists, to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Board of Directors of the Company on 5 October 2018 to audit the financial statements of the Company for the period ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering periods from our appointment through to 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

[1] The maintenance and integrity of the Handelsbanken plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
[2] Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income statement

	Note	31 December 2020 £'000	31 December 2019 £'000
Interest income		655,358	774,106
of which interest income according to the effective interest method		*655,358*	*774,106*
Interest expense		(203,834)	(270,473)
Net interest income	3	**451,524**	**503,633**
Fee and commission income		38,425	43,302
Fee and commission expense		(3,250)	(3,383)
Net fee and comission income	4	**35,175**	**39,919**
Net gains on financial transactions	5	19,411	22,729
Total income		**506,110**	**566,281**
Personnel costs	7	(207,178)	(177,199)
Depreciation, amortisation and impairment of property, equipment, right of use and intangible assets	14,15 & 27	(21,498)	(19,199)
Other operating expenses	6	(106,203)	(119,539)
Total expenses		**(334,879)**	**(315,937)**
Profit before credit losses		**171,231**	**250,344**
Net credit (losses) / gain	9	(10,046)	1,255
Net (losses) / gains on disposal of property, equipment and intangible assets		(585)	81
Operating profit		**160,600**	**251,680**
Taxes	16	(40,991)	(68,138)
Profit for the year		**119,609**	**183,542**

The results for the period were derived wholly from Handelsbanken plc's continuing operations.

The notes on pages 65-102 form part of these financial statements.

Balance sheet

	Note	2020 £'000	2019 £'000
ASSETS			
Cash and balances with central banks	10	9,024,036	6,948,123
Other loans to central banks	11	98,393	81,671
Loans to other credit institutions	12	3,649,977	2,944,509
Loans to the public	2	20,858,150	21,403,516
Investments in subsidiaries	13	44,119	44,119
Intangible assets	14	26,042	23,396
Property and equipment	15	22,103	24,620
Right-of-use assets	27	66,212	68,286
Current tax assets		2,944	-
Deferred tax assets	16	1,549	1,068
Assets held for sale	17	210	88
Prepaid expenses and accrued income	19	7,876	6,427
Other assets	18	12,314	15,911
Total assets		**33,813,925**	**31,561,734**
LIABILITIES			
Due to credit institutions	12	9,234,311	9,724,277
Deposits from the public	20	19,090,724	16,456,660
Issued securities	21	2,980,128	2,958,620
Current tax liabilities		-	32,805
Provisions	22	14,638	5,644
Lease liabilites		65,013	70,355
Accrued expenses and deferred income	24	18,050	19,036
Other liabilities	23	18,608	21,493
Total liabilities		**31,421,472**	**29,288,890**
EQUITY			
Share capital	25	5,050	5,050
Share premium	25	2,070,619	2,070,619
Retained earnings		197,175	13,633
Profit for the year		119,609	183,542
Total equity		2,392,453	2,272,844
Total liabilities and equity		**33,813,925**	**31,561,734**

These financial statements were approved by the Board of directors and authorised for issue on 17 March 2021.
The notes on pages 65-102 form part of these financial statements.

Martin Björnberg, Director

Statement of changes in equity

2020	Note	Share capital	Share premium	Retained earnings including profit for the year	Total
		£'000	£'000	£'000	£'000
At 1 January 2020	25	5,050	2,070,619	197,175	**2,272,844**
Profit for the year		-	-	119,609	**119,609**
At 31 December 2020		**5,050**	**2,070,619**	**316,784**	**2,392,453**

2019	Note	Share capital	Share premium	Retained earnings including profit for the year	Total
		£'000	£'000	£'000	£'000
At 1 January 2019	25	5,050	2,070,619	13,633	**2,089,302**
Profit for the year		-	-	183,542	**183,542**
At 31 December 2019		**5,050**	**2,070,619**	**197,175**	**2,272,844**

Cash flow statement

	Note	2020 £'000	2019 £'000
OPERATING ACTIVITIES			
Operating profit		160,600	251,680
Adjustment for non-cash items in profit:			
Net credit (gain) / losses	9	10,046	(1,255)
(Gain) / loss on financial transactions		1,134	(228)
Net losses / (gains) on disposal of property, equipment and intangible assets		585	(81)
Depreciation, amortisation and impairment of property, equipment, right of use and intangible assets	14,15 & 27	21,498	19,199
Lease liability interest expense	27	1,625	1,711
Changes in the assets and liabilities of operating activities:			
Other loans to central banks	11	(16,722)	(7,182)
Loans to other credit institutions	12	(700,058)	1,019,067
Loans to the public		538,820	(808,214)
Payments made for variable lease expenses	27	(3,656)	(3,589)
Payments made for short-term leases	27	(1,124)	(1,675)
Payments made for low value leases	27	(16)	(208)
Due to credit institutions	12	(489,966)	359,582
Deposits from the public	20	2,634,064	1,479,706
Issued securities	21	21,508	(1,777,408)
Income tax (payment) / refund		(77,220)	(57,884)
Provisions	22	8,994	(4,296)
Trade and other receivable		3,597	27,747
Trade and other payables		2,033	9,114
Prepaid expenses and accrued income	19	(1,449)	9,123
Accrued expenses and deferred income	24	(986)	(14,800)
Other		(210)	(274)
Cash inflow from operating activities		**2,113,097**	**499,835**
INVESTING ACTIVITIES			
Acquisitions of property and equipment	15	(3,491)	(7,814)
Acquisitions of intangible assets	14	(6,704)	(8,892)
Acquisition and remeasurement of right of use asset	27	(9,633)	-
Disposal of property and equipment	15	275	390
Assets held for sale	17	(122)	2,138
Cash (outflow) from investing activities		**(19,675)**	**(14,178)**
FINANCING ACTIVITIES			
Payments made for lease liabilities	27	(12,099)	(10,006)
Cash (outflow) from financing activities		**(12,099)**	**(10,006)**
Cash inflow for the year		**2,081,323**	**475,651**
Cash balance at beginning of year	10	6,977,760	6,502,109
Cash flow from operating activities		2,113,097	499,835
Cash flow from investing activities		(19,675)	(14,178)
Cash flow from financing activities		(12,099)	(10,006)
Cash balance at end of year	**10**	**9,059,083**	**6,977,760**

Notes to the **financial statements**

NOTE 1 BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

Handelsbanken plc is a public limited company limited by shares, registered and domiciled in England and Wales, the registered office is given in the directors and advisors section on page 1. The Bank is principally engaged in the provision of Banking services.

Basis of accounting

The financial statements of the Bank have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. They have been prepared on a historical cost basis unless otherwise stated.

The financial statements are presented in GBP rounded to the nearest thousand '£'000', which is also the Bank's functional currency. The functional currency of the ultimate Parent Svenska Handelsbanken is Swedish Krona (SEK).

Solo financial statements are prepared as the Bank meets the criteria to be exempt from preparing consolidated accounts on the basis that its results are included within the Group Accounts of Svenska Handelsbanken, who is its immediate Parent, and established under the law of an EEA state.

Going concern

The financial statements are prepared on a going concern basis as the directors are satisfied that Handelsbanken plc has the resources to continue in business for the foreseeable future - which has been taken as 12 months from the date of approval of the financial statements. In making this assessment, the directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows, capital resources and the longer-term strategy of the business.

In considering the going concern assessment, the Board has regard for the Total Capital Requirement ("TCR") set by the PRA. The TCR is the sum of the Pillar 1 and Pillar 2A requirements, expressed as a percentage of risk-weighted assets ("RWAs"). The TCR is the minimum amount of capital that the Bank must hold at all times. As at 31 December 2020, the Bank's TCR was 10.38%. However, the TCR will decrease to 10.29% in 2021, as a result of the PRA's Capital Supervisory Review & Evaluation Process (C-SREP) carried out in 2020.

In addition to the TCR, the Bank is also required to hold 'Pillar 2B' capital as a buffer to cover periods of stress. The Pillar 2B buffers are a regulatory requirement, but can be used by a bank in times of stress whilst they rebuild their capital position. As such, the Pillar 2B buffer requirements do not determine the going concern threshold.

As at 31 December 2020, the Bank had RWAs of £13,448m, resulting in a TCR of £1,396m. The Bank's capital resources were £2,766m, resulting in a surplus of £1,370m over the TCR. Given the size of this surplus, the Bank is confident that it will remain a going concern from a capital perspective over the next 12 months. For instance, to deplete the surplus of £1,370m through credit losses, a loan loss ratio of 6.6% would be required, based on lending volumes as at 31 December 2020. For comparison, the 2020 loan loss ratio was 0.04%.

To assess the Bank's capital adequacy on a forward looking basis, the Bank produces a capital plan based on the Bank's macroeconomic base case forecast. The base case forecast is for the COVID-19 pandemic to recede in the first half of 2021 as vaccine programs are rolled out. Consumer spending is forecast to move back to levels seen at the end of 2019 by 2022, boosted by accumulated savings and suppressed demand. Underlying employment flexibility in the UK prevents a large spike in unemployment and the impact of house price falls are limited by significant falls in liquidity. The Bank of England base rate is forecast to remain at the current level.

The impacts of this base case economic forecast on the Bank's capital position over the next 12 months are expected to include:

- Low lending growth driven by COVID-19 restrictions and subsequent slow economic recovery;
- Small increase in RWAs and capital requirements reflecting the low growth;
- Interest rate margins remaining at levels similar to the end of 2020, resulting in stable NII; and
- Loan loss rate higher than 2020, but lower than the ten year average.

Based on these assumptions, the Bank's capital resources are expected to increase at a faster pace than capital requirements in the next 12 months. This creates an accretive capital position such that the Bank's surplus over the TCR is expected to be higher in 12 months time than it was at 31 December 2020.

Additionally, the Bank maintains a strong liquidity position, significantly in excess of risk tolerance. The Bank has a Delegated Act Liquidity Coverage Ratio (LCR) of over three times the regulatory minimum (329% at 31 December 2020).

Additional information on LCR and Capital Resources can be found on pages 50 and 53-55 respectively.

After making due enquiries, the directors believe that the Bank has sufficient resources to continue its activities for the foreseeable future.

(b) Changes in IFRS which are not yet applied and other changes in IFRS

IFRS 17 Insurance contracts

IFRS 17 Insurance contracts has been published by the IASB. Assuming that IFRS 17 is adopted by the EU and if the date of implementation proposed by the IASB is not changed this standard is to be applied as of the 2023 financial year. IFRS 17 requires a change in how insurance contracts are recognised, presented and measured, and implies extended disclosure requirements. The standard is expected to have no material impact on the Bank.

Interest Rate Benchmark Reform "IBOR reform"
On 27 August 2020 the International Accounting Standards Board (IASB or the Board) published 'Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an InterBank Offered Rate (an IBOR) with an alternative nearly risk-free interest rate (an RFR). Publication of IBOR reform Phase 2 concludes the IASB's work to respond to the effects of IBOR reform on financial reporting.

The amendments to IFRS 9 state that modifications of financial assets and financial liabilities, implemented as a direct consequence of the Interest Rate Benchmark Reform, are recognised as a change in the effective interest. Gains or losses arising due to the modification are therefore not recognised immediately in the income statement but over the remaining life of the financial asset or liability through the revised effective interest rate. For the exemption to be applicable, a modification must have been directly necessitated by the Interest Rate Benchmark Reform, and the new basis for determining the cash flows must be economically equivalent to the previous basis. The amendments are therefore assessed as facilitating the transition to new reference rates without significant profit or loss effects, and therefore without a material impact on Handelsbanken plc's financial reports, capital adequacy, large exposures or other circumstances according to the applicable regulatory requirements. The amendments have been endorsed by the EU and are effective from 1 January 2021, with early adoption permitted. The Bank has chosen not to early adopt the amendments. The amendments are applied retrospectively. Earlier periods are not required to be recalculated.

Other changes in IFRS
Other changes applying from 1 January 2020 relate to references to the IFRS Conceptual Framework, the definition of a business in IFRS 3 Business Combinations, the definition of material in IAS 1 Presentation of Financial Statements and in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and COVID-19 Related Rent Concessions in IFRS 16 Leases.

None of these other changes has had a material impact on the Bank's financial reports, capital adequacy, large exposures or other circumstances according to the applicable regulatory requirements.

(c) Investment in subsidiaries
The Bank is deemed to have direct control of a company when it is exposed to, or is entitled to, variable returns from its holdings in the company and can affect the return by means of its influence over the company. As a rule, control exists if the Bank owns more than 50 per cent of the voting power at shareholders' meetings or the equivalent. The acquisition of a subsidiary is regarded as a transaction where the Bank acquires the company's identifiable assets and assumes its liabilities and obligations.

Handelsbanken plc has two wholly owned direct subsidiaries. Shares in subsidiaries are measured at cost. All holdings are tested for impairment at each balance sheet date. Information on the Bank's subsidiaries can be found in note 13.

Svenska Handelsbanken heads the largest group in which the results of the Bank and its subsidiaries are consolidated. Svenska Handelsbanken is incorporated in Sweden. Handelsbanken Group's 2020 Annual Report is available from its head office at Kungsträdgårdsgatan 2, SE-106 70, Stockholm, Sweden.

(d) Segment reporting
A business segment is a part of a bank that runs operations which generate external or internal income and expenses and of which the profit/loss is regularly assessed and followed up by senior management as part of corporate governance. Due to the decentralised structure, branches are organised geographically into five regional banks, which provide support and more specialist functions to their branches. However, management assess the operations of the Bank on the basis of the UK as a whole and this is how the financial statements have been prepared. As a result, no segmental reporting has been presented.

(e) Assets held for sale
Non-current assets are classified as held for sale when the carrying amount will be mainly recovered through sale and when a sale is highly probable. If the asset is classified as held for sale, special valuation principles are applied. These principles essentially mean that, with the exception of items such as financial assets and liabilities, assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell. Thus, property held for sale is not depreciated. Any impairment losses and subsequent revaluations are recognised directly in the income statement. Gains are not recognised if they exceed accumulated impairment loss. Assets held for sale are reported as a separate line item in the balance sheet until the time of sale.

(f) Assets and liabilities in foreign currencies
The accounts are presented in Great British Pounds (£), the Bank's functional and presentation currency.

Translation of transactions in a currency other than the functional currency
Transactions in a currency other than the functional currency (foreign currency) are initially translated into the functional currency at the rate prevailing on the transaction date. Monetary items in foreign currencies are converted at the balance sheet date using the prevailing closing rate. Gains and losses arising from the currency translation of monetary items are recognised in the income statement as foreign exchange rate effects in net gains/losses on financial transactions.

(g) Recognition and derecognition of financial instruments on the balance sheet
Purchases and sales of foreign exchange spot instruments are recognised on the trade date, which is the date on which an agreement is entered into. Other financial assets and liabilities are normally recognised on the settlement date.

Financial assets are derecognised from the balance sheet when the contractual rights to the cash flows originating from the asset expire or when all risks and rewards related to the asset are transferred to another party. A financial liability is derecognised from the balance sheet when the obligation is fulfilled, ceased or cancelled.

(h) Financial instruments

Measurement categories
In accordance with IFRS 9, the Bank classifies all financial assets into one of the following measurement categories:

1. amortised cost;
2. fair value through other comprehensive income; or
3. fair value through profit or loss;
   a. mandatory;
   b. fair value option.

