Annual report and financial statements 2021

Handelsbanken plc
Company No. 11305395
Year ended 31 December 2021

handelsbanken.co.uk

Handelsbanken

Contents

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

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Chairman's statement

It is with pleasure that I introduce Handelsbanken plc's ('the Bank's') 2021 annual report and accounts. Despite the clear impacts from the pandemic, there are many positive elements in the annual results including increase in deposits and strong growth in assets under management.

During COVID-19, the Bank remained fully committed to supporting its customers and as a provider of essential services; we continued to stay open in order to support the communities we serve, whilst protecting the health and wellbeing of our colleagues. I am pleased to say that the exceptional service the Bank prides itself on continued throughout 2021. Throughout the pandemic our branches remained open, using innovative and flexible ways to ensure that we remain readily accessible to our customers and continuing to support the communities we serve. Of course, in order to align ourselves with changing customer behaviour and demands we should continually look to evolve and adapt, and the restructure of our UK operations in 2021 allowed us to do just that; by replacing the five regional banks with our new district network meant we are able to create more efficient processes and bring expertise and support even closer to our branches, empowering them to deliver the best possible service to our customers. We are confident that our new 2021 structure is already yielding positive results and for the thirteenth year running, the Bank maintained its top rankings for customer satisfaction in an independent survey of British banking customers.

Our colleagues have been pivotal in the Bank's successes of 2021, finding flexible and positive ways of working despite the challenging and uncertain environment. I want to thank each of them for their efforts in supporting our personal and corporate customers throughout this period. An independent survey, which considered employee sentiment in relation to COVID-19, showed that colleagues rated the Bank far above industry benchmark. I am convinced that this outcome is testament to our strong corporate culture and decentralised business model, where common goals and core values, trust in each other and an open and collaborative environment are key features.

From a financial standpoint, I am pleased to report that despite the clear challenges faced throughout the year the Bank has continued to produce a strong performance in average volumes, mainly evidenced by deposits from the public being up 8% and assets under management increasing by 12%, while lending volumes saw a reduction of 4%. At the same time, profits were heavily impacted by the full year effects of cuts in both the Bank of England Base Rate and the LIBOR rate putting pressure on net interest margins and post-tax profits fell to £94.6 million (2020: £119.6 million). Expenses increased as a result of the restructuring costs of the UK business operation and investments related to critical business-wide projects.

Despite the considerable headwinds caused by the pandemic, the Bank has continued to make strong progress against our post-subsidiarisation strategic journey and financial objectives, as we continue to build a bank for the future. Change programmes were advanced, local functions strengthened, and overall governance greatly enhanced over the course of 2021. Progress has also been made in developing an ambitious climate change program with implementation moving ahead at pace, with the aim to establish the Bank as a leader in green and sustainable finance.

The growth in deposits shows that our customers continue to place their trust in us and believe in our financial strength. As we start to exit from the pandemic we have a bank built on a stronger foundation. Looking ahead, we see a great opportunity to return to the stable growth pattern achieved in the years preceding Brexit and the necessary subsidiarisation process that followed, with a particular focus on increasing our lending activity within the Bank's targeted customer segments. The Bank has set out a clear strategy to deliver on our ambitions to deliver profitable growth in a cost effective, customer centric and sustainable way.

At the time of writing, there remains an element of uncertainty around the public health crisis and the depth and shape of its economic legacy, with the outlook also clouded by Russia's invasion of Ukraine. However, the Bank is financially strong and remains close to its customers and the market, and in a cautious way as always. Well aware of the uncertain environment we all currently have to navigate in, and the potential future wider impact, 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 2022

Chief Executive Officer's statement

Entering and leaving 2021, as an industry and a society, we were unable to put the pandemic behind us. For our customers and colleagues alike, the impact of new lockdowns at the start of the year – crucial for combatting the spread of the virus - were keenly felt, restricting our way of life, and our ability to conduct business as usual.

As the year progressed, the speed and efficacy of the vaccine roll-out meant that for many of us, normality returned. With that came a growing economic confidence, and thus the ability for our business customers to think about the pathway back to growth, while our personal customers could look to reset their focus on achieving their financial aspirations.

Our branch colleagues across the country worked hard to support their customers as the economic reverberations of COVID-19 began to dissipate.

The support our local branch teams have been able to provide to impacted customers over the course of this turbulent year, has been necessarily varied, yet is constantly informed by the close customer relationships we hold across the country. Regular, open and honest dialogue with our customers allowed us to act swiftly in providing assistance when it was required. And it is largely in this way - through a bespoke, customer-centred approach - that we were able to act: flexing covenants, extending facilities and relaxing repayment terms to provide flexibility on payments totalling £1.4bn.

In addition, providing access to the Government's Coronavirus Business Interruption Loan Scheme (CBILS), and creating a bespoke small business crisis support package - designed especially for our customers - helped to alleviate financial distress for those that required acute financial support during the crisis phase of the pandemic. By the time that both of these schemes had ended, customers had utilised these schemes for approximately £68m in funding.

And finally, through the Government's mortgage payment deferral scheme, which provided a payment holiday for customers impacted by COVID-19, we were able to supply our customers with concessions on over £700m worth of repayments.

We are proud of our role providing this crucial financial support to customers through an unprecedented period of disruption, and to be a trusted partner in helping them back to growth.

Yet with COVID restrictions now almost fully unwound across the UK, we find ourselves in the midst over another global crisis, with Russia's invasion of Ukraine causing shocking humanitarian suffering. The Bank stands ready to support impacted customers and colleagues, and to this end has developed a process to facilitate humanitarian payments to Ukraine. Handelsbanken plc has no direct exposure to Russia, Belarus or Ukraine, and only a very small number of immaterial indirect exposures have been identified. We continue to monitor the situation closely with respect to sanctions implementation, and also with respect to other potential impacts on the Bank of this fast-developing crisis.

Demonstrating the strength and resilience of our customer base, Handelsbanken plc recognised net credit gains of £7.9m in 2021, which was the result of a decrease in provisions during the year, due to positive rating migrations, reduced exposures and changes to macroeconomic risk factors.

In supporting this pathway back to growth, many more of our customers have, during the continued low interest rate environment of the past year, turned to the service offerings from our wealth and asset management arm. Readily available through our local branch teams, Handelsbanken Wealth and Asset Management has seen a strong development in its assets under management, up 12% to £4.45bn.

Once again, it is the value our customers place, year after year, on the face-to-face personal relationships we foster with them that puts us in good stead to support their aspirations. This is why, for the 13th consecutive year, Handelsbanken has been top-ranked for satisfaction, for both personal and business banking, in an independent survey of British bank customers[1]. And in February 2022, we were named the most recommended provider for relationship/account management for SMEs[2]. This is of course a reflection of our dedicated colleagues across the country, who have worked to deliver first class customer service in another very challenging year. I want to send my thanks and appreciation to all my colleagues for their tireless efforts.

[1] EPSI Rating, October 2021
[2] Independent Service Quality Survey, Competition and Markets Authority, February 2022

We believe delivering the best possible customer experience is paramount to running a successful organisation. As customer behaviour changes, our organisation must evolve over time to adapt to their needs. At the start of the year, we announced plans to restructure our UK operations, removing the system of five regional banks, which served us so well during the period of high and sustained physical growth, when we laid down our nationwide branch footprint.