The Bank does not engage in hedging activities in the capacity of principal, so the hedge accounting rules have no impact on the financial statements.

The starting point for the classification of financial assets into the respective measurement categories is the Bank's business model for managing the financial instruments, as well as whether the instruments' contractual cash flows only constitute solely payments of principal and interest. All of the Bank's financial assets are measured at amortised cost.

Financial liabilities are classified as follows:

1. amortised cost; or
2. fair value through profit or loss;
   a. mandatory;
   b. fair value option.

As a general rule, financial liabilities are recognised at amortised cost. The exceptions are financial liabilities which are required to be measured at fair value through profit or loss, such as derivatives and liabilities which are designated at fair value through profit or loss upon initial recognition. All of the Bank's financial liabilities are measured at amortised cost as it does not have any derivatives or financial liabilities recognised under the fair value classification.

Upon initial recognition, all financial assets and liabilities are measured at fair value. Directly attributable transaction costs are included in the acquisition cost.

Assessment of the business model
The business model for managing financial assets defines classification into measurement categories. The business model is determined at the portfolio level, as this best reflects how the operations are governed and how information is reported to and evaluated by the Bank's management. Information of significance when making a weighted assessment of the business model for a portfolio includes the established guidelines and objectives with a portfolio and how these are implemented in the operations, the risks which affect the performance of the portfolio and how the risks are managed, as well as the frequency, volume, reasons for and times of sales.

Assessment whether contractual cash flows are solely payments of principal and interest
The assessment of whether contractual cash flows constitute solely payments of principal and interest is significant for the classification into measurement categories. For the purpose of this assessment, 'principal' is defined as the financial asset's fair value upon initial recognition. 'Interest' is defined as consideration for the time value of money, credit risk, other fundamental lending risks (such as liquidity risk) and costs (such as administrative expenses) as well as a profit margin.

To assess whether the financial asset's contractual cash flows constitute solely payments of principal and interest, the contractual terms of the financial asset are reviewed. If there are contractual terms that could change the timing or amounts of the contractual cash flows, modify the consideration for the time value of money, cause leverage or entail extra costs for prepayment and extension, then the cash flows are assessed as not constituting solely payments of principal and interest.

Amortised cost
A financial asset is to be measured at amortised cost if both of the following conditions are met:

- the objective of the business model is to collect contractual cash flows; and
- the contractual cash flows constitute solely payments of principal and interest.

Financial assets recognised in the measurement category amortised cost consist of loans and holdings that fulfil the above conditions. These assets are subject to impairment testing, see note 1 section (i). Financial liabilities recognised in the measurement category amortised cost consist primarily of liabilities due to credit institutions, deposits and borrowing from the public, and issued securities.

Amortised cost consists of the discounted present value of all future cash flows relating to the instrument where the discount rate is the instrument's effective interest rate at the time of acquisition.

Interest and credit losses relating to financial instruments measured at amortised cost are recognised in the income statement under Net interest income and Net credit gain / losses, respectively. Early repayment charges for loans redeemed ahead of time are recognised in the income statement under Net gains on financial transactions. Foreign exchange effects are also recognised in Net gains/losses on financial transactions.

Fair value through other comprehensive income
A financial asset is to be measured at fair value through other comprehensive income if both of the following conditions are met:

- the objective of the business model is both to collect contractual cash flows and to sell the asset; and
- the contractual cash flows constitute solely of payments of principal and interest.

The Bank does not have any financial assets measured at fair value through other comprehensive income.

Mandatory fair value through profit or loss
If a financial asset does not meet the conditions for measurement at amortised cost or for measurement at fair value through other comprehensive income, measurement at fair value through profit or loss is mandatory.

Financial assets and liabilities held for trading are always classified as measured at fair value through profit or loss, as are financial assets managed and evaluated on a fair value basis.

The Bank does not have any financial assets measured at mandatory fair value through profit or loss.

Fair value through profit or loss, fair value option
There is an option, at initial recognition, to irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring the asset.

There is a corresponding option to irrevocably designate, at initial recognition, a financial liability as measured at fair value through profit or loss if either of the following conditions are met:

- it eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring the liability; or
- a group of financial liabilities or a group of both financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about these instruments is provided internally to management on that basis.

The Bank does not have any financial assets or financial liabilities measured at fair value option through profit or loss.

Reclassification of financial instruments
As a general rule, financial assets are not reclassified after initial recognition. Reclassification is permitted in the rare case that the Bank changes the business model it applies for the management of a portfolio of financial assets. The reclassification of financial liabilities is not permitted after initial recognition.

No reclassifications have been made during the period covered in the financial statements.

Financial guarantees and loan commitments
Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument (loans and interest bearing securities), for example a credit guarantee. The fair value of an issued guarantee is the same as the premium received when it was issued. Upon initial recognition, the premium received for the guarantee is recognised as a liability under accrued expenses and deferred income on the balance sheet. The guarantee is subsequently measured at the higher of the amortised premium or the provision for the expected loss. Premiums relating to issued financial guarantees are amortised in Net fee and commission income over the validity period of the guarantee. In addition, the total guaranteed amount relating to guarantees issued is reported off-balance as a contingent liability, see note 26.

Premiums for purchased financial guarantees are accrued and recognised as decreased interest income in Net interest income if the debt instrument to which the guarantee refers is recognised there.

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

Financial guarantees and irrevocable loan commitments are subject to impairment testing, see note 1 section (i).

As detailed in the strategic report on page 13, CBILS are backed by an 80% UK government guarantee.

Certificates of deposit
The Bank funds part of the balance sheet in the short term by issuing coupon-bearing Certificates of Deposit (CDs) in the UK money market. The CDs are initially recognised at fair value, being the issue proceeds less transaction costs incurred. The CDs are subsequently measured at amortised cost using the effective interest method.

(i) Credit losses

Expected credit losses
The impairment rules presented in IFRS 9 apply to financial assets at amortised cost, financial assets at fair value through other comprehensive income, as well as irrevocable loan commitments, financial guarantees and other commitments, and are based on a model for the recognition of expected credit losses (ECL). This model stipulates that the provision must reflect a probability-weighted amount determined through the evaluation of a number of potential outcomes, with consideration given to all reasonable and verifiable information available on the reporting date without unreasonable expense or exertion. The assessment takes into account historical, current and future-oriented factors.

The assets to be tested for impairment are divided into the following three stages, depending on the degree of credit impairment.

- Stage 1 comprises financial assets with no significant increase in credit risk since initial recognition;
- Stage 2 comprises financial assets with a significant increase in credit risk since initial recognition, but for which there is no objective evidence that the asset is credit-impaired at the time of reporting; and
- Stage 3 comprises financial assets for which objective circumstances have been identified indicating that the claim is credit impaired.

For a definition of credit-impaired assets, refer to the heading Default/Credit-impaired asset in this section of note 1.

In Stage 1, provisions are to be recognised which correspond to the loss expected to occur within 12 months as a result of default. In Stage 2 and Stage 3, provisions are to be recognised corresponding to the loss expected to occur at some time during the whole of the remaining maturity of the asset as a result of default.

For agreements in Stage 1 and Stage 2, there is a Bank-wide, central process using model-based calculations. The process begins for all agreements with an assessment of whether there has been a significant increase in the credit risk since initial recognition (start date of the agreement). The provisions in the different impairment stages are calculated separately. Agreements in Stage 3 are calculated manually. In conjunction with each reporting date, an assessment is made at the agreement level as to whether an agreement will be subject to a model-based calculation or a manual calculation.

Significant increase in credit risk
A significant increase in credit risk reflects the risk of default and is a measurement by which the agreement's relative change in credit risk since initial recognition is measured. For calculating significant increases in credit risks, the same underlying model is used in Handelsbanken Group as is used for the calculation of expected credit losses, with consideration given to historical, current and future-oriented information. Collateral is not taken into account in the assessment. At each reporting date, the Group-wide, central, model-based process begins for all agreements with an assessment of whether there has been a significant increase in the credit risk since initial recognition (start date of the agreement). This assessment then determines whether the expected credit loss is assessed over a 12-month horizon after the reporting date (Stage 1) or during the agreement's remaining lifetime (Stage 2). An important aspect which affects the size of the provision for credit losses is therefore which factors and thresholds are defined as triggers for the transfer of assets from Stage 1 to Stage 2. The Bank's definition of a significant increase in credit risk, which is decisive in the transfer of agreements to Stage 2, is based on both qualitative and quantitative factors. The quantitative indicator which is primarily used to assess the change in credit risk is the relative change, between the instrument's initial recognition and up to the most recent reporting date, in the probability of default (PD) during the agreement's remaining lifetime. In cases where it has required an unreasonable expense or exertion to establish the PD in conjunction with the initial recognition of an instrument, changes in the counterparty's or the agreement's internal rating or risk rating since initial recognition have been used to assess the significant change in the credit risk. Forecasts regarding the risk of default are based on three scenarios.

The primary criterion when assessing whether an agreement is deemed to have incurred a significant increase in credit risk and is thus transferred to Stage 2 is, as defined by Handelsbanken Group, that the estimated remaining probability of default (PD) on the reporting date is greater than a multiple of 2.5 times the corresponding probability of default upon initial recognition. The threshold level of 2.5 is based on statistical analysis of historical data and compares the increase in the remaining risk that the counterparty will default with the corresponding estimated risk upon the initial recognition of the agreement. In addition, there are other qualitative factors which the Bank has assessed as entailing a significant increase in credit risk, such as the agreement having payments that are more than 30 days overdue, or that counterparty having been granted forbearance measures to be taken as the result of a deteriorated credit rating. If a significant increase in credit risk has arisen since initial recognition, a provision is recognised which corresponds to the expected credit losses for the entirety of the remaining lifetime and the financial instrument is transferred to Stage 2. The model is symmetrical, meaning that, if the financial instrument's credit risk decreases and there is therefore no longer a significant increase in credit risk since initial recognition, the financial asset is transferred back to Stage 1.

Customers who requested COVID-19 payment holidays were not automatically considered to have a significant increase in credit risk.

Model-based calculation

The calculations of expected credit losses are primarily affected by the risk parameters 'probability of default' (PD), 'exposure at default' (EAD) and 'loss given default' (LGD). Expected credit losses are determined by calculating PD, EAD and LGD up to the expected final maturity date of the agreement. The three risk parameters are multiplied and adjusted by the survival probability or, alternatively, the probability that a credit exposure has not defaulted or been repaid in advance. The estimated expected credit losses are then discounted back to the reporting date using the original effective interest rate and are summed up. Total credit losses in Stage 1 are calculated using the probability of default within a 12 month period, while for Stage 2 and Stage 3, the calculation uses the probability of default during the asset's time to maturity.

Models for risk parameters and expected lifetime

The risk parameters PD, LGD and EAD are calculated for every agreement and future point in time, based on statistical models. These models are, as far as possible, founded on the relationships between the significant risk factors and relevant risk outcomes. In cases where the Handelsbanken Group lacks sufficient information due to, for example, too few defaults, the data is complemented with external information. The historical outcomes are analysed with regard to the correlation in agreement-specific risk factors such as product type, internal rating, length of customer relationship, collateral type, loan-to-value ratio, unemployment and GDP growth. The risk factors identified as significant for a specific risk parameter are included in the model and the historical correlation is quantified.

Probability of default (PD)

PD refers to the probability that a customer or an agreement will go into default at a given point in time during the asset's remaining lifetime. 12-month PD refers to the probability of default during the coming 12-month period. Lifetime PD refers to the probability of default during the asset's remaining lifetime (up to a maximum of 30 years). The future PDs are forecast on the reporting date, using forward-looking macroeconomic scenarios and current agreement and counterparty information. The forecast risk of default takes into account the development of scenarios and the probability of migrations between different states over time. The models calculate annual migration and default probabilities, whereby the migration model presents a probability that the agreement will belong to a particular state with a given risk of default in the future.

The agreements expected PD for a given year is calculated as the probability-weighted PD over all conceivable states and scenarios. Expected PD for the remaining lifetime is based on the annual expected default forecasts and the probability that the agreement will be subject to early repayment. The degradation of an economic outlook based on forecast macroeconomic risk factors for each scenario, or an increase in the probability that the negative scenario will be realised, results in a higher PD.

Exposure at default (EAD)

EAD refers to the expected credit exposure at default. On the reporting date, future exposure at default is forecast on the basis of current repayment plans, the probability of early repayment and the expected utilisation of, for example, credit facilities, financial guarantees and loan commitments. EAD is forecast on an annual basis and comprises the amount at which losses and recoveries take place in conjunction with future defaults.

Expected lifetime

An instrument's expected lifetime is relevant to both the assessment of significant increase in credit risk, which takes into account changes in PD during the expected remaining lifetime, and the measurement of expected credit losses for the asset's expected remaining lifetime. The expected lifetime is considered when calculating the remaining PD, by weighing the forecast annual PD values during the agreement's contractual duration against the probability that the agreement will not be subject to early repayment before defaulting. The probability of the agreement being subject to early repayment is based on statistical analysis and is included as a component of the model for EAD. Potential risk factors in the form of agreement, counterparty and macroeconomic risk factors have been assessed in the analysis. The risk factors identified as significant are included in the model. In several cases, no significant risk factors for early repayment are identified other than counterparty type and rating. These risk factors are, however, affected by forward-looking macroeconomic scenarios, which means that early repayment is indirectly dependent on forward-looking macroeconomic scenarios. For revolving credits with no maturity date, such as credit cards, and mortgage loans with interest-rate fixing periods of a maximum of three months, a 30-year maturity from the reporting date is applied, meaning that the expected lifetime is, in practice, defined by the behaviour-based statistical model.

Loss given default (LGD)

LGD reflects the financial loss which the Bank expects to incur in the event of default. The most important risk factors when calculating LGD are the value and type of collateral, and the characteristics of the counterparty. Forward looking macroeconomic risk factors are reflected in the LGD calculations through their impact on the value of collateral and the loan-to-value ratio. The quantification of the loss is divided between a probability that the counterparty recovers without causing the Bank any financial loss and a recovery rate if the counterparty does not recover. The recovery rate is affected by the loan-to-value ratio, in that a higher loan-to-value ratio is associated with a lower recovery rate. The most recently obtained valuation of collateral is included in the majority of LGD models. The collateral value of properties, and thus the loan-to-value ratio and the recovery rate, is affected by the price trend for the property, whereby an expected decline in real estate values pushes up the loan-to-value ratio and the expected loss given default.

Manual calculation

Assets in Stage 3 are tested for impairment on an individual basis using a manual process. This testing is carried out on a regular basis and in conjunction with every reporting date by the bank branch with business responsibility (unit with customer and credit responsibility) and is decided by the regional or central credit departments, or the Bank's Board.

Impairment testing is carried out when there are objective circumstances which indicate that the counterparty will not be able to fulfil its contractual obligations, according to the definition of default. Such objective circumstances could be, for example, late payment or non-payment, a change in the internal rating, or if the borrower enters bankruptcy.

Impairment testing involves an estimation of the future cash flows and the value of the collateral (including guarantees).
Consideration is normally given to at least two forward-looking scenarios for expected cash flows, based on both the customer's repayment capacity and the value of the collateral. The outcome of these scenarios is probability-weighted and discounted with the claim's original effective interest rate. The scenarios used may take into account both macro-economic and agreement-specific factors, depending on what is deemed to affect the individual counterparty's repayment capacity and the value of the collateral. The assessment takes into account the specific characteristics of the individual counterparty. An impairment loss is recognised if the estimated recoverable amount is less than the carrying amount.

Expert-based calculation
Expert-based calculation is also carried out for credit losses on agreements in Stage 1 and Stage 2, in order to incorporate the estimated impact of factors not deemed to have been considered in the model (Stage 1 and Stage 2) or not deemed to have been considered in manual calculation (Stage 3). The model-based calculations are constructed with the ambition of making as accurate estimations as possible of the individual contributions to the overall provision requirement. However, it is very difficult to incorporate all of the particular characteristics that define an individual agreement into a general model. For this reason, a manual analysis is carried out of the agreements which give the largest contributions to the overall provision requirement. For examples of these adjustments, see page 76 where post-core model adjustments (e.g. COVID-19) have been explained.

The manual analysis aims to apply expert knowledge about the individual credits to an assessment of whether the model-based calculations or manual calculations need to be replaced with an expert-based calculation. An expert-based calculation may entail either a higher or lower provision requirement than the original calculation.

Expert-based calculation can also be carried out at a more aggregate level to adjust the model-based calculations for a sub-portfolio or similar. These adjustments are distributed proportionally over the agreements involved. An expert-based calculation may entail either a higher or lower provision requirement than the original calculation.

Recognition and presentation of credit losses
Financial assets measured at amortised cost are recognised on the balance sheet at their net value, after the deduction of expected credit losses.

Off-balance sheet items (financial guarantees and irrevocable loan commitments) are recognised at their nominal values. Provisions for expected credit losses on these instruments are recognised as a provision on the balance sheet.

For financial assets measured at amortised cost and off-balance sheet items, the period's credit losses (expected and actual) are recognised in the income statement under the item Net credit gain / (losses). The item Credit losses consists of the period's provisions for expected credit losses, less reversals of previous provisions, as well as write-offs and recoveries during the period.

Write-offs consist of incurred credit losses, less reversals of previous provisions for expected credit losses in Stage 3 and may refer to either the entirety or parts of a financial asset. Write-offs are recorded when there is deemed to be no realistic possibility of repayment. Following a write-off, the claim on the borrower and any guarantor normally remains and is thereafter, as a rule, subject to enforcement activities.

Enforcement activities are not pursued in certain situations, such as when a trustee in bankruptcy has submitted their final accounts of the distribution of assets in conjunction with the bankruptcy, when a scheme of arrangement has been accepted or when a claim has been conceded in its entirety. Claims for which a concession is granted in conjunction with a restructuring of financial assets are always recognised as actual credit losses. Payments to the Bank in relation to written-off financial assets are recognised in income as recoveries. Further information on credit losses is provided in note 9.

Default/Credit-impaired assets
The Bank's definition of default is identical to that applied in the Capital Requirements Regulation (CRR), entailing either that the counterparty is over 90 days overdue with a payment or that an assessment has been made that the counterparty will be unable to fulfil its contractual payment obligations. Such an assessment implies that it is deemed to be more likely than not that the borrower will be unable to pay. The assessment is founded on all available information about the borrower's repayment capacity. Consideration is given to indicators of insolvency such as insufficient liquidity, late/cancelled payments, records of non-payment or other signs of impaired repayment capacity. Other signals may include the borrower entering into bankruptcy or the granting of a substantial concession entailing a decrease in the value of the Bank's claim on the borrower.

The probability of default is calculated before each reporting date and is incorporated in the assessment of whether there has been a significant increase in the credit risk since the initial recognition, as well as in the calculation of expected credit losses for financial assets in Stage 1 and Stage 2.

A credit-impaired financial asset, which is an exposure in Stage 3, is defined as an exposure in default. This means that the assessment for accounting purposes is consistent with the assessment used in the Bank's credit risk management.

Interest
In Stage 1 and Stage 2, recognition of interest income attributable to items on the balance sheet is based on gross accounting, which means that the full amount of interest income is recognised in Net interest income.

In Stage 3, interest income is recognised net, that is, taking impairment into account. For Stage 3 assets that are subsequently no longer credit impaired (i.e. cured) the Bank reverts to calculating interest income on a gross basis and any unrecognised interest is recognised as a reversal of credit losses.

Modified financial assets
A loan is seen as modified when the terms and provisions which determine the cash flows are amended relative to those in the original agreement as the result of forbearance or commercial renegotiations. Forbearance refers to changes to terms and conditions in conjunction with restructurings or other financial relief measures implemented with the objective of securing repayment in full, or of maximising the repayment of the outstanding loan amount, from lenders experiencing, or facing, financial difficulties. Commercial renegotiations refer to changes to terms and conditions which are not related to a borrower's financial difficulties, such as changes in the cash flow for a loan arising due to changes in market conditions with regard to repayment or interest.

If the cash flows from a financial asset which is classified as measured at amortised cost have been modified, but the cash flows have not significantly changed, the modification does not normally cause the financial asset to be derecognised from the balance sheet. In such cases, the gross carrying amount is recalculated on the basis of the changed cash flows of the financial asset, and the adjustment amount is recognised in the income statement.

As there may be various reasons for implementing a modification, there is no conditional connection between modifications and assessed credit risk. When a financial asset is subject to forbearance measures and the asset remains based on the outcome of the assessment made when granting the concession on the balance sheet, it is classified in Stage 2 or Stage 3. The assessment involves a check of whether a provision is required for credit loss, or other circumstance which results in classification in Stage 3.

If a financial asset is modified in a way that results in significantly changed cash flows, the modified financial asset is derecognised from the balance sheet and replaced with a new agreement. In such cases, the modification date constitutes the initial recognition date for the new agreement and is used thereafter for the calculation of expected credit losses and for the assessment of whether there has been a significant increase in the credit risk since the initial recognition.

(j) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, it is deemed to be, or to contain, a lease. To assess whether a contract conveys the right to control the use of an asset, the Bank must assess whether:

i. The contract involves the use of an identified asset;

ii. The Bank has the right to direct the use of the asset, explicitly or implicitly;

iii. The Bank has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

iv. The Bank has the right to operate the asset.

Handelsbanken plc has leasehold interests in its branch, regional and head office premises. The leases are negotiated on commercial terms and incorporate the usual tenant covenants and restrictions expected in a standard commercial lease. Some of the tenant's leasehold covenants may be specific to individual premises or specific to the individual commercial terms of the transaction. The Bank considers all the leasehold covenants and restrictions carefully and any impact they may have on the Bank before committing to the lease.

The average remaining term of the leases is 4 years and 6 months.

Discount rates

Under IFRS 16, lease payments are discounted at the interest rate implicit in the lease, if this can be determined, otherwise the incremental borrowing rate can be used. The Bank's assessment is that it is not be possible to determine the implicit interest rates for leases, therefore the discount rate will be the Group's incremental borrowing rate, taking into account the individual circumstances of each lease, including currency and duration.

The incremental borrowing rate reflects the interest rate that the market considers to correspond to Handelsbanken Group's credit risk and general interest rate risk.

The Handelsbanken Group's funding strategy is managed centrally by Treasury in Stockholm. The Bank is covered by a guarantee on liquidity support. The Bank therefore applies the internal interest rate(s) as stated above as the discount rate when calculating the lease liability.

The borrowing rate varies between different currencies, because the market rate, including the cost of converting the loan to the desired currency and the interest-fixing period, differ for each currency.

Since Handelsbanken Group does not issue bonds at any given time, a method must be used to estimate the borrowing rate in the currencies in which the Bank has leases. The most significant borrowing currency for the Group is Euros, however for the Bank this is Sterling. One method of estimating the borrowing rate is to use prices from the secondary market for the Group's issued bonds in Euros, with different remaining maturities, and then adjust for the cost of converting to Sterling through currency interest rate swaps. When comparing this method with the indicative prices that agents quote, it is apparent that the method provides a good estimate of the borrowing rate. One difference that exists is the so-called "New issue premium", which is a premium offered to investors at the time of a new issue and is thus not included in prices from the secondary market. To adjust for this effect, 15bp is added to all interest curves and maturities.

Handelsbanken plc as lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. Lease liabilities are recognised to make lease payments and right-of-use assets are recognised to represent the right to use the underlying assets.

I. *Right-of-use assets*

When determining the value of the right-of-use asset and lease liability, the Bank includes initial direct costs attributable to the right of use asset, however the Bank excludes both VAT and property tax from the initial cost, with property tax being treated as a variable lease payment.

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Right-of-use assets are tested for impairment in accordance with IAS 36 when impairment indicators exist.

II. *Lease liabilities*

At the commencement date of the lease, a lease liability is recognised at the present value of future lease payments made over the lease term, discounted at the Bank's incremental borrowing rate.

The lease payments include fixed payments less any incentives receivable, variable lease payments that depend on an index or a rate, and any amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments).

When the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset or is recorded in the income statement if the carrying amount of the asset has been reduced to zero.

III. *Short-term and leases of low-value assets*
The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less from the transition date.

For low value assets, the Bank has adopted the IASB indicative figure of USD 5,000 (Circa £4,000) as the low value threshold. Lease payments for these leases are recognised as an expense on a straight-line basis over the lease term.

Handelsbanken plc as lessor
All leases where the Bank is the lessor have been defined as finance leases.

The accounting policies applied are consistent with those detailed above for right-of-use assets and lease liabilities. Finance lease agreements where the Bank is the lessor are accounted for as loans on the balance sheet, initially for an amount corresponding to the net investment. Lease fees received are recognised on a continual basis as interest income or repayments. Finance leases are subject to impairment testing, in the same way as other financial assets measured at amortised cost.

(k) Intangible assets

Recognition on the balance sheet
An Intangible asset is an identifiable non-monetary asset without physical form. An Intangible asset is only recognised on the balance sheet if the probable future economic benefits attributable to the asset will flow to the Bank and if the acquisition cost can be reliably measured. This means that internally generated values in the form of goodwill, trademarks, customer databases and similar are not recognised as assets on the balance sheet.

Investments in software developed in-house are recognised as an expense on a current basis to the extent that the expenditure refers to maintenance of existing business operations or software. In the case of in-house development of new software, or development of existing software for new business operations, the expenditure incurred that can be reliably measured is capitalised from the time when it is probable that economic benefit will arise. Expenditure arising from borrowing costs is capitalised from the date on which the decision was made to capitalise expenditure for development of intangible assets.

Intangible assets with a finite useful life
Intangible assets for which it is possible to establish an estimated useful life are amortised. The amortisation is on a straight-line basis over the useful life of the asset. Internally developed software is normally amortised over five years. Intangible assets with an indefinite useful life are reviewed for impairment when there is an indication that the asset may be impaired. The impairment test is performed according to the same principles as for intangible assets with an indefinite useful life, i.e. by calculating the recoverable amount of the asset.

(l) Property and equipment
The Bank's tangible non-current assets consist of property and equipment, these assets are recorded at cost of acquisition less accumulated depreciation and impairment losses.

Depreciation is based on the estimated useful lives of the assets. A linear depreciation plan is usually applied. The estimated useful lives are reviewed annually. Building fixtures and fittings are depreciated over five years, personal computers and other IT equipment are usually depreciated over three years and investments in premises over the lease term.

Impairment testing of property and equipment is carried out when there is an indication that the value of the asset may have decreased. Impairment losses are recognised in cases where the recoverable amount is less than the carrying amount. Any impairment losses are recognised immediately in the income statement. An impairment charge is reversed if there is an indication that there is no longer any impairment loss and there has been a change in the assumptions underpinning the estimated recoverable amount.

(m) Provisions
Provisions consist of recognised expected negative outflows of resources which are uncertain in terms of timing or amount. Provisions are reported when the Bank, as a consequence of past events, has a legal or constructive obligation, and it is probable that an outflow of resources will be required to settle the obligation. For recognition it must be possible to estimate the amount reliably. The amount recognised as a provision corresponds to the best estimate of the expenditure required to settle the obligation at the balance sheet date. The expected future date of the settlement is taken into account in the estimate.

(n) Equity
Equity includes the components described below:

Share premium reserve
The share premium reserve comprises of amounts that, in the issue of shares exceeds the quotient value of the shares issued, and premiums arising upon the transfer of assets and liabilities from SHB upon the creation of Handelsbanken plc .

Retained earnings including profit for the year / period
Retained earnings comprise of the profits generated from the current and prior year(s).

(o) Income

Net interest income
Interest income and interest expense are calculated and recognised by applying the effective interest method or, where considered appropriate, by applying a method that results in an amount constituting a reasonable estimate of the results of a calculation based on the effective interest method. Effective interest includes fees which are considered an integral part of the effective interest rate of a financial instrument (generally fees received as compensation for risk). The effective interest rate corresponds to the rate used to discount future contractual cash flows to the carrying amount of the financial asset or liability.

Interest income and interest expense are recognised as Net interest income in the income statement. Net interest income also includes fees for state guarantees, such as deposit guarantees.

Income is recognised at the point in time at which the performance obligation is satisfied, which corresponds to the transfer of control over the service to the customer. The total income is divided between each service and recognition in income depends on whether the services are fulfilled at a specific point in time, or over time.

The following principles apply to the time at which income is recognised:

- income earned gradually as the services are performed is recognised at the rate these services are delivered, i.e. on a straight-line basis ‘over time’. This is due to the fact that the customer receives and consumes the service simultaneously, meaning that the Bank’s obligation is fulfilled in line with the rendering of the service; and
- income attributable to a specific service or action is recognised when the service has been performed, i.e. at a specific ‘point in time’. Examples of such income are brokerage and payment commissions.

The income recognised must reflect the expected income. When the income includes variable reimbursement, such as a refund, bonus or performance-based element, the income is recognised only when it is highly probable that no repayment of the amount will take place.

Payments are made on a regular basis as the services are performed and advance payments refer to a maximum of 12 months into the future. Accrued income is recognised for services that have been performed but which have not yet been paid for. Deferred income is recognised for payments received for services which have not yet been performed. Income from contracts with customers constitutes an immaterial proportion of the items Other accrued income and Deferred income. Additional expenditure required to obtain a contract with a customer is not recognised as an asset (prepaid expense), and is instead recognised as an expense during the accounting period in which it arises.

Net fee and commission income
Income and expense for various kinds of services are recognised in the income statement under the items Fee and commission income and Fee and commission expense, respectively. This means that brokerage income and various types of management fees are recognised as commissions.

Other forms of income recognised as commission are payment commissions and card fees, as well as premiums referring to financial guarantees issued. Guarantee commissions that are comparable to interest and fees that constitute integrated components of financial instruments and therefore are included when calculating the effective interest are recognised under Net interest income and not commissions. Fee and commission expense is transaction-based and directly related to transactions for which the income is recognised as fee and commission income.

Net gains/losses on financial transactions
Gains/losses on financial instruments at amortised cost consist of realised gains and losses on financial assets and liabilities classified as measured at amortised cost, such as early repayment charges for loans redeemed ahead of time.

(p) Employee benefits

Personnel cost
Personnel costs consist of salaries, pension costs and other forms of direct staff costs including social security costs and payroll overheads. Any remuneration in connection with terminated employment is recognised as a liability when the agreement is reached and amortised over the remaining employment period.