As we enter a new phase as a scalable UK-licenced bank, we have been focussed on bolstering our local capability and expertise; deepening relationships with existing customers; and looking to forge new relationships in the places where we already have a presence. Our structure must adapt to support this next phase; and this means having a simpler, more streamlined way of working, where decision lines are even more efficient, and customers continue to have choice over how and when they interact with us. Having branches that continue to be embedded in communities, but are located where we know customers will use and value them, is at the heart of this. It also means ensuring those branches are configured in a way that better serves our customers evolving needs: through more readily available access to our experts, offering the full range of Handelsbanken products and services; and through continued, seamless access to relationship managers. Enhanced digital capability, and access to in-branch technology, will also be made available for those customers that wish to use these services. Altogether, this will create both a more comprehensive service experience, and one that is more efficient and streamlined.

The need for businesses to evolve has never been clearer following the COP26 summit in Glasgow last year, which has rightly increased the world's focus on the impact of climate change, and particularly the responsibility of corporations to embed sustainability into their business models. We believe that Handelsbanken's business model is rooted in sustainable characteristics: we're one of the world's safest banks due to our prudent and long-term approach; we have proved the causal link between delivering good customer outcomes and running a profitable organisation; and we empower colleagues to take responsibility right across the organisation. And as founding members of Bankers for Net Zero, we have thought carefully about the role that banks can and should play in mitigating climate change, and specifically in helping to finance the transition to a net zero carbon economy. It is this broader societal value that banks can bring, which will be so crucial to all our efforts.

Handelsbanken has an ambitious Group-wide net zero target of 2040, and the role that we in the UK will play in contributing to that will frame much of our sustainability activity. Developing our comprehensive UK sustainability strategy in 2021, was a fundamental part of this journey. It is vitally important that we help our customers make the transition to carbon neutral businesses practices, and in turn help them to meet the government and regulatory requirements that are variously being brought in, and will ratchet up in many sectors in the years to come. In order to do this, we must continue to build our own expertise and understanding of the challenges our customers face, so we can provide sound advice and continue to act as their trusted partner. And of course we must build the right suite of products and services to support our customers' efforts; we will see some further exciting developments in this area in 2022, building on from the sustainable multi-asset funds offered by our wealth and asset management division, and the sustainability-linked loans offered to our large corporate customers.

So we look ahead to a busy 2022, with a mixture of enthusiasm and cautious optimism. Whilst we cannot control the turbulence that has impacted our economic environment over recent years, we know that the developments we have overseen in 2021, and those that will continue into next year, will deliver real customer benefit: a simpler more efficient structure; branches that can better serve changing behaviours, and make our full service offering more readily available; enhanced digital capabilities for those customers that wish to take advantage of them; and a commitment to helping our customers transition to, and embrace the opportunities of, a net zero carbon economy.

Mikael Sørensen
CEO

17 March 2022

Strategic report

OUR BUSINESS MODEL – THE BRANCH IS THE BANK

Handelsbanken plc ('the Bank') 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 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 by the customer's relationship manager. 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 focussed 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.

CHANGES TO OUR ORGANISATION

Last year, the Bank outlined a substantial restructuring of its branch network and system of regional bank oversight, in order to respond to changing customer requirements and the growth of digital engagement. This reorganisation of our UK structure is being implemented so that Handelsbanken plc can take full advantage of the next stage of growth in its UK evolution, and ultimately ensure that branches are more easily accessible to customers. Through this new streamlined structure, combined with an enhanced digital offering, we aspire to fully meet our customer's changing requirements and deliver even greater levels of customer satisfaction.

Over the course of 2021, Handelsbanken has worked to become a more efficient bank that brings expertise and support closer to the branches, empowering them to deliver the best possible customer experience, and move into a new phase of growth. The implementation of a new district structure, which was effective from 1 July 2021, saw the five regional banks removed, and branches organised into 14 districts covering the length and breadth of our UK branch network. In order to create a branch network that better serves our customers' needs, 37 branches will merge with neighbouring ones, in order to form larger branches with a fuller customer offering, and greater local availability of our experts. Existing customer account management teams will be retained in the new, larger branches ensuring uninterrupted levels of customer service, and a seamless transition. The mergers will be completed in the first quarter of 2022.

Creating larger branches will enable our local teams to deepen relationships with their customers, this is because the full breadth of our products and services will be made more readily available, allowing local branch teams to better serve their customers' fuller requirements. As such, our branch network going forwards will offer support around the Bank's full suite of products, including wealth and asset management, and protection, as well as introduce our enhanced digital offering as it emerges, for those customers who are interested in this option.

Handelsbanken plc's new and emerging digital strategy focuses on improving the digital functionality of our apps and online banking services, and increasing the choices available to customers in terms of how they are able to interact with us – ensuring they can continue do so in a frictionless and seamless manner. All of this is centred on maintaining and enhancing our local relationship-driven approach, whilst providing additional scope for customers to self-serve. Combining this with greater levels of proactivity means our customers should feel even closer to us going forwards.

OUR GOAL

Svenska Handelsbanken AB (publ.) ('Svenska Handelsbanken'), 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:

	2021 £'000	2020 £'000
Total income	**498,858**	**506,110**
Personal costs	(214,077)	(207,178)
Depreciation, amortisation and impairment of property, equipment, right of use and intangible assets	(30,114)	(21,498)
Other operating expenses	(113,406)	(106,203)
Total expenses	**(377,597)**	**(334,879)**
Profit before credit gains / (losses)	121,261	171,231
Net credit gains / (losses)	7,945	(10,046)
Operating profit	129,981	160,600
Profit for the year, net of tax	94,618	119,609
Total assets	32,664,899	33,813,925
Total equity	2,487,071	2,392,453
Credit (gain)* / loss ratio[3]	-0.03%	0.04%
Cost / Income ratio[4]	75.69%	66.17%

* The credit gain ratio in 2021 was due to a net credit gain of £7.9 million)

FINANCIAL PERFORMANCE

The year in review

Profit before credit gain / (losses) decreased by 29% compared to the previous year, to £121.3m. Operating profit, including net credit gain in the year, fell by 19% to £130m. There was a net credit gain of £7.9m (2020: £10.0m loss) in the year as a result of the decrease in provisions due to positive rating migrations, reduced exposure and updated values relating to forward looking macroeconomic risk factors.

Total income fell by 1%, or £7.3m. A reduction in net interest income was the sole contributor. The sharp cuts in both the Bank of England Base Rate and the LIBOR rate towards the beginning of 2020 put strong pressure on our net interest margin and in 2021 we suffered the full-year effect of these changes. This pressure was exacerbated by a fall in lending volumes, although deposit volumes increased again, and net interest income consequently fell by 2%. Income not related to net interest income increased by 2% due to higher business activity and demand as the recovery from the adverse effects of the pandemic began.

Expenses increased by 13%, mainly due to uplifts in purchased services and staff costs. These uplifts were driven largely by the effects of provisions made in relation to the restructure of the UK business operation and professional fees incurred in relation to enhancements combatting financial crime & other critical business-wide projects. This year contains £14.3m gross provision in respect of activity to restructure the Bank as part of the next stage of growth strategy of the Bank in the UK. Excluding this impact, expenses rose by 8%. At 31 December 2021, the net balance sheet provision was £5.3 million (2020: £nil) which include estimated costs of previously announced branch closures that are planned for 2022 and estimated employee costs arising from organisational change. At 31 December 2021, the Bank impaired £4.5 million of right-of-use asset and £1.2 million of fit out cost in relation to these branch closures. Incurred year to date employee and premises costs (i.e. payments) in relation to restructuring were £3.2 million and approximately £0.2 million respectively.