Accounting for pensions
The Bank participates in a defined contribution scheme, the ‘Svenska UK Retirement and Death Benefits Scheme (Defined Contribution Section)’. The pension scheme is set up under trusts and the assets are held separately from those of the Bank.

The Bank makes contributions on behalf of employees to the scheme in accordance with the rules of the scheme, with no legal or constructive obligation to pay further amounts.

Handelsbanken plc also makes contributions to the personal pension schemes of certain employees. The Bank treats its contributions to these schemes as if they were contributions to a defined contribution scheme on the grounds that the assets and liabilities of the scheme are not separately attributable to the Bank.

Both of these types of contributions are recognised as expenses in the income statement during the time which services are rendered by employees.

Oktogonen profit-sharing scheme
The Bank participates in a profit-sharing scheme, managed by the Oktogonen Foundation. The Oktogonen Foundation was established by Svenska Handelsbanken to allow employees to share in Handelsbanken Group’s profits when prescribed targets are achieved, on an annual basis.

In accordance with the scheme and as advised by Svenska Handelsbanken, and as applicable for financial year’s up to and including 31 December 2019, the Bank made an annual payment to the Oktogonen Foundation in respect of their employees when the Group’s corporate goals are met. For financial years ending 31 December 2020 (payable in 2021) and beyond, the Bank will make payments to a UK trust, which will buy shares to put into the Share Incentive Plan described in page 41 of the directors report.

The annual payment represents the profit share, and includes the employer-related tax liability, and is recognised as an expense in the income statement.

(q) Taxes

The tax expense for the period consists of current tax and deferred tax. Current tax relates to the tax charge for the current period and any adjustment in relation to prior periods. Deferred tax relates to temporary differences between the carrying amount of an asset or liability and its taxable value.

Current tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

(r) Key judgements and estimates

In certain cases, the application of the Bank's accounting policies means that assessments must be made that have a material impact on amounts reported. The amounts reported are also affected, in a number of cases, by estimates and assumptions about the future. Such assumptions always imply a risk for adjustment of the reported value of assets and liabilities. The assessments and assumptions applied always reflect the management's best and fairest assessments and are continually subject to examination and validation. The following assessments and assumptions have had a material impact on the financial statements.

Information about estimates and key assumptions is included in the following notes:

- Provisions, see notes 1(m) and note 22; and
- Estimating the incremental borrowing rate, see note 1(j)

Areas of significant judgement around the accounting for COVID-19 in the Financial Statements

The main areas where the Bank has used significant judgement when accounting for COVID-19 are as follows:

- The assumptions used in ECL provision calculations (see the Manual and expert-based calculation section at the end of note 1(r)),
- The impact on future cash flows included in the value in use calculation used in the impairment review of Handelsbanken Wealth & Asset Management (see Impairment testing of investment in subsidiary below in note 1(r)),
- The assumptions used in relation to present and potential conditions, including projections for profitability, future cash flows and capital resources in making the going concern assessment (see note 1 (a)),
- The assumptions used when determining the lease terms, where the Bank is both the lessee (IFRS 16 see Note 27) and the lessor (Asset Financing see the risk and capital management section of the strategic report on pages 44-55),
- Impairment of Property and Equipment (see note 15) and Intangible Assets (see notes 14 and 1(r), below).

Impairment of intangibles

The Bank has intangible assets with a carrying amount of £26.0 million (2019: £23.4 million). Intangible assets comprise internally developed software that is amortised over their useful lives on a straight-line basis from the time they are available for use. These intangible assets are regularly reviewed for impairment and whenever there is an indication that an impairment might exist. The intangible assets that are not yet available for use are subject to at least annual impairment testing.

Impairment testing of investment in subsidiary, Handelsbanken Wealth & Asset Management Ltd

The Bank tests for impairment at each balance sheet date. During 2020 it was concluded that the Bank's investment in Handelsbanken Wealth & Asset Management Ltd is not impaired. An investment in a subsidiary is considered impaired when the carrying amounts exceeds the recoverable amount. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value in use. Impairment testing of the Bank's investment involves significant judgements in determining both the value in use and fair value less costs to sell. Specifically estimating the present values of future cash flows which are expected to arise from continuing to hold the investment as well as performing a benchmark analysis of the fair values of similar UK asset management firms. Estimated cash flows are forecasted over a 20 year period, consisting of a 5 year forecast, and then an assumed long term growth rate of 2 per cent for years 6 - 20. The cash flows are discounted at a rate based on a risk-free interest rate and a risk adjustment corresponding to the market's average return requirement. In the annual impairment test, the discount rate was 5.69 per cent (2019: 5.72 per cent) after tax. The calculated value in use is sensitive to a number of different variables, which are significant for expected cash flows and the discount rate.

As at 31 December 2020, the carrying amount is sufficiently below the recoverable amount in the annual impairment test of the Bank's investment in Handelsbanken Wealth & Asset Management Ltd to conclude that the asset is not impaired.

Credit losses

The calculation of expected credit losses involves a number of assumptions and assessments. The valuation of expected credit losses is inherently associated with a certain degree of uncertainty. Areas involving a high degree of assumptions and assessments are described below under the respective headings.

Future-oriented information in macroeconomic scenarios

The Bank continuously monitors macroeconomic developments. Through this monitoring, the Handelsbanken Group develops the macroeconomic scenarios which form the basis for the future-oriented information used in the model-based calculation of expected credit losses. The Bank reviews the output from the models and assesses the results for reasonableness. The capacity of the Bank's customers to fulfil their contractual payments varies in line with macroeconomic developments. Consequently, future macroeconomic developments have an impact on the Bank's view of the provision needed to cover expected losses. The calculation of the provision requirement for expected credit losses is based on the base scenario proposed by Svenska Handelsbanken's macroanalysis unit. As the losses may be more highly affected by a future deterioration of economic trends than by the equivalent improvement, the Bank uses at least two alternative scenarios to take into account the non-linear aspects of expected credit losses. These alternative scenarios represent conceivable developments, one significantly worse and one significantly better than the base scenario. The most significant macroeconomic risk factors have been selected on the basis of Handelsbanken's loss history over the past decade, supplemented with experience-based assessments. These macroeconomic risk factors are then used as macroeconomic risk factors in the quantitative statistical models for forecasting migrations, defaults, loss rates and exposures. Macroeconomic risk factors include unemployment, key/central bank rates, GDP, inflation and property prices. The Bank's business model, to offer credit to customers with a high repayment capacity, means that the connection between the macroeconomic developments and the provision requirement is not always especially strong.

The macroeconomic scenarios were regularly updated during the year based on the current market conditions, specifically in response to COVID-19. The provision requirement in 2020 has increased due to updated values relating to forward looking macroeconomic risk factors. The provision requirement has also increased due to negative rating migrations but this is mitigated to some extent by reduced exposures. The provision requirement has also increased during the year as a result of an expert-based COVID-19 pandemic effect.

Significant increase in credit risk
The Bank makes an assessment at agreement level at the end of each reporting period as to whether there has been a significant increase in credit risk since initial recognition.

Model-based calculation
The quantitative models which form the basis for the calculation of expected credit losses for agreements in Stage 1 and Stage 2 use several assumptions and assessments. One key assumption is that the quantifiable relationships between macroeconomic risk factors and risk parameters in historical data are representative for future events. The quantitative models applied are based on a history of approximately 10 years, although this history varies by product and region due to inconsistency in the availability of historical outcomes. The quantitative models have been constructed with the help of econometric models, applying the assumption that the observations are independently conditioned by the risk factors. This means that the risk parameters can be predicted without distortion. Furthermore, a selection of the most significant macroeconomic risk factors is made on the basis of the macroeconomic risk factors' ability to demonstrate to individual risk parameters. The selection of the macroeconomic risk factors and specification of the model are based on achieving a balance between simplicity, demonstrative ability and stability.

The calculation of expected credit losses pursuant to IFRS 9 applies forward-looking information in the form of macro scenarios (one base, one positive and one negative) with relevant macroeconomic risk factors, such as unemployment, key/central Bank rates, GDP, inflation and property prices. The various scenarios are used to adjust the risk parameters. Every macroeconomic scenario is assigned a probability and the expected credit losses are obtained as a probability-weighted average of the expected credit losses for each scenario. The normal scenario, or base case, is assigned a weighting of 70% (2019:60%), while an upturn in the economy is assigned a weighting of 15% (2019:15%) and a downturn in the economy is assigned a weighting of 15% (2019:25%). The following table presents the minimum, maximum and average forecasts for some of the central risk factors and scenarios for the next five years. These have formed the basis for the calculation of expected credit losses in Stage 1 and Stage 2 as at 31 December 2020 and 31 December 2019, respectively.

Macro scenarios

	Minimum						Average						Maximum					
	Downturn		Base case		Upturn		Downturn		Base case		Upturn		Downturn		Base case		Upturn	
Macro factors	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
GDP growth	-1.29	-0.90	1.58	1.00	1.28	1.20	1.52	1.50	2.19	1.61	2.81	1.71	3.08	1.90	2.80	1.77	4.99	2.60
Unemployment rate	6.60	4.80	4.35	4.10	4.25	3.50	7.61	5.18	5.21	5.04	4.58	4.90	8.60	5.80	6.50	5.20	5.32	5.20
Policy interest rate	0.10	0.25	0.10	0.75	0.10	1.35	0.10	2.40	0.21	2.59	0.38	2.71	0.10	3.30	0.50	3.30	0.70	3.30
Commercial property price growth	-14.82	-4.93	-2.50	-3.83	2.08	-4.09	-1.42	-0.09	1.49	0.03	4.09	0.19	6.70	5.48	5.70	7.42	5.70	17.04
Residential property price growth	-9.88	-4.30	-2.48	1.41	0.15	1.55	-3.17	1.98	-0.91	2.34	1.08	2.79	0.42	4.94	0.80	3.95	2.10	8.40

The table below shows the percentage increase / decrease in the provision for the expected credit losses in Stage 1 and Stage 2, as at the balance sheet date, which arises when a probability of 100% is assigned to the negative and positive scenarios, respectively.

2020		2019	
Increase in the provision in a negative scenario, %	Decrease in the provision in a positive scenario, %	Increase in the provision in a negative scenario, %	Decrease in the provision in a positive scenario, %
11.08	-6.97	5.32	-6.05

Manual and expert-based calculation

Expert-based calculations are applied as a rule for agreements in Stage 3. Expert-based calculation is also carried out for model outcomes on agreements in Stage 1 and Stage 2, in order to incorporate the estimated impact of factors not deemed to have been considered in the model, as well as for manually calculated agreements in Stage 3. For a more detailed description of expert-based calculation, see note 1 point (i) under the headings 'Expert-based calculation'.

Post-core model adjustments (PMAs) are made to modelled output mainly to account for situations where known or expected risk factors and information can not be fully incorporated in the modelling process, for example forecast economic scenarios for uncertain political events. As of 31 December 2020, provisions include PMAs amounting to total GBP 8.3 million (2019: GBP 4.8 million). The level of PMAs is higher this year due to the impact of COVID-19. In order to take into account the impact of COVID-19, an expert-based calculation has been carried out at aggregate level to adjust the model-based calculations for selected sub-portfolios in Stage 1 and Stage 2. In order to obtain the expert-based calculation, a stressed scenario is compared with the model-based calculation. The difference between the stressed scenario and the model-based calculation constitutes the expert-based calculation. Thereafter, the Bank has assessed the probability that the outcome of the expert-based calculation will arise and arrived at an additional provision requirement. Sectors particularly vulnerable to effects of COVID-19 have been included in the calculation, as these are deemed to be most affected by the current situation.

NOTE 2 RISK MANAGEMENT

The Bank's risk management is described in the risk and capital management report on pages 44-55. Specific information about the Bank's risks are presented below.

GENERAL RISK EXPOSURE

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

2020 £'000	Gross			Provisions			Loans after deduction of provisions
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Private individuals	6,231,699	200,418	19,615	(256)	(606)	(2,420)	**6,448,450**
of which other loans with property mortgages	*5,949,635*	*187,097*	*14,359*	*(225)*	*(485)*	*(729)*	*6,149,652*
of which other loans, private individuals	*282,064*	*13,321*	*5,256*	*(31)*	*(121)*	*(1,691)*	*298,798*
Property management	11,479,333	903,662	55,782	(3,411)	(6,889)	(9,776)	**12,418,701**
Manufacturing	137,055	28,377	54	(188)	(136)	(40)	**165,122**
Retail	229,942	40,551	692	(204)	(434)	(344)	**270,203**
Hotel and restaurant	45,811	295,105	2,660	(59)	(6,041)	(228)	**337,248**
Passenger and goods transport by sea	1,072	728	-	-	(8)	-	**1,792**
Other transport and communication	107,909	3,099	15	(99)	(29)	(15)	**110,880**
Construction	195,758	18,533	2,113	(159)	(158)	(228)	**215,859**
Electricity, gas and water	24,602	418	-	(43)	(9)	-	**24,968**
Agriculture, hunting and forestry	112,291	11,278	88	(98)	(53)	(89)	**123,417**
Other services	367,812	47,957	82	(439)	(887)	(54)	**414,471**
Holding, investment, insurance companies, mutual funds etc	207,688	13,818	199	(232)	(182)	(79)	**221,212**
Other corporate lending	54,565	52,286	-	(83)	(941)	-	**105,827**
Total	**19,195,537**	**1,616,230**	**81,300**	**(5,271)**	**(16,373)**	**(13,273)**	**20,858,150**

2019 £'000	Gross			Provisions			Loans after deduction of provisions
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Private individuals	6,522,818	127,136	7,661	(271)	(303)	(2,525)	**6,654,516**
of which other loans with property mortgages	*6,130,948*	*117,468*	*3,191*	*(222)*	*(255)*	*(700)*	*6,250,430*
of which other loans, private individuals	*391,870*	*9,668*	*4,470*	*(49)*	*(48)*	*(1,825)*	*404,086*
Property management	11,622,075	843,135	66,164	(3,631)	(5,054)	(9,060)	**12,513,629**
Manufacturing	222,000	3,658	51	(190)	(98)	(39)	**225,382**
Retail	325,568	4,638	503	(405)	(67)	(273)	**329,964**
Hotel and restaurant	315,259	18,719	355	(538)	(327)	-	**333,468**
Passenger and goods transport by sea	5,092	517	-	(4)	(4)	-	**5,601**
Other transport and communication	75,720	1,488	18	(91)	(32)	(18)	**77,085**
Construction	224,028	37,316	514	(304)	(193)	(327)	**261,034**
Electricity, gas and water	26,621	4,416	-	(39)	(85)	-	**30,913**
Agriculture, hunting and forestry	155,762	7,750	160	(134)	(114)	(160)	**163,264**
Other services	501,571	7,670	9,021	(455)	(112)	(1,409)	**516,286**
Holding, investment, insurance companies, mutual funds etc	210,776	4,360	435	(254)	(63)	(227)	**215,027**
Other corporate lending	62,419	15,308	-	(86)	(294)	-	**77,347**
Total	**20,269,709**	**1,076,111**	**84,882**	**(6,402)**	**(6,746)**	**(14,038)**	**21,403,516**

NOTE 2 RISK MANAGEMENT (continued)

Credit risk exposures, breakdown by type of collateral

Only collateral used in the calculation of the capital requirement for credit risk is specified in the tables below.

2020 £'000	Residential property	Other property	Sovereigns, municipalities [1]	Guarantees[2]	Financial collateral	Collateral in assets	Other collateral	Unsecured	Total
Cash and balances with central banks	-	-	9,024,036	-	-	-	-	-	**9,024,036**
Other loans to central banks	-	-	98,393	-	-	-	-	-	**98,393**
Loans to other credit institutions	-	-	-	-	-	-	-	3,649,977	**3,649,977**
Loans to the public	12,839,102	6,923,064	33,583	3,545	47,469	167,977	30,361	813,049	**20,858,150**
Total	**12,839,102**	**6,923,064**	**9,156,012**	**3,545**	**47,469**	**167,977**	**30,361**	**4,463,026**	**33,630,556**
Off-balance sheet items									
Contingent liabilities	771,922	577,142	96,684	3,774	7,592	-	61,461	2,947,362	**4,465,937**
of which guarantee commitments	*18,757*	*16,226*	*17*	*-*	*3,214*	*-*	*-*	*749,696*	***787,910***
of which obligations	*753,165*	*560,916*	*96,667*	*3,774*	*4,378*	*-*	*61,461*	*2,197,666*	***3,678,027***
Total	**771,922**	**577,142**	**96,684**	**3,774**	**7,592**	**-**	**61,461**	**2,947,362**	**4,465,937**
Total on and off-balance sheet items	**13,611,024**	**7,500,206**	**9,252,696**	**7,319**	**55,061**	**167,977**	**91,822**	**7,410,388**	**38,096,493**

[1] Refers to direct sovereign exposures and government guarantees
[2] Does not include government guarantees

2019 £'000	Residential property	Other property	Sovereigns, municipalities [1]	Guarantees[2]	Financial collateral	Collateral in assets	Other collateral	Unsecured	Total
Cash and balances with central banks	-	-	6,948,123	-	-	-	-	-	**6,948,123**
Other loans to central banks	-	-	81,671	-	-	-	-	-	**81,671**
Loans to other credit institutions	-	-	-	-	2,914,858	-	-	29,651	**2,944,509**
Loans to the public	12,954,673	7,143,402	-	5,428	43,993	158,754	60,272	1,036,994	**21,403,516**
Total	**12,954,673**	**7,143,402**	**7,029,794**	**5,428**	**2,958,851**	**158,754**	**60,272**	**1,066,645**	**31,377,819**
Off-balance sheet items									
Contingent liabilities	761,904	588,219	96,683	6,608	6,869	-	92,149	2,874,114	**4,426,546**
of which guarantee commitments	*-*	*-*	*16*	*-*	*-*	*-*	*-*	*783,485*	*783,501*
of which obligations	*761,904*	*588,219*	*96,667*	*6,608*	*6,869*	*-*	*92,149*	*2,090,629*	*3,643,045*
Total	**761,904**	**588,219**	**96,683**	**6,608**	**6,869**	**-**	**92,149**	**2,874,114**	**4,426,546**
Total on and off-balance sheet items	**13,716,577**	**7,731,621**	**7,126,477**	**12,036**	**2,965,720**	**158,754**	**152,421**	**3,940,759**	**35,804,365**

[1] Refers to direct sovereign exposures and government guarantees
[2] Does not include government guarantees

NOTE 2 RISK MANAGEMENT (continued)

LIQUIDITY RISK

Contractual maturity analysis

The following table summarises the contractual maturity profile of undiscounted cash flows of the Bank's financial assets and liabilities. Loans and deposits to / from the public are shown in accordance with their contractual maturity rather than their next repricing date or behavioural characteristics. Fixed rate lending is assumed to refinance at the end of initial benefit, rather than the end of term.

2020 £'000	Up to 30 days	31 days - 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years	Unspecified maturity	Total
Assets								
To central banks	9,024,036	-	-	-	-	-	98,393	**9,122,429**
To credit institutions	3,559,434	-	90,543	-	-	-	-	**3,649,977**
Loans to public	1,144,945	2,510,243	2,238,016	3,750,597	7,792,599	3,421,750	-	**20,858,150**
Other	-	-	-	-	-	-	183,369	**183,369**
of which shares and participating interests	-	-	-	-	-	-	*44,119*	*44,119*
of which other	-	-	-	-	-	-	*139,250*	*139,250*
Total	**13,728,415**	**2,510,243**	**2,328,559**	**3,750,597**	**7,792,599**	**3,421,750**	**281,762**	**33,813,925**
Liabilities								
To credit institutions	179,171	965,847	903,433	2,559,228	3,214,635	1,411,997	-	**9,234,311**
Deposits from public	17,553,418	1,436,158	100,148	-	1,000	-	-	**19,090,724**
Issued securities	1,023,838	1,956,290	-	-	-	-	-	**2,980,128**
of which CDs less than one year	*1,023,838*	*1,956,290*	-	-	-	-	-	*2,980,128*
Other	-	-	-	-	-	-	116,309	**116,309**
Total	**18,756,427**	**4,358,295**	**1,003,581**	**2,559,228**	**3,215,635**	**1,411,997**	**116,309**	**31,421,472**
Off-balance sheet items								
Unutilised guarantees and loan commitments	3,678,027	-	-	-	-	-		**3,678,027**

2019 £'000	Up to 30 days	31 days - 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years	Unspecified maturity	Total
Assets								
To central banks	6,948,123	-	-	-	-	-	81,671	**7,029,794**
To credit institutions	2,813,516	61,760	69,233	-	-	-	-	**2,944,509**
Loans to public	328,173	2,173,680	1,550,607	3,077,330	8,368,473	5,905,253	-	**21,403,516**
Other	-	-	-	-	-	-	183,915	**183,915**
of which shares and participating interests	-	-	-	-	-	-	*44,119*	*44,119*
of which other	-	-	-	-	-	-	*139,796*	*139,796*
Total	**10,089,812**	**2,235,440**	**1,619,840**	**3,077,330**	**8,368,473**	**5,905,253**	**265,586**	**31,561,734**
Liabilities								
To credit institutions	130,280	569,175	1,069,786	1,969,796	5,074,094	911,146	-	**9,724,277**
Deposits from public	14,877,166	1,467,420	111,070	-	1,004	-	-	**16,456,660**
Issued securities	288,409	2,470,147	200,064	-	-	-	-	**2,958,620**
of which CDs less than one year	*288,409*	*2,470,147*	*200,064*	-	-	-	-	*2,958,620*
Other	-	-	-	-	-	-	149,333	**149,333**
Total	**15,295,855**	**4,506,742**	**1,380,920**	**1,969,796**	**5,075,098**	**911,146**	**149,333**	**29,288,890**
Off-balance sheet items								
Unutilised guarantees and loan commitments	3,643,045	-	-	-	-	-	-	**3,643,045**

NOTE 2 RISK MANAGEMENT (continued)

Maturity periods for financial assets and liabilities

The table below contains undiscounted interest flows, which means that the balance sheet items are not reconcilable with the Bank's balance sheet.

2020 £'000	Up to 30 days	31 days - 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years	Unspecified maturity	Total
Assets								
To central banks	9,024,036	-	-	-	-	-	98,393	**9,122,429**
To credit institutions	3,559,452	-	90,330	-	-	-	-	**3,649,782**
Loans to public	1,163,487	2,612,520	2,339,111	3,910,251	8,019,805	3,543,836	-	**21,589,010**
Other	-	-	-	-	-	-	183,369	**183,369**
of which shares and participating interests	-	-	-	-	-	-	*44,119*	*44,119*
of which other	-	-	-	-	-	-	*139,250*	*139,250*
Total	**13,746,975**	**2,612,520**	**2,429,441**	**3,910,251**	**8,019,805**	**3,543,836**	**281,762**	**34,544,590**
Liabilities								
To credit institutions	196,175	1,001,964	952,007	2,634,959	3,314,020	1,461,009	-	**9,560,134**
Deposits from public	17,530,357	1,436,285	100,148	-	1,000	-	-	**19,067,790**
Issued securities	1,023,863	1,956,566	-	-	-	-	-	**2,980,429**
of which CDs less than one year	*1,023,863*	*1,956,566*	-	-	-	-	-	*2,980,429*
Other							116,309	**116,309**
Total	**18,750,395**	**4,394,815**	**1,052,155**	**2,634,959**	**3,315,020**	**1,461,009**	**116,309**	**31,724,662**
Off-balance sheet items								
Unutilised guarantees and loan commitments	3,678,027	-	-	-	-	-		**3,678,027**

2019 £'000	Up to 30 days	31 days - 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years	Unspecified maturity	Total
Assets								
To central banks	6,952,405	-	-	-	-	-	81,671	**7,034,076**
To credit institutions	2,846,161	64,660	71,350	-	-	-	-	**2,982,171**
Loans to public	340,396	2,333,401	1,638,537	3,257,898	8,700,700	5,963,371	-	**22,234,303**
Other	-	-	-	-	-	-	183,916	**183,916**
of which shares and participating interests	-	-	-	-	-	-	*44,119*	*44,119*
of which other	-	-	-	-	-	-	*139,797*	*139,797*
Total	**10,138,962**	**2,398,061**	**1,709,887**	**3,257,898**	**8,700,700**	**5,963,371**	**265,587**	**32,434,466**
Liabilities								
To credit institutions	130,562	584,490	1,138,912	2,147,512	5,281,734	1,046,152	-	**10,329,362**
Deposits from public	14,907,021	1,506,903	118,247	-	1,045	-	-	**16,533,216**
Issued securities	288,826	2,475,359	200,650	-	-	-	-	**2,964,835**
of which CDs less than one year	*288,826*	*2,475,359*	*200,650*	-	-	-	-	*2,964,835*
Other	-	-	-	-	-	-	149,333	**149,333**
Total	**15,326,409**	**4,566,752**	**1,457,809**	**2,147,512**	**5,282,779**	**1,046,152**	**149,333**	**29,976,746**
Off-balance sheet items								
Unutilised guarantees and loan commitments	3,643,045	-	-	-	-	-	-	**3,643,045**

NOTE 3 NET INTEREST INCOME

2020 £'000	2020 £'000	2019 £'000
Loans to the public	601,258	668,609
Loans to credit institutions and central banks	17,699	53,720
Loans to other group undertakings	5,880	20,273
Other interest income	30,521	31,504
Total interest income	**655,358**	**774,106**
of which interest income according to the effective interest method	*655,358*	*774,106*
Deposits and borrowing from the public	(48,673)	(72,389)
Due to credit institutions and central banks	-	(1)
Due to other group undertakings	(138,531)	(164,122)
Issued securities	(14,780)	(32,212)
Lease liability	(1,625)	(1,711)
Other interest expense	(225)	(38)
Total interest expense	**(203,834)**	**(270,473)**
Net interest income	**451,524**	**503,633**

Due to the nature of the Bank's lending there is a single performance obligation, as a result there are no estimates of variable consideration that require significant judgement from management relating to COVID-19.

NOTE 4 NET FEE AND COMMISSION INCOME

	2020 £'000	2019 £'000
Payments	22,232	24,784
Loans and deposits	12,446	14,226
Intercompany commission	1,914	2,047
Guarantees	1,507	1,879
Other	326	366
Total fee and commission income	**38,425**	**43,302**
Payments	(3,213)	(3,304)
Loans and deposits	(1)	-
Intercompany commission	(34)	(62)
Other	(2)	(17)
Total fee and commission expense	**(3,250)**	**(3,383)**
Net fee and commission income	**35,175**	**39,919**

Fee and commission income refers to income from contracts with customers. Payments and loans and deposits are generally recognised in conjunction with the rendering of the service, i.e. at a specific point in time. Payments also includes the issuing and acquisition of cards. Due to the nature of the Bank's Net fee and commission income, there have been no significant judgements applied by management in relation to the COVID-19 pandemic.

NOTE 5 NET GAINS ON FINANCIAL TRANSACTIONS

	2020 £'000	2019 £'000
Foreign exchange spot instruments	10,800	12,727
Financial instruments at amortised cost	8,534	9,985
of which loans	*8,534*	*9,985*
Other	77	17
Total	**19,411**	**22,729**

NOTE 6 OTHER OPERATING EXPENSES

	2020 £'000	2019 £'000
Professional and legal fees	27,963	31,849
Intercompany recharges	28,780	28,802
IT and communication costs	9,709	15,838
Rent and premises costs	14,400	15,137
Consultancy fees	11,112	13,233
Travel, marketing & membership fees	6,097	6,859
Unrecoverable VAT on intercompany invoices	6,321	6,354
Auditors remuneration	705	726
Other operating expenses	1,116	741
Total operating expenses	**106,203**	**119,539**

For further details on intercompany recharges, please see note 30.

Auditor's remuneration	2020 £'000	2019 £'000
Fees payable to the company's auditor for the audit of the company accounts	625	625
Fees payable to the company's auditor for other services:		
Audit related assurance services	24	25
Audit services for the purpose of reporting to the company's parent	37	39
Other assurance services	19	37
Total audit and non-audit fees	**705**	**726**

NOTE 7 PERSONNEL COSTS

The average number of persons employed by Handelsbanken plc (including directors) during the period was:

Average number of employees	2020	2019
Head office and support	881	770
Branch operations	1,637	1,653
Total	**2,518**	**2,423**

Personnel costs for the above persons were:

	2020 £'000	2019 £'000
Wages and salaries	148,730	135,209
Pension costs	21,756	20,475
Social security costs	17,701	16,889
Staff benefits and other	15,426	15,836
Provision to profit sharing foundation*	3,565	(11,210)
Total	**207,178**	**177,199**

* The 2019 provision to profit sharing foundation consists of a reversal of the 2018 provision. The 2020 allocation will be paid to the SIP scheme, but has been included in this line for comparison.

NOTE 8 DIRECTORS' REMUNERATION

Handelsbanken plc considers its key management personnel to be the Executive and Non-Executive Directors

Directors' remuneration for the year, including non-executive directors (NEDs)	2020 £'000	2019 £'000
Directors' emoluments and fees*	1,849	1,704

* 2019 figures have been adjusted from £1,790,000 due to the correction of the treatment of employers' NI and certain adjustments to the UK allocation of the Chairman's remuneration

NOTE 8 DIRECTORS' REMUNERATION (continued)

Total pension contributions made by the Bank on behalf of the directors in 2020 was nil (2019: nil). Expatriate employees assigned to the UK from other locations within the Handelsbanken Group do not participate in Handelsbanken plc's UK pension scheme. Whilst Handelsbanken plc is not charged for the continuation of home base contractual pension benefits for eligible employees, the cost of continuing these benefits is included in the disclosures for completeness.

The Bank did not operate a share incentive scheme as of 31 December 2020.

During year to 31 December 2020 six (2019: six) directors were remunerated via Handelsbanken plc, the remaining one (2019: one) director was paid via Svenska Handelsbanken.