Our financial resources in terms of capital were further strengthened, such that our total capital ratio was 23.5% and our common equity tier 1 (CET1) ratio was 20.2% - well above our risk tolerances.

Chief Financial Officer commentary

2021 has presented many challenges which we have met positively. We have shown resilience and produced a solid financial performance which will further strengthen the Bank for the future. For example. during the year we focused on implementing enhanced procedures to prevent financial crime. We have strengthened our control environment, satisfied regulatory requirements and invigorated our customer on-boarding efforts. Separately, the low interest rate environment continued to bring different challenges, for example by negatively impacting net interest income. However, thanks to our good relationship with our customers and our strong capital position we managed to attract large volumes of deposits. We feel this also reflects the trust that customers have in our financial position and stability. Good performance from our wealth management business also generated increased inflows to our assets under management.

In mid-December 2021, the Bank of England raised the UK's base rate for the first time in three years and this was followed by another increase at the beginning of February 2022. Together with our resumed ability to on-board new customers this gives us an opportunity to increase our volumes and income during the coming years. We know our highly relationship-driven approach continues to enjoy very high relevance and appreciation from our core customers, making us a strong, individual presence in the marketplace.

Increased expenses reflect both the costs of implementing a subsidiary bank operation, and our further investment in tackling financial crime. After several years of investing time, focus and resources into these areas, we expect those expenses to stabilise in the coming few years, before gradually reducing to reflect a business as usual position. The reorganisation in 2021, which saw five different regional banks with five regional head offices become one business with one head office, means we have created a more efficient bank and reduced our costs. We have focused our resources to increase our customer activities and customer support.

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

In summary, the combination of 2021's results and our already strong financial position are key to the further successful development of Handelsbanken plc's operations. We look forward to building on this to focus on new marketplace opportunities.

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

NON-FINANCIAL KEY PERFORMANCE INDICATORS

- Average Deposits from the public increased 8% in 2021 to £19.1 billion
- Average Loans to the public decreased 4% in 2021 to £20.8 billion
- Average number of active[5] Individual Banking customers decreased 2% from 2020
- Average number of active Corporate Banking customers decreased 4% from 2020

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. This also includes Compliance risk - the risk that the Bank does not comply with laws, regulations and international rules, or accepted business practices or standards
- **Capital risk** - the risk of not fulfilling all capital requirements set out for banks by public authorities, and
- **Liquidity risk** - the risk the business cannot meet its liabilities and payment obligations when they fall due

Further description of the principal risks and uncertainties faced by the Bank can be found in the Risk and capital management section starting on page 54.

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. In addition, the bank is advanced in the planning to launch sustainable financing products such as Green Mortgages and Asset Finance products to assist our customers in their response to climate change. Engaging with our customers in this way also means we are able to measure and manage the associated risk in our own portfolio. For more information on the Bank's approach to climate change, please see the Taskforce for Climate Related Financial Disclosures, starting on Page 14.

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 rate lending capability (Risk Free Rates and Bank of England Base rate) and has, as per regulatory requirements, ceased issuing products linked to LIBOR. The Bank is now focusing its efforts on transitioning existing LIBOR contracts maturing past 2021 onto these alternative rates. The majority of existing GBP LIBOR lending has transitioned to Bank of England Base rate during Q1 2022, following cessation of GBP LIBOR. The remainder will transition to compounded overnight Risk Free Rates or Handelsbanken managed rates.

Handelsbanken plc is following industry standards and regulatory guidance in relation to the transition. For more information on the Bank's LIBOR transition project and the exposures impacted by the interest rate benchmark reform, please see LIBOR replacement in Note 2 Risk Management on pages 90 - 91.

Internal Ratings Based approach (IRB)

On 15 September 2020, the Swedish Financial Supervisory Authority (SFSA) decided that from 1 January 2021, Svenska Handelsbanken was 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 2021 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 2022 and beyond.

Customer Relationship Management (CRM)

The recent growth in the UK market has seen the need for improved infrastructure and processes to support the Customer journey, therefore improving the overall customer on-boarding experience and enabling more time to serve our customers' banking needs. System requirements are currently being documented in preparation for development of the technical capability to start in 2022.

Technology Modernisation

A technology transformation pre-study has commenced to assess how we modernise technology supporting the Bank. The pre-study will examine how we might deliver progressively over time to provide enhanced engagement channels for our customers, modern collaborative technology solutions and improved core banking systems.

The pre-study will complete in financial year 2022. It will consider industry good practice systems, processes and suppliers and establish an architectural roadmap for sustainable technology that will help to future proof the bank, enable sustainable growth, reduce regulatory risk and realise long term cost efficiencies. Work has

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

additionally commenced on building skills, capabilities and tools to support future transformation.

SATISFIED CUSTOMERS

In 2021, for the thirteenth year running, following on from the UK branch of Svenska Handelsbanken, the Bank has been ranked top for customer satisfaction in an independent survey of British banking customers. The annual assessment conducted by EPSI Rating has seen an increase in scores for the Bank compared to 2021, returning an index score of 82.3 (2020: 81.2) for personal customers, compared with a sector average of 71.9. For corporate customers the Bank had an index value of 77.5 (2020: 77.0), compared with a sector average of 66.9.

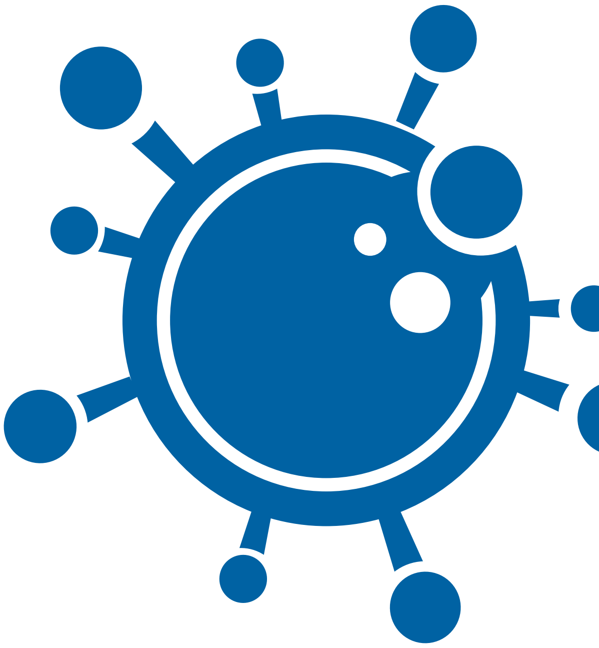
In February 2022, the latest Competition and Markets Authority's (CMA) independent service quality survey was published. The survey looks at small and medium size enterprise (SME) customers' willingness to recommend their bank to other SMEs. For the eighth time in a row, and since the survey started, the Bank is rated highest for relationship / account management amongst the largest 14 providers of SME banking services in Great Britain, with 84% of the SMEs surveyed extremely or very likely to recommend Handelsbanken.

COVID-19 CUSTOMER SUPPORT

For our SME customers, we were pleased to continue with our participation 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. New applications to the scheme have now come to an end, with the final facility having been drawn during August 2021. The costs of a number of facilities are now being met by the borrower as their facilities become over 12 months old. 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 to our customers.

As at 31 December 2021 Handelsbanken plc had the following lending under the CBILS scheme:

Number of loans	Balance £'000	Average loan size £'000	% of total business lending
151	53,317	353	0.4%



In total 19 facilities have been repaid in full since the scheme began, with 16 during 2021 (2020: 3).

As at 31 December 2021 there were 53 facilities that are within 12 months of drawdown, with 98 facilities having interest repayments made by the customer.

In addition to CBILS, and until the scheme was closed on 31 March 2021, the Bank continued to provide 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 were 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.

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.

STAKEHOLDER ENGAGEMENT

Further detail on how the directors have had regard to the matters set out in section 172(a) to (f) forms the directors' statement required under section 414CZA of The Companies Act 2006 and can be found in the Strategic report on page 48.

Sustainability report

OUR STRATEGIC APPROACH

One of Handelsbanken Group's two foundational values is to take a long-term sustainable view in everything we do as an organisation. This timeless principle has informed our operational approach and strategic decision-making for more than five decades. It is characterised by a focus on lifetime relationships over short-term transactions, by a conservative, low-risk banking approach, and by a commitment to always be an active, responsible asset to – rather than a burden on – the communities we serve.

Our business model, which eschews central marketing or sales campaigns, relies on word-of-mouth recommendation from satisfied customers and professionals in the local markets where our branches operate. The Bank is therefore highly dependent on its standing as a responsible bank to continuing growing profitably. As societal awareness of environmental, social and governance ('ESG') issues increases, so too do our stakeholders' expectations. We therefore perceive an integrated approach to ESG considerations to be essential to long-term value creation.

In 2021, a standalone department was created and a Head of Sustainability recruited to guide, coordinate and capture Handelsbanken plc's work in this area of strategic importance to the Bank. A long-term sustainability strategy has been developed through consultation across the whole business. The strategy is designed to build in, and then build on, the organisation's established strengths and distinctive market position, in order to maximise positive societal impact and business value from our activities. It ensures, for instance, that activities are devised and delivered at the local level wherever possible, in line with Handelsbanken's decentralised way of working, and that the views and needs of our customers and stakeholders remain in focus. The strategy aligns closely with six of the 17 UN Sustainable Development Goals ('SDG') that Handelsbanken Group has chosen to focus on, as seen below. Aligning these goals with our ESG strategy will ensure our work contributes to the wider 2030 Sustainable Development Agenda.

The strategy embraces the five established sustainability goals of Handelsbanken Group, as set out in the image below. We have a number of goals that are aligned with SDG 5 Gender Equality and SDG 13 Climate Action. These are our 2040 net zero target, as well as other interim targets on green and sustainable lending and equal savings measures for men and women.

Through development of this strategy, the Bank has identified a number of key themes, spanning the ESG spectrum, within which it is well placed to create impact. These themes were selected based on their relevance, resonance and opportunity to Handelsbanken plc's business model and UK market position. Some of them aim to build on aspects of the Bank's business model that are already recognised as producing societal value, such as being a safe and sound bank, creating good customer outcomes, empowering our employees, and playing an active, responsible role in our local communities. Other themes, while reflecting the Bank's core values, represent more significant areas for development over the years ahead, for instance in helping our customers adapt to climate change, and driving improvement in the area of Equality, Diversity and Inclusion.

Ownership has been established for each of these themes and activity plans will be developed, alongside goals where appropriate to steer the organisation's focus.

Below we focus on three initial areas of activity in 2022.

Climate action
Our most pressing ESG focus is on climate action, where we see considerable potential to make a positive difference. In order to drive this impact, the Group has - as outlined in our Taskforce for Climate Related Financial Disclosures ('TCFD') reporting on pages 14-20 - committed to achieving net zero emissions by 2040 or sooner across its lending, investment and leasing portfolios, as well as in the Bank's own operations.

Handelsbanken plc's climate action work will be two-fold: supporting customer transition to a low carbon economy; as well as becoming an operationally climate-positive business, without significant reliance on offsets.

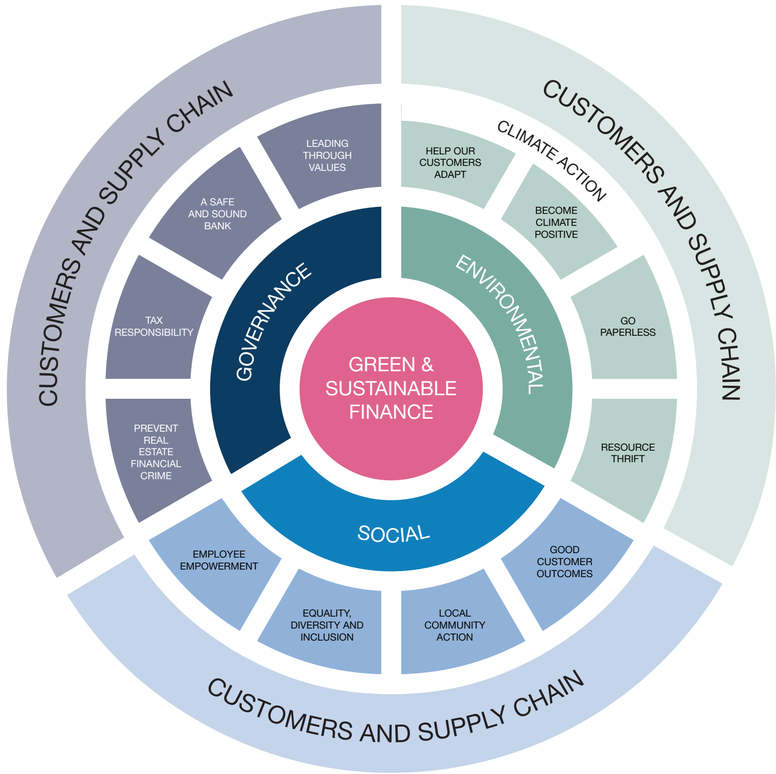
When it comes to helping customers adapt and transition, the Bank will increase its offering in this area by integrating climate guidance into the overall financial risk discussions with our local customers, offering access to technical advice and solutions, and providing a growing range of green finance products based on customer requirements.

Although financing and investment are where we can have the biggest overall impact on net zero transition, we recognise our direct impact must remain an important strategic focus. Handelsbanken Group has worked for many years to reduce its carbon footprint, however we still rely on offsets to be the carbon neutral bank we have been since 2017.

With a view to leading by example, the Bank is committed to eliminate its remaining emissions to the greatest extent possible, and to introducing credible, nature-based solutions that will ultimately make it a climate-positive organisation. Our principle opportunities lie in fully decarbonising the Bank's estate, and in driving out emissions from employees' business travel by supporting clean transport alternatives and increased use of video meetings. At the same time, we will take further steps to support green commuting by our employees.

In order to become a climate-positive organisation, we recognise the need for accurate and reliable environmental data, particularly for our scope 3 emissions. It is important that we have an accurate picture of our existing emissions so that we can monitor the impact of our ensuing emissions reduction initiatives.