The amounts in respect of the highest paid Director were as follows:

	2020 £'000	**2019 £'000**
Directors' emoluments and fees*	987	986

* 2019 figures have been adjusted from £1,106,000 due to the correction of the treatment of employers' NI

NOTE 9 CREDIT LOSSES

Reconciliation of expected credit (losses) / gains

	2020 £'000	**2019 £'000**
Expected credit losses on balance sheet items		
Stage 3 provision	(2,992)	(1,696)
Reversal of Stage 3 provision to Stage 1 or Stage 2	2,664	3,096
Costs related to provision Stage 3	(43)	-
Total expected credit (losses) / gains in Stage 3	**(371)**	**1,400**
The year's net provision Stage 1	1,098	(2,420)
The year's net provision Stage 2	(9,624)	2,684
Total expected credit (losses) / gains in Stage 1 and Stage 2	**(8,526)**	**264**
Total expected credit (losses) / gains on balance sheet items	**(8,897)**	**1,664**
Expected credit losses on off-balance-sheet items		
The year's net provision Stage 3	-	-
The year's net provision Stage 2	(1,223)	(140)
The year's net provision Stage 1	(17)	(355)
Total expected credit losses on off-balance-sheet items	**(1,240)**	**(495)**
Write-offs		
Actual credit losses for the year[1]	(1,247)	(4,821)
Utilised share of previous provisions in Stage 3	1,016	4,524
Total write-offs	**(231)**	**(297)**
Recoveries	322	383
Net credit (losses) / gains	**(10,046)**	**1,255**
of which loans to the public	*(8,776)*	*1,229*

[1] Of the year's actual credit losses, £0.2 million (2019: £0.4 million) is subject to enforcement activities.

NOTE 9 CREDIT LOSSES (continued)

Balance sheet and off-balance sheet items that are subject to impairment testing

2020 £'000	Gross amount			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balance sheet items						
Cash and balances with central banks	9,024,036	-	-	-	-	-
Other loans to central banks	98,393	-	-	-	-	-
Loans to other credit institutions	3,650,022	-	-	(45)	-	-
Loans to the public	19,195,537	1,616,230	81,300	(5,271)	(16,373)	(13,273)
Total	**31,967,988**	**1,616,230**	**81,300**	**(5,316)**	**(16,373)**	**(13,273)**
Off-balance sheet items						
Total off-balance sheet	4,310,170	155,107	660	(682)	(1,596)	-
of which contingent liabilities	*773,169*	*14,408*	*333*	*(133)*	*(723)*	-
of which commitments	*3,537,001*	*140,699*	*327*	*(549)*	*(873)*	-
Total	**36,278,158**	**1,771,337**	**81,960**	**(5,998)**	**(17,969)**	**(13,273)**

2019 £'000	Gross amount			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balance sheet items						
Cash and balances with central banks	6,948,123	-	-	-	-	-
Other loans to central banks	81,671	-	-	-	-	-
Loans to other credit institutions	2,942,197	2,326	-	(11)	(3)	-
Loans to the public	20,269,709	1,076,111	84,882	(6,402)	(6,746)	(14,038)
Total	**30,241,700**	**1,078,437**	**84,882**	**(6,413)**	**(6,749)**	**(14,038)**
Off-balance sheet items						
Total off-balance sheet	4,362,279	61,998	2,269	(665)	(373)	-
of which contingent liabilities	*739,507*	*41,848*	*2,146*	*(154)*	*(213)*	-
of which commitments	*3,622,772*	*20,150*	*123*	*(511)*	*(160)*	-
Total	**34,603,979**	**1,140,435**	**87,151**	**(7,078)**	**(7,122)**	**(14,038)**

Key figures, credit losses

Loans to the public

	2020	2019
Credit loss / (gain) ratio, % of loans to the public acc[2]	0.04%	-0.01%
Total credit loss reserve ratio, %	0.17%	0.13%
Credit loss reserve ratio Stage 1, %	0.03%	0.03%
Credit loss reserve ratio Stage 2, %	1.01%	0.63%
Credit loss reserve ratio Stage 3, %	16.33%	16.54%
Proportion of loans in Stage 3, %	0.33%	0.33%

[2] The credit gain ratio in 2019 is due to a net credit gain of GBP 1.3 million

NOTE 9 CREDIT LOSSES (continued)

CHANGE ANALYSIS

Change in provision for expected credit losses

Balance sheet items that are subject to impairment testing

2020 £'000	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	(6,413)	(6,749)	(14,038)	**(27,200)**
Derecognised assets	327	1,211	1,615	**3,153**
Write-offs	-	-	1,016	**1,016**
Remeasurements due to changes in credit risk	(3,626)	(480)	(1,309)	**(5,415)**
Foreign exchange effect, etc	323	78	15	**416**
Originated assets	(326)	(118)	-	**(444)**
Transfer to Stage 1	(279)	418	-	**139**
Transfer to Stage 2	3,336	(13,823)	428	**(10,059)**
Transfer to Stage 3	1,342	3,090	(1,000)	**3,432**
Provision at end of year	**(5,316)**	**(16,373)**	**(13,273)**	**(34,962)**

2019 £'000	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	(4,237)	(9,998)	(19,957)	**(34,192)**
Derecognised assets	338	4,512	273	**5,123**
Write-offs	-	-	4,524	**4,524**
Remeasurements due to changes in credit risk	(4,149)	1,841	1,042	**(1,266)**
Foreign exchange effect, etc	(315)	66	280	**31**
Originated assets	(475)	(170)	-	**(645)**
Transfer to Stage 1	(364)	464	-	**100**
Transfer to Stage 2	1,453	(4,467)	505	**(2,509)**
Transfer to Stage 3	1,336	1,003	(705)	**1,634**
Provision at end of year	**(6,413)**	**(6,749)**	**(14,038)**	**(27,200)**

Loans to public

2020 £'000	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	(6,402)	(6,746)	(14,038)	**(27,186)**
Derecognised assets	316	1,204	1,615	**3,135**
Write-offs	-	-	1,016	**1,016**
Remeasurements due to changes in credit risk	(3,612)	(477)	(1,309)	**(5,398)**
Foreign exchange effect, etc	322	78	15	**415**
Originated assets	(294)	(118)	-	**(412)**
Transfer to Stage 1	(279)	419	-	**140**
Transfer to Stage 2	3,336	(13,823)	428	**(10,059)**
Transfer to Stage 3	1,342	3,090	(1,000)	**3,432**
Provision at end of year	**(5,271)**	**(16,373)**	**(13,273)**	**(34,917)**

2019 £'000	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	(4,222)	(9,980)	(19,957)	**(34,159)**
Derecognised assets	337	4,512	273	**5,122**
Write-offs	-	-	4,524	**4,524**
Remeasurements due to changes in credit risk	(4,152)	1,828	1,042	**(1,282)**
Foreign exchange effect, etc	(315)	65	280	**30**
Originated assets	(475)	(171)	-	**(646)**
Transfer to Stage 1	(364)	464	-	**100**
Transfer to Stage 2	1,453	(4,467)	505	**(2,509)**
Transfer to Stage 3	1,336	1,003	(705)	**1,634**
Provision at end of year	**(6,402)**	**(6,746)**	**(14,038)**	**(27,186)**

NOTE 9 CREDIT LOSSES (continued)

Off-balance sheet items that are subject to impairment testing

2020 £'000	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	(665)	(373)	-	**(1,038)**
Derecognised assets	68	55	-	**123**
Remeasurements due to changes in credit risk	(312)	29	-	**(283)**
Foreign exchange effect, etc	24	(8)	-	**16**
Originated assets	(81)	(61)	-	**(142)**
Transfer to Stage 1	(22)	49	-	**27**
Transfer to Stage 2	290	(1,303)	-	**(1,013)**
Transfer to Stage 3	16	16	-	**32**
Provision at end of year	**(682)**	**(1,596)**	**-**	(2,278)

2019 £'000	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	(328)	(258)	-	**(586)**
Derecognised assets	40	54	-	**94**
Remeasurements due to changes in credit risk	(256)	29	-	**(227)**
Foreign exchange effect, etc	(21)	4	-	**(17)**
Originated assets	(124)	(17)	-	**(141)**
Transfer to Stage 1	(16)	36	-	**20**
Transfer to Stage 2	37	(243)	-	**(206)**
Transfer to Stage 3	3	22	-	**25**
Provision at end of year	**(665)**	**(373)**	**-**	(1,038)

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 de-recognitions and write-offs is calculated on the opening balance. The effect of revaluations due to changes in the methodology for estimation and foreign exchange effects etc. is calculated before any transfer of the net amount between Stages. Originated assets and amounts transferred between Stages are recognised after the effects of other explanatory items are taken into account. The transfer rows represent the effect on the provision for the stated Stage.

The explanatory items are identified at the customer level.

NOTE 9 CREDIT LOSSES (continued)

CHANGE IN GROSS EXPOSURE, AND THE MAXIMUM EXPOSURE TO LOSS AT THE BEGINNING AND END OF THE PERIOD

Balance sheet items that are subject to impairment testing

2020 £'000	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	30,241,700	1,078,437	84,882	**31,405,019**
Derecognised assets	(973,396)	(93,939)	(6,534)	**(1,073,869)**
Write-offs	-	-	(1,247)	**(1,247)**
Remeasurements due to changes in credit risk	3,272,061	(605,971)	(22,656)	**2,643,434**
Foreign exchange effect, etc	(215,225)	6,298	1,917	**(207,010)**
Originated assets	884,863	14,030	298	**899,191**
Transfer to Stage 1	445,511	(445,315)	(196)	**-**
Transfer to Stage 2	(1,671,966)	1,690,728	(18,762)	**-**
Transfer to Stage 3	(15,560)	(28,038)	43,598	**-**
Exposure at end of year	**31,967,988**	**1,616,230**	**81,300**	**33,665,518**

2019 £'000	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	30,024,674	1,031,637	92,452	**31,148,763**
Derecognised assets	(1,185,858)	(109,071)	(6,459)	**(1,301,388)**
Write-offs	-	-	(4,821)	**(4,821)**
Remeasurements due to changes in credit risk	70,844	20,203	(12,451)	**78,596**
Foreign exchange effect, etc	4	(5,295)	(687)	**(5,978)**
Originated assets	1,450,223	37,150	2,474	**1,489,847**
Transfer to Stage 1	643,156	(643,156)	-	**-**
Transfer to Stage 2	(750,163)	752,839	(2,676)	**-**
Transfer to Stage 3	(11,180)	(5,870)	17,050	**-**
Exposure at end of year	**30,241,700**	**1,078,437**	**84,882**	**31,405,019**

Loans to the public

2020 £'000	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	20,269,709	1,076,111	84,882	**21,430,702**
Derecognised assets	(942,433)	(93,690)	(6,534)	**(1,042,657)**
Write-offs	-	-	(1,247)	**(1,247)**
Remeasurements due to changes in credit risk	258,911	(603,894)	(22,656)	**(367,639)**
Foreign exchange effect, etc	17,419	6,298	1,917	**25,634**
Originated assets	833,946	14,030	298	**848,274**
Transfer to Stage 1	445,511	(445,315)	(196)	**-**
Transfer to Stage 2	(1,671,966)	1,690,728	(18,762)	**-**
Transfer to Stage 3	(15,560)	(28,038)	43,598	**-**
Exposure at end of year	**19,195,537**	**1,616,230**	**81,300**	**20,893,067**

2019 £'000	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	19,516,661	1,029,080	92,452	**20,638,193**
Derecognised assets	(1,180,333)	(108,905)	(6,459)	**(1,295,697)**
Write-offs	-	-	(4,821)	**(4,821)**
Remeasurements due to changes in credit risk	571,330	20,259	(12,451)	**579,138**
Foreign exchange effect, etc	43,717	(5,277)	(687)	**37,753**
Originated assets	1,436,512	37,150	2,474	**1,476,136**
Transfer to Stage 1	643,156	(643,156)	-	**-**
Transfer to Stage 2	(750,154)	752,830	(2,676)	**-**
Transfer to Stage 3	(11,180)	(5,870)	17,050	**-**
Exposure at end of year	**20,269,709**	**1,076,111**	**84,882**	**21,430,702**

NOTE 9 CREDIT LOSSES (continued)

Off-balance sheet items that are subject to impairment testing

2020 £'000	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	4,362,279	61,998	2,269	**4,426,546**
Derecognised assets	(475,464)	(3,706)	(7)	**(479,177)**
Remeasurements due to changes in credit risk	(32,418)	(50,135)	(2,022)	**(84,575)**
Foreign exchange effect, etc	(6,037)	(600)	180	**(6,457)**
Originated assets	605,448	4,152	-	**609,600**
Transfer to Stage 1	44,756	(44,756)	-	**-**
Transfer to Stage 2	(188,283)	188,302	(19)	**-**
Transfer to Stage 3	(111)	(148)	259	**-**
Exposure at end of year	**4,310,170**	**155,107**	**660**	**4,465,937**

2019 £'000	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	4,797,947	105,549	4,880	**4,908,376**
Derecognised assets	(513,453)	(19,806)	(37)	**(533,296)**
Remeasurements due to changes in credit risk	(283,189)	(35,922)	(2,538)	**(321,649)**
Foreign exchange effect, etc	(60,616)	(1,741)	(147)	**(62,504)**
Originated assets	430,341	5,278	-	**435,619**
Transfer to Stage 1	27,518	(27,518)	-	**-**
Transfer to Stage 2	(36,248)	36,275	(27)	**-**
Transfer to Stage 3	(21)	(117)	138	**-**
Exposure at end of year	**4,362,279**	**61,998**	**2,269**	**4,426,546**

Balance sheet items, by PD range

2020	Gross volume £'000			Total
PD value[3]	Stage 1	Stage 2	Stage 3	
0.00 to <0.15	26,238,608	122,660	-	**26,361,268**
0.15 to <0.25	3,333,876	171,440	-	**3,505,316**
0.25 to <0.50	1,454,939	181,096	-	**1,636,035**
0.50 to <0.75	155,870	69,799	-	**225,669**
0.75 to <2.50	664,062	763,307	-	**1,427,369**
2.50 to <10.00	120,600	297,928	-	**418,528**
10.00 to <100	33	10,000	-	**10,033**
100 (default)	-	-	81,300	**81,300**
Total	**31,967,988**	**1,616,230**	**81,300**	**33,665,518**

2019	Gross volume £'000			Total
PD value[3]	Stage 1	Stage 2	Stage 3	
0.00 to <0.15	24,111,719	155,841	-	**24,267,560**
0.15 to <0.25	3,499,093	193,673	-	**3,692,766**
0.25 to <0.50	1,667,124	105,857	-	**1,772,981**
0.50 to <0.75	285,606	47,737	-	**333,343**
0.75 to <2.50	619,518	274,282	-	**893,800**
2.50 to <10.00	58,640	259,109	-	**317,749**
10.00 to <100	-	41,938	-	**41,938**
100 (default)	-	-	84,882	**84,882**
Total	**30,241,700**	**1,078,437**	**84,882**	**31,405,019**

NOTE 9 CREDIT LOSSES (continued)

Loans to the public, by PD range

2020 PD value[3]	Gross volume £'000 Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	13,472,803	122,660	-	**13,595,463**
0.15 to <0.25	3,334,770	171,440	-	**3,506,210**
0.25 to <0.50	1,455,317	181,096	-	**1,636,413**
0.50 to <0.75	153,825	69,799	-	**223,624**
0.75 to <2.50	658,157	763,307	-	**1,421,464**
2.50 to <10.00	120,632	297,928	-	**418,560**
10.00 to <100	33	10,000	-	**10,033**
100 (default)	-	-	81,300	**81,300**
Total	**19,195,537**	**1,616,230**	**81,300**	**20,893,067**

2019 PD value[3]	Gross volume £'000 Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	14,791,320	155,492	-	**14,946,812**
0.15 to <0.25	3,127,152	193,258	-	**3,320,410**
0.25 to <0.50	1,489,916	105,630	-	**1,595,546**
0.50 to <0.75	255,248	47,635	-	**302,883**
0.75 to <2.50	553,666	273,694	-	**827,360**
2.50 to <10.00	52,407	258,553	-	**310,960**
10.00 to <100	-	41,849	-	**41,849**
100 (default)	-	-	84,882	**84,882**
Total	**20,269,709**	**1,076,111**	**84,882**	**21,430,702**

[3] Refers to 12 month PD value as at the reporting date

Off-balance sheet items, by PD range

2020 PD value[3]	Gross volume £'000 Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	3,696,195	2,485	-	**3,698,680**
0.15 to <0.25	247,145	14,256	-	**261,401**
0.25 to <0.50	233,648	14,887	-	**248,535**
0.50 to <0.75	49,572	11,239	-	**60,811**
0.75 to <2.50	75,642	101,025	-	**176,667**
2.50 to <10.00	7,968	10,309	-	**18,277**
10.00 to <100	-	906	-	**906**
100 (default)	-	-	660	**660**
Total	**4,310,170**	**155,107**	**660**	**4,465,937**

2019 PD value[3]	Gross volume £'000 Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	3,547,875	23,792	-	**3,571,667**
0.15 to <0.25	374,900	8,174	-	**383,074**
0.25 to <0.50	270,108	6,346	-	**276,454**
0.50 to <0.75	71,895	5,369	-	**77,264**
0.75 to <2.50	92,579	10,867	-	**103,446**
2.50 to <10.00	4,922	6,120	-	**11,042**
10.00 to <100	-	1,330	-	**1,330**
100 (default)	-	-	2,269	**2,269**
Total	**4,362,279**	**61,998**	**2,269**	**4,426,546**

[3] Refers to 12 month PD value as at the reporting date

NOTE 10 CASH AND BALANCES AT BANKS

	2020 £'000	2019 £'000
Cash held at central banks	9,024,036	6,948,123
Due from other banks	35,047	29,637
Of which on demand	*35,047*	*29,232*
Of which term deposits	*-*	*405*
Cash balance at end of year	**9,059,083**	**6,977,760**
Loans to intercompany, on demand	3,614,930	2,914,872
Total	**12,674,013**	**9,892,632**
of which accrued interest income	*362*	*2,329*

NOTE 11 OTHER LOANS TO CENTRAL BANKS

	2020 £'000	2019 £'000
Cash held at central banks	98,393	81,671
of which term deposits	*98,393*	*81,671*

Other loans to central banks consist of deposits with the Bank of England which represent mandatory cash ratio deposits and are not available for use in the Bank's day-to-day operations.

NOTE 12 DUE TO / FROM OTHER CREDIT INSTITUTIONS

	2020 £'000	2019 £'000
Due from other banks	35,092	29,651
Intercompany lending	3,614,930	2,914,872
Total	**3,650,022**	**2,944,523**
Provision for expected credit loss	(45)	(14)
Total asset	**3,649,977**	**2,944,509**
of which accrued interest income	*15*	*557*
Loans from other credit institutions		
Due to other banks	1,187	1,067
Intercompany borrowing	9,233,124	9,723,210
Total liability	**9,234,311**	**9,724,277**
of which accrued interest expense	*14,158*	*19,694*

NOTE 13 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	Total £'000
Cost	
At 1 January 2019 and 1 January 2020	44,119
Impairment	
At 31 December 2019 and 31 December 2020	-
Balance	
At 31 December 2019 and 31 December 2020	44,119

The investments in subsidiaries held by the Bank during 2020 have been regularly reviewed for impairment indicators. An annual impairment review was undertaken at 31 December 2020, taking into account the current economic conditions, specific attention was given to market conditions due to the COVID-19 pandemic. No impairment was needed relating to the current COVID-19 pandemic, or any other matters during the year ended 31 December 2020.

Handelsbanken plc holds the following investments:

Name of company	UK company number	Registered address	Business	Percentage owned
Direct subsidiaries:				
Svenska Property Nominees Limited (inactive)	2308524	3 Thomas More Square, London, E1W 1WY	Financial intermediation	100
Handelsbanken Wealth & Asset Management Limited*	4132340	1 Kingsway, London, WC2B 6AN	Fund management	100
Indirect subsidiaries:				
*Handelsbanken Nominees Limited** (inactive)*	*2299877*	*77 Mount Ephraim, Tunbridge Wells, Kent, TN4 8BS*	*Administration of financial markets*	*100*
*Handelsbanken Second Nominees Limited*** (inactive)*	*3193458*	*77 Mount Ephraim, Tunbridge Wells, Kent, TN4 8BS*	*Administration of financial markets*	*100*
*Handelsbanken ACD Limited**** (inactive)*	*4332528*	*77 Mount Ephraim, Tunbridge Wells, Kent, TN4 8BS*	*Financial intermediation*	*100*

* Heartwood Wealth Management Limited changed their name with the Companies Registrar for England and Wales to Handelsbanken Wealth & Asset Management Limited on 6 November 2020
** Heartwood Nominees Limited changed their name with the Companies Registrar for England and Wales to Handelsbanken Nominees Limited on 23 October 2020
*** Heartwood Second Nominees Limited changed their name with the Companies Registrar for England and Wales to Handelsbanken Second Nominees Limited on 23 October 2020
**** Heartwood ACD Limited changed their name with the Companies Registrar for England and Wales to Handelsbanken ACD Limited on 16 October 2020

NOTE 14 INTANGIBLE ASSETS

2020	Internally developed software £'000
Cost	
At 1 January 2020	30,352
Additions	6,704
Disposals	-
At 31 December 2020	**37,056**
Accumulated amortisation and impairment	
At 1 January 2020	(6,956)
Amortisation	(2,336)
Impairment	(1,722)
Disposals	-
At 31 December 2020	**(11,014)**
Balance at 1 January 2020	23,396
Balance at 31 December 2020	**26,042**

2019	Internally developed software £'000
Cost	
At 1 January 2019	21,747
Additions	8,892
Disposals	(287)
At 31 December 2019	**30,352**
Accumulated amortisation and impairment	
At 1 January 2019	(3,462)
Amortisation	(2,359)
Impairment	(1,422)
Disposals	287
At 31 December 2019	**(6,956)**
Balance at 1 January 2019	18,285
Balance at 31 December 2019	**23,396**

Intangible assets consist of internally developed software. As at 31 December 2020 there was £19.5 million (2019: £17.2 million) of capitalised work in progress included within intangible assets that is currently not being amortised, relating to projects that have not yet been completed or have not yet met the criteria to commence amortisation.

During the annual impairment review, specific consideration was given to whether there was any impairment needed with regards to the COVID-19 pandemic, no impairment was deemed necessary.

Development costs incurred and recognised in the income statement amount to £4.8 million (2019: £2.9 million).

NOTE 15 PROPERTY AND EQUIPMENT

2020 £'000	Branch fit out	Fixtures, fittings and equipment	Computer equipment	Property	Total
Cost					
At 1 January 2020	34,581	6,655	7,788	210	**49,234**
Additions	1,606	302	1,583	-	**3,491**
Disposals	(466)	(192)	(646)	(210)	**(1,514)**
At 31 December 2020	**35,721**	**6,765**	**8,725**	**-**	**51,211**
Depreciation					
At 1 January 2020	(15,301)	(4,902)	(4,411)	-	**(24,614)**
Charge	(3,152)	(672)	(1,909)	-	**(5,733)**
Disposals	413	186	640	-	**1,239**
At 31 December 2020	**(18,040)**	**(5,388)**	**(5,680)**	**-**	**(29,108)**
Balance at 1 January 2020	19,280	1,753	3,377	210	**24,620**
Balance at 31 December 2020	**17,681**	**1,377**	**3,045**	**-**	**22,103**

NOTE 15 PROPERTY AND EQUIPMENT (continued)

2019 £'000	Branch fit out	Fixtures, fittings and equipment	Computer equipment	Property	Total
Cost					
At 1 January 2019	32,442	6,068	7,278	210	**45,998**
Additions	4,183	991	2,640	-	**7,814**
Disposals	(2,044)	(404)	(2,130)	-	**(4,578)**
At 31 December 2019	**34,581**	**6,655**	**7,788**	**210**	**49,234**
Depreciation					
At 1 January 2019	(13,997)	(4,554)	(5,083)	-	**(23,634)**
Charge	(3,041)	(711)	(1,416)	-	**(5,168)**
Disposals	1,737	363	2,088	-	**4,188**
At 31 December 2019	**(15,301)**	**(4,902)**	**(4,411)**	**-**	**(24,614)**
Balance at 1 January 2019	18,445	1,514	2,195	210	**22,364**
Balance at 31 December 2019	**19,280**	**1,753**	**3,377**	**210**	**24,620**

Included in the above was £0.2 million of property that has met the requirements to be reclassified to Assets held for sale. This reclassification was made during the year ending 31 December 2020.

The Bank has made an assessment of Property and equipment in light of the current economic environment, the majority of which relates to branch fit out and computer equipment, there is currently no indication that any impairment is needed.

NOTE 16 TAXES

Income tax expense for the year

	2020 £'000	2019 £'000
Corporation tax:		
UK corporation tax at 19%	42,226	63,894
Adjustments in respect of previous years	(755)	3,992
Total current tax charge	**41,471**	**67,886**
Deferred tax:		
Origination and reversal of temporary differences	(36)	2,659
Adjustments in respect of previous years	(318)	(2,407)
Movement in corporation tax rate	(126)	-
Total deferred tax (credit) / charge	**(480)**	**252**
Tax charge on profit on ordinary activities	**40,991**	**68,138**

NOTE 16 TAXES (continued)

The tax assessed for the year is higher (2019: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

Tax Reconciliation

	2020 £'000	**2019 £'000**
Profit on ordinary activities before taxation	160,600	251,680
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19%	30,514	47,819
Tax effects of:		
Expenses not deductible for tax purposes	572	571
Bank corporation tax surcharge	11,104	17,524
Adjustments to tax charge in respect of prior years	(755)	3,992
Adjustments to tax charge in respect of prior years deferred tax	(318)	(2,407)
Difference between corporation tax rate & deferred tax rate	-	638
Adjustment of deferred tax for rate change (revalued to 19%)	(126)	-
Other	-	1
Total tax charge	**40,991**	**68,138**

The main rate of corporation tax reduced from 20% to 19% on 1 April 2017, a further reduction to 17% was planned for 1 April 2020 but this has not been implemented. The corporation tax rate therefore remains at 19%.

The charge in respect of the corporation tax surcharge for banks which was introduced from 1 January 2016 is £11.1m in the period ended 31 December 2020. The surcharge imposes an 8% charge on the banking profits of the Group (less a £25 million allowance against those profits).

Deferred tax balance

	2020 £'000	**2019 £'000**
Holiday accrual	179	-
Fixed asset temporary differences	1,370	560
Short term temporary differences	-	508
Deferred tax assets	**1,549**	**1,068**

Deferred tax movement

	2020 £'000	**2019 £'000**
Balance at beginning of year	1,068	1,320
Income statement credit:	481	(252)
Of which fixed asset temporary differences	*(142)*	*69*
Of which holiday accrual	*179*	*-*
Of which prior year adjustment	*318*	*2,407*
Of which movement in corporation tax rate	*126*	*-*
Of which short term temporary differences	*-*	*(2,728)*
At end of year	**1,549**	**1,068**

NOTE 17 ASSETS HELD FOR SALE

	2020 £'000	**2019 £'000**
Property	210	88

Assets held for sale in 2020 consist of three premises owned by the Bank that were historically being held in Property and Equipment. During the year ended 31 December 2020 the premises were reclassified as held for sale. At the date of signing the accounts, an offer has been accepted on one property, with exchange expected to complete by the end of March 2021. The remaining two properties are currently being marketed with the aim of attracting a buyer.

Assets held for sale for the year ended 31 December 2019 consisted of the Bank acquiring a controlling interest over one property in 2019, which was subsequently sold before 31 December 2020.

NOTE 18 OTHER ASSETS

	2020 £'000	2019 £'000
VAT	4,995	6,423
Sundry debtors	3,215	4,674
Trade debtors	2,167	2,625
Other intercompany assets	1,937	2,189
Total	**12,314**	**15,911**

NOTE 19 PREPAID EXPENSES AND ACCRUED INCOME

	2020 £'000	2019 £'000
Prepayments	4,807	3,610
Other accrued income	1,784	1,625
Accrued commission income	1,285	1,192
Total	**7,876**	**6,427**

NOTE 20 DEPOSITS FROM THE PUBLIC

	2020 £'000	2019 £'000
Corporate	13,700,999	11,023,684
Private	5,378,042	5,422,780
Intercompany borrowing	11,683	10,196
Total	**19,090,724**	**16,456,660**
of which accrued interest expenses	*429*	*1,850*

NOTE 21 ISSUED SECURITIES

Issued securities consist of coupon-bearing certificates of deposit (CDs) issued in the UK money market. The CDs are used to fund the balance sheet in the short term.

£'000	2020		2019	
	Carrying	Nominal	Carrying	Nominal
Issued securities at beginning of year	2,952,600	2,952,600	4,726,900	4,734,100
Issued	8,274,800	8,274,800	9,301,633	9,313,400
Matured	(8,248,100)	(8,248,100)	(11,076,446)	(11,094,900)
Foreign exchange effect	-	-	513	-
Balance at 31 December	**2,979,300**	**2,979,300**	**2,952,600**	**2,952,600**
Accrued interest expenses	828		6,020	
Issued securities at end of period	**2,980,128**	**2,979,300**	**2,958,620**	**2,952,600**

Maturity analysis of securities

2020 £'000	Up to 30 days	31 days - 6 months	6 months - 1 year	Total
Certificate of Deposits	1,023,838	1,956,290	-	2,980,128

2019 £'000	Up to 30 days	31 days - 6 months	6 months - 1 year	Total
Certificate of Deposits	513,687	2,244,869	200,064	2,958,620

NOTE 22 PROVISIONS

£'000	Provisions for off-balance sheet items	Other provisions	2020 Total	2019 Total
Provision at beginning of year	1,038	4,606	5,644	9,894
Additional provision	-	7,918	7,918	46
Reduction in provision	-	(164)	(164)	(4,748)
Change in expected credit losses	1,240	-	1,240	452
Provision at end of year	**2,278**	**12,360**	**14,638**	**5,644**

The provision for off-balance sheet items relates to expected credit losses. See note 9 and note 26.

Other provisions mainly consist of amounts provided to restore the Bank's premises back to their original condition upon exit, provisions for Oktogonen and amounts allocated for future settlement of the claims on the Bank.

NOTE 23 OTHER LIABILITIES

	2020 £'000	2019 £'000
Sundry creditors and other liabilities	9,146	8,908
VAT	6,419	8,525
Trade creditors	2,289	2,999
Other intercompany liabilities	754	1,061
Total	**18,608**	**21,493**

Sundry creditors and other liabilities consist mainly of tax and social security costs and other liabilities.

NOTE 24 ACCRUED EXPENSES AND DEFERRED INCOME

	2020 £'000	2019 £'000
Other accrued expenses	10,994	8,487
Deferred income	6,662	10,310
Accrued commission expense	394	239
Total	**18,050**	**19,036**

Other accrued expenses consist of provisions relating to various operational accruals.