Typically scope 1 emissions refer to direct emissions from owned / controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all other indirect emissions (not included in scope 2) that occur in the value chain of said company. We currently report our gas usage as part of our scope 2 district heating emissions, as our emissions data is coordinated by Handelsbanken Group in Sweden, where gas usage for heating is extremely limited.



The Bank currently collects emissions data for business travel, and uses an average across home markets for our purchased goods and services, as well as upstream and downstream transportation figures.

Handelsbanken plc is in the process of creating a data improvement plan across these areas, to give a more precise picture of our scope 1, 2 and 3 emissions. We also plan to start collecting data on employee commuting and working from home emissions, to provide a more holistic view of our indirect environmental impact. As mentioned, data collection and reporting has historically been done by Handelsbanken Group, and going forward we plan to take more ownership and dedicate increased resource in this area to improve our data quality. Our emissions and energy usage data is as follows:

GHG emissions (tCO2e)	2021	2020	2013 baseline
Scope 1 emissions	N/A	N/A	N/A
Scope 2 emissions	1,273	1,938	3,423
Scope 2 emissions without GO electricity	2,074	2,840	3,423
Scope 3 emissions	243	218	577
Total emissions	1,516	2,156	4,001
Total emissions per employee	0.57	0.50	1.47

Energy usage	2021	2020	2013 baseline
Total energy consumption (in buildings) (MWh)	11,236	13,278	9,267
Electricity consumption (MWh)	3,776	3,871	3,404
Change in electricity consumption from preceding year	-2%	-5.4%	-
Proportion renewable electricity	100%	100%	0%
Total electricity consumption per employee (MWh)	1.4	1.5	2.5
Use of heating and cooling (MWh)	7,460	9,407	5,863

As well as our customers and own operations, we will also engage further with suppliers on their measures towards net zero and how they can help us reduce our footprint more rapidly; more detail on this and our overall climate change strategy can found on pages 14-20.

Diversity, equality and inclusion

At Handelsbanken Group we believe that if we are inclusive, and build an inclusive environment for employees to prosper, we can then embrace diversity as an organisation. Which is why we have chosen diversity, equality and inclusion (D&I) as another priority focus for the Bank in 2022. We will embed and implement the Bank's D&I strategy, setting metrics to focus on Bank-wide improvements. We will also continue progress towards our existing goals for gender equality across our workforce.

As part of our commitment to the Principles for Responsible Banking (PRB), we have a target to reduce gender inequality between men and women's savings. We will do this by exploring gender differences in the behaviour, choices and outcomes of our wealth management customers. From preliminary research, we can see that these are often the result of socio-economic imbalances. Therefore, the Bank's aim will be to find ways to counter-balance these, by proactively providing information and guidance, to make customers aware of these issues and be ready to discuss how they can best be mitigated. We will also prepare for regulatory engagement around D&I, which the Financial Conduct Authority ('FCA') has indicated may emerge during the year ahead.

Local community engagement

Being active in our local communities is a natural part of how our branches do business. The Bank's decentralised operating model empowers local teams to build long-term relationships in the ways they find most appropriate, and to take responsibility for the Bank's impacts and reputation among local stakeholders. Thus our branches are already active with a wide range of initiatives, typically tailored to the interests of each community. The Bank aims to support and encourage this further, by sharing good examples, and giving guidance on how local community engagement can align effectively with the organisation's chosen ESG focuses, so we can maximise our positive environmental and social impact.

Head office departments will also be supported in the same way, ensuring all colleagues can contribute to the communities they work in and benefit various wellbeing initiatives.

HOW WE EMBED SUSTAINABILITY

Being a responsible business, when it comes to lending and investment; creating satisfied, loyal customers; maintaining low risks and strong finances; and remaining a progressive, attractive employer, has long been fundamental to how we work.

In 2021, the Bank updated our Sustainability Policy, encompassing how all parts of the organisation should work with the various ESG areas, from climate and the environment to financial crime prevention and tax responsibility. The policy can be found on our website.

We embed responsible lending through our conservative credit policy and prioritisation of long-term relationships over short-term transactions, as well as our particular focus on the circumstances and needs of vulnerable customers. By avoiding top-down lending, product targets, or individual financial incentives, we limit the risk of employees making decisions that are not in the long-term best interests of the Bank's customers.

Our credit process considers sustainability risks such as the borrower's approach to human rights and managing environmental or climate-related risks, when evaluating the customer's future repayment capacity. (We discuss our attitude to climate-related risks on pages 14 - 20) Branches are supported to raise sustainability-related questions in their annual customer reviews as well as with potential new customers. We use these discussions as the basis both of tailored guidance and financial solutions, and of enhancements to our overall green finance customer offering.

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 2021 assets under management were £4.45bn.

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. In 2021 we introduced Matched Funding and a Corporate Social Responsibility day for all colleagues, to further embed local community engagement. All employees can take one day's leave per annual year to give back to their local community and thereby enhancing their wellbeing experience whilst working for the Bank. The matched funding initiative allows all colleagues to claim up to £500 from the Bank's matched funding pot for any fundraising they have been involved in. The amount donated to various charities throughout 2021 totals £94,736, this is a combination of local donations from branches and matched funding.

In Handelsbanken plc there has been an 11% increase (2016: 15%, 2020: 26%) in women in leadership positions since 30 June 2016. Representation in female leadership increased by 1% for Handelsbanken plc when comparing Q4 2020 (25%) and Q4 2021 (26%). If we include our subsidiary Handelsbanken Wealth & Asset Management we have 28% women in leadership positions as at Q4 2021. 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.

We are aware that we need to make further progress to improve female representation in leadership roles. We have supplemented our long-term Diversity and Inclusion (D&I) strategy with short-term actions in order to move our agenda forward. The formation of our first Employee Resource Group (ERG) dedicated to 'Gender' (sponsored by a member of our Executive Committee) illustrates our commitment to progress and fulfil our goals.

More detail on equal opportunities and D&I can be found in the Directors' report on page 51.

As stated in the Bank's Modern Slavery Act statement, which is also 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.

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 2021 the Bank has continued certain financial crime related customer file remediation activities, and these were substantially completed by the end of 2021. Moving forward continuing control enhancements will be built into business as usual activities.

Task force on Climate-Related Financial Disclosures

Handelsbanken plc has been a supporter of the Task Force on Climate-Related Financial Disclosures ('TCFD') since July 2018 and has continued to take steps forward in how we assess and act on climate-related risks and opportunities. In 2021, we are producing our first TCFD report in both our Handelsbanken Group climate change progress report and within this annual report.

The work on enhancing and developing our TCFD disclosures is a key step in the wider work on climate change risk management. The Handelsbanken Group have set the goal of net zero emissions of greenhouse gases as soon as possible, and by 2040 at the latest. This target applies to the entire Group and covers lending, leasing and investments, as well as Handelsbanken's own operations, such as energy consumption and business travel. Interim targets (for 2030 or sooner) are being set, in line with our Net Zero Banking Alliance (NZBA) and UN Principles for Responsible Banking (PRB) commitments, focusing on priority sectors where the Bank can have the most impact. Handelsbanken plc has signed up to a number of initiatives to advance the Bank's climate response plan. In the Handelsbanken Group's report, we have set our broader strategy.