Deferred income consists mainly of fees taken in advance, that are subsequently amortised.

NOTE 25 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares of 100p each*	Ordinary shares £'000	Share premium £'000	Total £'000
At 31 December 2018	5,050,401	5,050	2,070,619	2,075,669
Shares issued during year	-	-	-	-
At 31 December 2019	**5,050,401**	**5,050**	**2,070,619**	**2,075,669**
Shares issued during year	-	-	-	-
At 31 December 2020	**5,050,401**	**5,050**	**2,070,619**	**2,075,669**

* All shares are fully paid up, carry full voting, dividend and capital distribution rights; including on a winding up. They do not confer any rights of redemption. The par value of each share is 100 pence and there is no unauthorised share capital.

NOTE 26 CONTINGENT LIABILITIES

	2020 £'000	2019 £'000
Contingent liabilities		
Credit guarantees	417,876	434,867
Other guarantees	177,330	146,447
Of which, intercompany	*49,353*	*16,810*
Of which, other	*127,977*	*129,637*
Irrevocable letters of credit	192,704	202,187
Of which, intercompany	*160,440*	*160,340*
Of which, other	*32,264*	*41,847*
Total contingent liabilities	**787,910**	**783,501**
of which subject to impairment testing according to IFRS 9	*787,910*	*783,501*
Commitments		
Loan commitments	2,768,527	2,894,740
Unutilised part of granted overdraft facilities	824,695	677,359
Other	84,805	70,946
Total commitments	**3,678,027**	**3,643,045**
of which subject to impairment testing according to IFRS 9	*3,678,027*	*3,643,045*
Provision for expected credit losses reported as provisions, see note 22	*2,278*	*1,038*

Contingent liabilities mainly consist of various types of guarantees. Credit guarantees are provided to customers in order to guarantee commitments in other credit and pension institutions. Other guarantees are mainly commercial guarantees. Contingent liabilities also comprise unutilised irrevocable import letters of credit and confirmed export letters of credit. These transactions are included in the Bank's services and are provided to support the Bank's customers. The nominal amounts of the guarantees are shown in the table.

The Bank has a process in place to track any potential claims against Handelsbanken plc to assess whether any disclosure is required. There are various litigation cases, none of which are expected to result in a contingent liability as at 31 December 2020.

NOTE 27 LEASING

LEASING AS A LESSOR

Disclosures on gross and net investments

	2020 £'000	2019 £'000
Gross investment	8,707	9,654
Unearned finance income	(110)	(335)
Net investment	**8,597**	**9,319**

Distribution by maturity

£'000	Within 1 year	Between 1 and 5 years	Later than 5 years	Total
At 31 December 2020				
Distribution of gross investment	3,053	5,654	-	8,707
Distribution of net investment	3,026	5,571	-	8,597
At 31 December 2019				
Distribution of gross investment	143	9,511	-	9,654
Distribution of net investment	142	9,177	-	9,319

All leases where the Bank is the lessor have been defined as finance leases. Lease agreements of this kind are accounted for as loans on the balance sheet, initially for an amount corresponding to the net investment. Lease assets mainly consist of vehicles and equipment.

NOTE 27 LEASING (continued)

LEASING AS A LESSEE

The Bank leases right-of-use assets, consisting of leases on properties that do not meet the definition of investment properties. Information about these leases, where the Bank is the lessee is presented below.

Right-of-use assets

2020	Right of use asset £'000
Cost	
At 1 January 2020	78,536
Additions	5,179
Remeasurement	4,072
At 31 December 2020	**87,787**
Accumulated amortisation and impairment	
At 1 January 2020	(10,250)
Amortisation	(11,707)
Remeasurements	382
At 31 December 2020	**(21,575)**
Balance at 1 January 2020	68,286
Balance at 31 December 2020	**66,212**

2019	Right of use asset £'000
Cost	
At 1 January 2019	76,860
Additions	4,040
Remeasurement	(2,364)
At 31 December 2019	**78,536**
Accumulated amortisation and impairment	
At 1 January 2019	-
Amortisation	(10,250)
Impairment	-
Disposals	-
At 31 December 2019	**(10,250)**
Balance at 1 January 2019	76,860
Balance at 31 December 2019	**68,286**

Lease liabilities

Maturity analysis, contractual undiscounted cash flows

	2020 £'000	2019 £'000
Less than one year	12,072	11,685
More than one year, less than 5 years	36,535	39,873
More than 5 years	22,052	25,976
Total undiscounted lease liabilities	**70,659**	**77,534**

Some of the Bank's contracts for the rental of premises include an option to extend the term of the agreement, requiring that the contract is extended for a specific period of time if it is not terminated by a specific point in time. There are also contracts for the rental of premises which include an option for the Bank to terminate the agreement before expiry. When determining the terms of lease agreements, the options of extending the term or terminating the agreement before expiry are only included when it is highly probable that these options will be exercised. The terms of the leases have also been reviewed when reviewing the options to extend the term or terminate the lease.

Service components are only included in the lease payments if they are part of the lease contract. However if there is a separate service contract that does not contain a lease, the expense is recognised on a straight line basis over the life of the lease term.

During the Covid-19 pandemic the Bank has not been granted any rent concessions on any of its leased premises, nor has it renegotiated the terms of any of the existing lease agreements.

NOTE 27 LEASING (continued)

Amounts recognised in income statement

	2020 £'000	2019 £'000
Lease liability, interest expenses	1,625	1,711
Variable lease expenses	3,656	3,589
Short-term lease expenses	1,124	1,675
Low value lease expenses	16	208
Depreciation expenses	11,707	10,250

Variable lease expenses largely relate to service charges attached to the right-of-use asset.

The Bank also leases IT equipment and machinery with contract terms between one and three years. These leases are short term, or of low-value. The Bank has elected not to recognise right-of-use assets or lease liabilities for these leases.

The value of these short-term and low-value leases recognised in the income statement amounted to £1.6 million (2019: £1.9 million).

Amounts recognised in cash flow statement

	2020 £'000	2019 £'000
Total cash outflow for leases	12,099	10,006

LEASING AS A LESSEE

At 31 December 2020, the Bank had the following non-cancellable operating lease commitments:

	2020 £'000	2019 £'000
Within 1 year	1,207	215
After one year but not more than five years	2,189	218
More than five years	753	4
Total	**4,149**	**437**

NOTE 28 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Information about the fair values of financial instruments which are carried at amortised cost is given in note 29 and in the table below.

2020 **£'000**	Amortised cost	Total carrying amount	Fair value
Assets			
Cash and balances with central banks	9,024,036	9,024,036	9,024,036
Other loans to central banks	98,393	98,393	98,393
Loans to other credit institutions	3,649,977	3,649,977	3,649,939
Loans to the public	20,858,150	20,858,150	20,952,023
Other assets	12,314	12,314	12,314
Total	**33,642,870**	**33,642,870**	**33,736,705**
Investments in subsidiary		44,119	
Other non-financial assets		126,936	
Total assets		**33,813,925**	
Liabilities			
Due to credit institutions	9,234,311	9,234,311	9,382,217
Deposits from the public	19,090,724	19,090,724	19,089,804
Issued securities	2,980,128	2,980,128	2,980,302
Other liabilities	18,608	18,608	18,608
Total	**31,323,771**	**31,323,771**	**31,470,931**
Non-financial liabilities		97,701	
Total liabilities		**31,421,472**	

NOTE 28 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

2019 £'000	Amortised cost	Total carrying amount	Fair value
Assets			
Cash and balances with central banks	6,948,123	6,948,123	6,948,123
Other loans to central banks	81,671	81,671	81,671
Loans to other credit institutions	2,944,509	2,944,509	2,944,509
Loans to the public	21,403,516	21,403,516	21,475,159
Other assets	15,911	15,911	15,912
Total	**31,393,730**	**31,393,730**	**31,465,374**
Investments in subsidiary		44,119	
Other non-financial assets		123,885	
Total assets		**31,561,734**	
Liabilities			
Due to credit institutions	9,724,277	9,724,277	10,265,519
Deposits from the public	16,456,660	16,456,660	16,434,437
Issued securities	2,958,620	2,958,620	2,956,931
Other liabilities	21,493	21,493	21,493
Total	**29,161,050**	**29,161,050**	**29,678,380**
Non-financial liabilities		127,840	
Total liabilities		**29,288,890**	

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between independent market participants.

The fair value hierarchy categorises financial instruments according to how the valuations have been carried out together with the degree of transparency of the market data used in the valuation. Financial instruments which are valued at a direct and liquid market price are categorised as level 1. Financial instruments which are valued using valuation models which substantially are based on market data are categorised as level 2. Financial instruments whose value to a material extent are affected by input data that cannot be verified using external market information are categorised as level 3. The categorisation is based on the valuation method used on the balance sheet date.

Information about the fair value of financial instruments measured at amortised cost is categorised according to the valuation hierarchy described above. The categorisation is shown as levels 1-3 in the table below. These instruments essentially comprise lending, deposits and borrowing. For cash, cash equivalents and short-term receivables and liabilities, the carrying amount is considered to be an acceptable approximation of the fair value. Receivables and liabilities with the maturity date or the date for the next interest rate fixing falling within 30 days are defined as short-term. The valuation of loans to the public and customer deposits is based on a discounted cash flow model. The populations of loans to the public and customer deposits are categorised into portfolios with similar maturities. Market swap curves and the transactional margins for the populations are used to calculate the discount curves. Loans to customers are categorised as level 3 and customer deposits are categorised as level 2. The fair value of group funding & lending balances and issued securities are also based on a discounted cash flow model and are all categorised as level 2.

NOTE 29 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of financial instruments at amortised cost

2020 £'000	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	9,024,036	-	-	9,024,036
Other loans to central banks	-	98,393	-	98,393
Loans to other credit institutions	-	3,649,939	-	3,649,939
Loans to the public	-	168,484	20,783,539	20,952,023
Total financial assets	**9,024,036**	**3,916,816**	**20,783,539**	**33,724,391**
Liabilities				
Due to credit institutions	285	9,381,932	-	9,382,217
Deposits from the public	-	19,089,804	-	19,089,804
Issued securities	-	2,980,302	-	2,980,302
Total financial liabilities	**285**	**31,452,038**	**-**	**31,452,323**

NOTE 29 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

2019 £'000	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	6,948,123	-	-	6,948,123
Other loans to central banks	-	81,671	-	81,671
Loans to other credit institutions	-	2,944,509	-	2,944,509
Loans to the public	-	-	21,475,159	21,475,159
Total financial assets	**6,948,123**	**3,026,180**	**21,475,159**	**31,449,462**
Liabilities				
Due to credit institutions	166	10,265,353	-	10,265,519
Deposits from the public	-	16,434,437	-	16,434,437
Issued securities	-	2,956,931	-	2,956,931
Total financial liabilities	**166**	**29,656,721**	**-**	**29,656,887**

NOTE 30 RELATED PARTY TRANSACTIONS

The related parties of Handelsbanken plc include the Parent company, subsidiaries and key management personnel.

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors to be key management personnel.

A list of the subsidiaries of Handelsbanken plc can be found in note 13 to the financial statements.

A full list of the directors of the Bank can be found in the directors' report on pages 39-42, the remuneration of the directors is disclosed in note 8 to the financial statements.

Transactions with key management personnel of Handelsbanken plc

The following table provides the total amount of transactions, which the Handelsbanken Group has entered into with key management personnel of the Bank for the year ended 31 December 2020:

2020 £'000	Balances at 31 December 2020	Interest (income) / expense
Residential mortgages	2,983	51
Credit cards and other loans	37	1
Deposits	522	1
Other	739	-

2019 £'000	Balances at 31 December 2019	Interest (income) / expense
Residential mortgages	2,366	33
Credit cards and other loans	30	(1)
Deposits	560	(1)
Other	1,429	-

Transactions with other related parties

In addition to transactions with key management personnel, Handelsbanken plc enters into transactions with entities that have significant influence over it. The following tables show transactions during the period and outstanding balances at the end of the reporting period.

NOTE 30 RELATED PARTY TRANSACTIONS (continued)

During the year ended 31 December 2020, the Bank received income and expenses from related parties as follows:

£'000	2020 Parent	2020 Wholly owned subsidiary	2019 Parent	2019 Wholly owned subsidiary
Intercompany interest income	5,880	-	20,273	-
Intercompany interest expense	(138,525)	(6)	(164,113)	(9)
Net intercompany interest expense	**(132,645)**	**(6)**	**(143,840)**	**(9)**
Intercompany commission income	1,914	-	2,047	-
Intercompany commission expense	(34)	-	(62)	-
Net intercompany commission income	**1,880**	**-**	**1,985**	**-**
Other intercompany income	1,051	1,883	1,451	1,670
Other intercompany expense	(31,714)	-	(31,906)	(17)
Total other intercompany income / (expense)	**(30,663)**	**1,883**	**(30,455)**	**1,653**
Total	**(161,428)**	**1,877**	**(172,310)**	**1,644**

Other intercompany expenses and income mainly relate to costs recharged and services charged between members of the Handelsbanken Group.

Amounts with Parent company, and other intercompany parties as at 31 December 2020 were as follows:

£'000	2020 Parent	2020 Wholly owned subsidiary	2019 Parent	2019 Wholly owned subsidiary
Included within assets				
Intercompany lending**	3,614,930	-	2,914,872	-
Other intercompany assets	238	1,699	251	1,938
Total	**3,615,168**	**1,699**	**2,915,123**	**1,938**
Included within liabilities				
Intercompany deposits	9,233,124	11,683	9,723,210	10,196
Of which deposits	*8,554,916*	-	*9,072,349*	-
Of which subordinated loans	*400,615*	-	*400,905*	-
Of which senior non preferred debt	*200,082*	-	*200,165*	-
Of which other	*77,511*	*11,683*	*49,791*	*10,196*
Other intercompany liabilities	754	-	1,061	-
Total	**9,233,878**	**11,683**	**9,724,271**	**10,196**
Of which, accrued interest	*14,174*		*19,694*	

** Subject to impairment testing

No impairment of intercompany balances is required with specific regard to the current economic environment.

NOTE 31 SUBSEQUENT EVENTS

Handelsbanken plc has reviewed events from 31 December 2020 up until the authorisation of the financial statements for issue.

As explained in the Strategic report on page 5 of this report, on 7th January 2021, the Bank announced a project to adapt its organisational design to suit the next stage of growth in the Bank's evolution in the UK. The implementation of the changes will be gradual throughout 2021 and will, if implemented as proposed and subject to employee consultation, result in reductions in our workforce. This change to the organisation is a non-adjusting post balance sheet event. The estimated employee cost is approximately £12m. It is not possible to estimate any other costs related to lease and any onerous contracts at this time.

NOTE 32 ULTIMATE PARENT UNDERTAKING

Handelsbanken plc is a wholly owned subsidiary of Svenska Handelsbanken AB (publ.), incorporated in Sweden, which is the ultimate Parent undertaking.

Svenska Handelsbanken heads both the smallest and largest group in which the results of the company are consolidated. Handelsbanken Group's financial statements are available upon request at: Central Head Office, Kungsträdgårdsgatan 2 SE-106 70 Stockholm, they are also available online.

handelsbanken.co.uk

Handelsbanken

4587 I UKL I 04.2021