GOVERNANCE

Handelsbanken Group has an overarching sustainability policy, which sets out the direction for the Group's sustainability work. The direction is that Handelsbanken aims to integrate financial, social and environmental sustainability into all its operations to run financially sound, sustainable operations and to encourage and contribute to sustainable development. This policy applies throughout Handelsbanken Group, its operations and employees, and encompasses all activities in relation to customers, suppliers and other business partners. The sustainability policy has been supplemented with a number of CEO guidelines that address specific areas and sectors. Among these are guidelines on matters relating to the environment and climate change.

The Board has ultimate accountability for all climate change risk related matters in Handelsbanken plc. The Board sets the strategic direction, taking into consideration Handelsbanken Group policies and guidelines, with regard to the approach to climate risk, and the Board Risk and Compliance Committee ('BRCC') oversees the risk. As with other initiatives, the Remuneration Committee will ensure that appropriate consideration is given to incentive structures and/or evaluation methods linked to climate initiatives.

Members of the Board have received briefings and training during the year to help them understand risks and opportunities from climate change. This included an update from a customer with leading credentials in this area and sessions on the priority themes and strategic approach. Directors have also attended external training sessions, including those provided by UK Finance, in order to understand the broader financial sector context to our work.

The Board has been provided with an overview of the risks, opportunities and resource requirements in relation to climate change. In 2021 the Board discussed the Bank's climate strategy on three occasions including the climate risk metrics impacting the UK business. The Board has reviewed the inclusion of climate risks in the governance framework, specifying the Board's, and its subcommittees' responsibilities for managing climate risk. The Board also supported the business strategy and business plan, which include our sustainability goals and approach with considerations including alignment with the Bank's (and Group's) priorities, determining what could be achieved and what should be prioritised to develop the various initiatives. This has also involved understanding how it interlinks with the Environmental, Social and Governance agenda including how it could maximise benefit for the Bank's stakeholders.

In order to effectively manage the number of work streams in this area, the Board has delegated some aspects to the BRCC which meets quarterly. Climate risk is a standing item on the agenda, with updates provided to the Board bi-annually. In 2021, BRCC reviewed and approved the Bank's climate change response plan, which includes the embedding of climate change risk management. The progress of the plan is monitored on a quarterly basis. BRCC approved the incorporation of climate change risk into the existing risk management framework and monitored the Bank's climate change risk profile, via a climate change risk monitoring report, including the metrics set out in Metrics and Targets on pages 19-20.

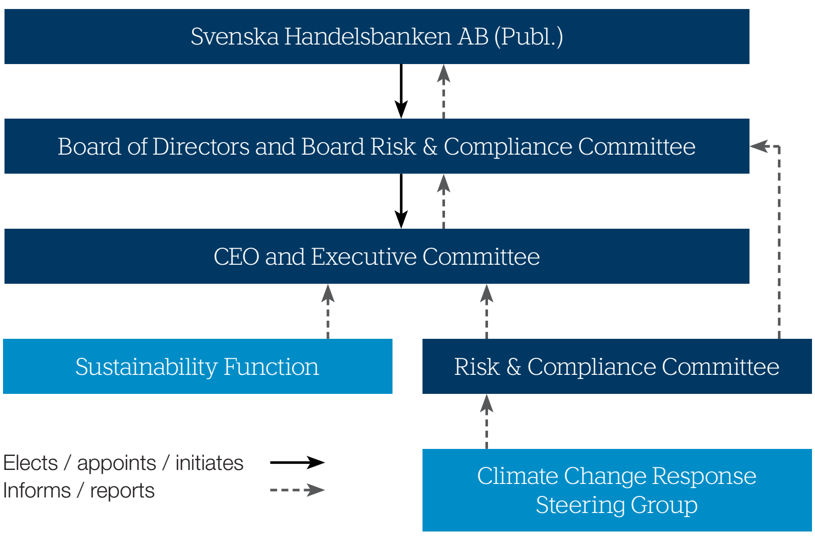
On the management level, climate change risk is overseen by the Risk and Compliance Committee (a sub-committee of the Executive Committee). The Chief Risk Officer has been assigned the SMF responsibility for climate-related financial risks under the Senior Management Regime.

In order to help coordinate and drive sustainability work across the UK, the Bank has established sustainability forums and a climate change response steering group. The climate change response steering group was created to assist with the execution of the Bank's plan to implement climate change into its risk management framework as well as identifying risk and opportunities. In 2021, the composition of this group included, amongst others, the Bank's Chief Risk Officer, Chief Credit Officer, and UK Head of Sustainability. In 2022, the climate change response steering group will be replaced by a green business steering group, with a focus on customer engagement.

Handelsbanken plc has also created a sustainability function, and the UK Head of Sustainability is responsible for developing Handelsbanken plc's overall strategy, including climate action. The Chief Risk Officer is the SMF (Senior Management Function) responsible for developing the Bank's approach to managing climate risk.

In other respects, Handelsbanken's work on climate related issues adhere to the decentralised structure. This means that every unit has the responsibility to identify risks related to climate change and integrate them into the operations.

Sustainability governance in Handelsbanken



STRATEGY

Climate change is an important strategic consideration for Handelsbanken plc and while climate change presents a risk for the Bank and its customers, it also presents considerable opportunities, both commercially and in terms of our customer relationships and brand reputation.

We are committed to a number of initiatives to help the UK transition to a low-carbon economy and tackle climate change. Initiatives signed up to date include:

Agenda 2030 (including the Sustainable Development Goals)
UN Global Compact
Principles for Responsible Investing (PRI)
Principles for Responsible Banking (PRB)
United Nations Environmental Programme Finance Initiative (UNEP-FI)
Net Zero Banking Alliance (NZBA) - and through that the Glasgow Financial Alliance for Net Zero (GFANZ)
Bankers for Net Zero

Together, commercial and residential property are Handelsbanken plc's most material sectors. In this context, the largest opportunity for the Bank is in financing our customers' transition to a net zero economy, through energy efficiency measures and the replacement of heating and other carbon-intensive systems with low carbon alternatives. We also aim to support them, where required, to make adaptations in the face of physical climate risks, such as the growing intensity and frequency of severe weather events.

Although the Bank and other market actors will increasingly engage our customers on climate change and what it means for them, we anticipate that demand for transition finance will in large part be driven by government policy, particularly when it comes to energy performance and the replacement of fossil fuel-based heating and power sources. For instance, in our most material sectors, the UK government has committed to increase minimum energy efficiency requirements across the residential, private rental, social, public sector and commercial property sectors in England and Wales, and is expected to announce further measures to come into force during this decade. The Scottish government is progressing a similar strategy. At the same time, hydrogen will be explored as an alternative source for heating homes and businesses, while heat pumps are being incentivised, and market development supported, to drive widespread adoption over the coming years.

Government at local and national level will also drive measures to adapt to the inevitable physical risks to communities and infrastructure that climate change will present over the decades ahead. As these measures take shape and their implications become known, this will further stimulate customer demand for advice and support, which we aim to be ready to meet.

Increasingly, Handelsbanken plc's relationship banking model will help corporate customers to manage their climate risks alongside their other long-term business and financial risks, and to capitalise on the business opportunities that emerge from net zero transition. At the same time, we will support our personal banking customers to invest in energy efficiency measures, and to align their finances with their values, for instance through green and sustainable investment choices or purchasing electric vehicles. Where commensurate with our conservative credit policy, we will seek to finance businesses that are themselves providing climate change solutions.

As a decentralised organisation, our branches establish their own local business plans, with sustainability forming a core focus. Initial training has been provided to branches in various forms, including workshops, online modules and external speakers, to support their knowledge in relation to climate change, its risks and opportunities. This allows our frontline teams to guide their different customer groups on how best to identify and manage the physical and transition risks posed by climate change and to tailor financial support where required. As ever, we will use the feedback from this customer engagement, supplemented with insights from customer surveys, to inform our product priorities as well as the further specialist expertise, information resources and tools our branches and customers need to work together effectively on these questions.

So far, we have delivered sustainability-linked loans for large corporate customers, and are in the process of developing a number of further green financing products. Opportunities have been identified in residential, buy-to-let, housing association and commercial property lending, asset finance, and the extension of sustainability-linked loans to mid-sized corporate clients, as well as lending for our SME trading business customers.

Handelsbanken plc will also be reviewing the broader green finance offering through 2022 - for instance across savings, investments and payments - to gauge where we might introduce climate-positive products, tools and features of identified support and value to our customers.

Alongside this focus on our largest opportunity to effect positive change, we are redoubling our efforts to eliminate negative climate impacts from, and reduce climate risks to, our own operations. The Handelsbanken Group began work to reduce its climate footprint many years ago, and first became operationally climate neutral in 2017, though this was achieved with some reliance on carbon offsets. Our goal is to drive down this dependency to a bare minimum through policy, process and behaviour change, and then to neutralise those emissions we are unable to abate through investment in high quality negative emissions from nature-based solutions.

The Handelsbanken 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). Through our 2021 offsetting programme, the Handelsbanken Group have compensated 5000 tonnes CO2e. Details of the project can be found on the **registry.goldstandard.org** website, project ID 2525.

During 2021 the Handelsbanken Group introduced a new, Group-wide ‘green first’ business travel policy, prioritising virtual meetings wherever possible, followed by public transport and then electric vehicles. Handelsbanken plc’s UK Sustainability Strategy has also prioritised a focus on decarbonising the entire banking estate and promoting climate-positive features into our buildings wherever possible. The Bank has set an ambition to “go paperless” over the coming years, through a focus on ‘digital by default’ systems, streamlining and automating paper-based processes, and supporting customers’ to adopt digital options. The Bank is committed to increase operational sustainability through resource thrift, following the principle of ‘Eliminate, Reduce, Reuse, Recycle’.

Finally, as Handelsbanken plc’s knowledge and confidence grows in these areas, the Bank will be engaging ever more closely with our supply chain to understand and support them in their own transitions to net zero.

From a global perspective, the markets in which the Bank conducts material business operations have generally been less affected by costly natural disasters. In the Global Climate Risk Index published by Germanwatch, all of Handelsbanken Group’s main markets have been placed in the two lowest risk categories out of five in terms of “level of exposure and vulnerability to extreme weather events”. But the fact that the risks have been relatively low historically does not mean that they will remain low, or that specific properties or small geographical areas are not exposed to significant risks.

The one sector that, in Handelsbanken Group’s assessment constitutes the greatest climate risk in the near to medium-term, is fossil fuel extraction and production for energy purposes. Globally, the emissions of greenhouse gases amount to approximately 50 billion tonnes of carbon dioxide equivalents (CO2e), of which just over 34 billion tonnes derive from the usage of fossil fuels. Coal is the single greatest emission source, followed by oil and natural gas. In 2016, Handelsbanken Group updated its guidelines on the environment and climate change, and took a more restrictive stance towards the fossil fuel sector. The same year, the Group also decided to refrain from directly financing any new mining of coal for combustion or new coal power plants, by stopping the granting of credit to such activities. Handelsbanken Group and Handelsbanken plc have no lending to the coal sector and lending to the oil and gas sector is small and has been decreasing for many years. Oil and gas represent below 0.5% of total loans to the public for both the Bank and Handelsbanken Group as at 31st December 2021.

The exact consequences of climate change and the global response to prevent continued global warming are impossible to predict.

Climate change risks within credit risk are the most material climate risks due to the Bank’s focus on lending in the UK. The Bank minimises the exposure to carbon intensive sectors as well as other sectors that have high sustainability risk such as forestry and farming, through guidelines provided to the organisation.

In order to mitigate future risks, Handelsbanken plc has continued to enhance the incorporation of climate related risks in our banking and lending processes. Climate change risk has been split into two main categories, physical and transition risk. Physical risks are the risk of losses stemming from climate and weather-related events and transition risks are the risk of losses from the failure to transition to a low-carbon economy in an orderly manner.

The Bank’s lending exposure to property has the potential to result in climate risks, particularly over the longer-term if mitigating actions aren’t taken. Handelsbanken monitors the risks through assessing the distribution of Energy Performance Certificates (EPC) and flood risk data of its property collateral, and analyses the impacts of risks over time through scenario analysis.

Climate change risk has been considered as part of the last two internal capital adequacy assessment processes (‘ICAAP’). To date, the Pillar 2A assessment has concluded that no additional capital is required. Climate change has also featured as part of the ICAAP firm wide stress test scenarios, and for the 2022 ICAAP the Bank will run a specific Climate change stress scenario to assess the impact of capital requirements and profitability over the 5 years planning horizon.

The Climate Change Risk Management Information monitoring and scenario analysis will inform the definition of Early Warning Indicators and risk tolerances that will trigger further management response. During 2021 the Bank undertook the first long term scenario analysis for climate change risks. The exercise was based on Bank of England’s scenarios published for the Climate Biennial Exploratory Scenario (CBES) (Early Action, Late Action and No Additional Action), with a cross reference to the Bank’s risk profile. Existing European Policy Centre and external flood risk data from JBA was used to assess transition and physical risk to the portfolio.

The approach for the 2021 climate change scenario analysis covers the longer term assessment that is focussed on credit provisions. In absence of further mitigation actions the highest impact in terms of credit provisions was for customers with properties in lower EPC bands, as a key assumption was that properties in EPC F and G become unmarketable from 2035 onwards. The scenario with the highest expected increase in credit provisions was the Late Action scenario mainly driven by the deterioration of the macroeconomic environment in years 2031- 2033. The No Additional Action scenario showed high impact on provision from flood risk and from sectors impacted by climate change.

The outcome is being used to analyse potential changes to the Bank’s strategy, and mitigating actions for climate change risks.

RISK MANAGEMENT

Climate change is embedded in the Bank wide Risk Management Framework which allows for climate risks to be managed in line with other risks. This includes identification, assessment, management, monitoring and reporting of climate risks.

Handelsbanken plc has developed a climate change Risk Assessment that incorporates climate risks across all areas of the Bank. The risk assessment allows the Bank to manage and monitor the most significant risks on an ongoing basis.

Climate related risks and opportunities were initially identified through a series of workshops. Once risks and opportunities were identified, they were classified into physical and transition risks. Risks were then assigned to business owners who conducted an initial risk assessment by impact and probability for each of the risks. The risk assessment was conducted using the existing risk assessment matrix that looks at the likelihood and potential impact of an event happening over the next 12 months.

Team	Roles and responsibilities
First line risk owners, such as credit risk	• Identification, assessment, management and monitoring of climate change risks across impacted areas of the Bank. • Reporting of climate risk against risk control self-assessment. • Contribute to the work of the cross-functional working group as detailed below.
Second line risk oversight	• Providing ongoing oversight with advisory input and challenge to ensure the Bank meets external and internal climate risk management requirements. • Coordinate the Bank's Climate change response work and the cross functional working group across business functions and second line risk oversight, the working group's tasks include: - Coordinate progress against SS3/19 plan. - Build out of climate change risk governance and reporting, including embedding climate change risk into the risk management framework. - Coordinate climate change scenario analysis and stress test, including development of modelling capabilities. - Production of quarterly climate risk management information. - Ownership of climate change financial disclosures. - Use scenario and risk analysis to build into Bank's strategy, communication and broader ESG plan.
Internal audit	• Included climate risk in their risk assessment process for a risk based annual audit plan. • Independent assurance on activity to embed climate change risk management.

The management of the main risk categories are summarised below:

Credit risks

Physical and transition climate risk is considered as part of lending decisions and at an annual review for lending secured by real estate, via assessment of flood risk and EPC ratings. In addition a broader ESG assessment is included in the credit rating process of the customer. As part of the annual review process the Bank then continues to look to monitor and support customers with transitional activities.

For investment properties, branches record and consider the implications of current EPC's and related risks (fire risks/social & flood risks). Such identifiers assist in supporting customers' transitional activities as well as credit assessment.

Work is ongoing to enhance the ESG assessment in the credit rating process. A number of communications and training sessions have been rolled out to branches to support their understanding and assessment. Further work is expected to support branches in having more in depth discussions.

Operational and conduct risk

The Risk Assessment process is used as the framework to make sure all key operational risks are identified across the business. For operational risk the work on climate change risks is closely linked to the work on operational resilience (in line with FCA PS 21/3, PRA PS6/21). This work includes testing the Bank's ability to resume important business services within impact tolerance in a range of severe but plausible disruption scenarios.

Handelsbanken plc's test scenarios will cover disruptions to key people, facilities, systems, data, suppliers and FMIs, as recommended by the policy statement. The implementation of policy statements will strengthen the Bank's ability to respond to and recover from operational disruptions, including those that could be caused by climate change.

In addition, the 3rd party due diligence questionnaire sent to all new high / medium risk suppliers at on-boarding stage has been updated, and questions regarding disclosures of climate risks, and if these have been managed, have been added.

Liquidity and funding risk
The Bank has not identified, to date, any liquidity or funding risks related to climate change, but this will continue to form part of the overall risk identification process, which is also supported by the risk assessment for the internal liquidity adequacy assessment process ('ILAAP').

Risk identification is an ongoing process and climate change risks have now been embedded to form part of the annual refresh across all principal risks in the Bank.

METRICS AND TARGETS

The Bank aligns with the metrics and targets of the Handelsbanken Group which has an overall goal of being net zero as soon as possible, and by 2040 at the latest. It also has a number of climate-related targets that were created as part of its commitment to the Principles of Responsible Banking. The Group's net zero goal covers all home markets, including the UK. This applies to both scope 1 and scope 2 emissions, as well as to downstream scope 3 emissions from Handelsbanken Group's financing, investment and leasing business. Handelsbanken Group's climate-related goals align with the 1.5 degrees ambition set out in the Paris Agreement. With regard to scope 1 and 2 emissions, we will establish a plan beyond net zero, looking how we can be climate positive in these areas. Scope 3 emissions will be reviewed in their entirety, particularly as the Bank develops a deep understanding of our financed emissions, using the science-based Partnership for Carbon Accounting Financials (PCAF) methodology to do so. The Bank has analysed medium and high risk suppliers in terms of sustainability and will increase climate-related engagement with them, as part of the scope 3 emissions review.

By October 2022, Handelsbanken Group will publish interim targets (for 2030 or sooner) in line with its Net Zero Banking Alliance commitments, focusing on priority sectors where the Bank can have the most impact. These targets will be science-based, with new interim targets set for every five years after 2030, increasingly detailed to reflect evolving climate science. Handelsbanken Group will also publish absolute emissions and emissions intensity metrics in line with best practice, while disclosing progress against a transition strategy, currently being developed. Investment will be made into negative emissions, sparingly and favouring nature based over technological solutions – in order to compensate those emissions that cannot be reasonably neutralised at source.

To catalyse progress towards our net zero goal internally, Handelsbanken Group has set a Group-wide target that, by 2025, at least 20% of its total lending will be defined as 'green', or have terms and conditions that contribute to a sustainable, measurable transition by the borrower (such as a reduction in emissions). Handelsbanken plc will contribute towards this goal. As we launch new green products, we will also develop appropriate support for our branches, enabling them to engage with customers on their green and sustainable financing needs.

The achievement of these ambitions is partly dependent on government policy in areas such as decarbonising the energy grid, electrifying processes, and increasing energy efficiency standards and transition incentives.

In order to advance UK policy in these areas. Handelsbanken plc is working with peers, policy makers and other key stakeholders – through Bankers for Net Zero initiative – to recommend policies that would help banks and their customers transition to net zero more rapidly.

These ambitions are also dependent on data quality and availability of relevant ESG data. In collaboration with the Handelsbanken Group we have completed an ESG data gap analysis, and together we are developing an ESG data improvement plan to address incomplete data gaps across the business.

The Bank has developed metrics to monitor progress and manage the impacts of climate change. These metrics aid discussions and inform strategic decisions made by management and the Board. The metrics below are shared with Management and Board Risk Committee as well as the Executive Committee to support oversight of senior management and Board. Work is currently ongoing to develop Risk tolerances from relevant metrics.

The current set of metrics cover the below areas:

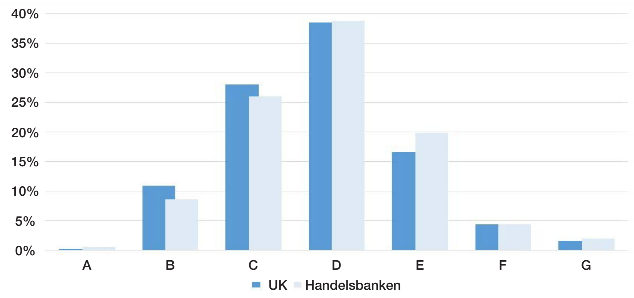
1. Direct Environmental Impact
2. Indirect environmental impact from lending book and investment book
3. Monitor Real Estate energy efficiency of our portfolio
4. Exposure to restricted sectors as defined by the banks environmental guidelines
5. Exposure to sectors associated with high physical or transitional climate risk
6. Exposure to flood risk for assets secured on real estate

Direct environmental impact
Handelsbanken plc has seen a reduction in scope 1 and 2 emissions with the unprecedented impact from COVID-19 causing a shift in ways of working, the majority of employees now work from home. This has caused a reduction in energy consumption across Handelsbanken plc's buildings and through reduced travel, resulting in lower carbon emissions. As employees return to the office, we expect to see some of the benefits reverse. We have not included emissions as a result of employees working from home and are aware that emissions may not stay at this level as further changes in work patterns take place. Other measures the Bank has taken to reduce energy consumption in 2021 include reducing the number of printers and applying more energy efficient temperatures across our head offices. We have also encouraged all employees to remove paper from internal processes where possible and have set an ambition to become paperless and climate positive in our direct operations, as part of our long term ESG strategy. For further information of the emissions of the Bank, please see the Strategic report on page 11.

Indirect environmental impact
The Bank monitors progress in the amount of green loans it has provided in its lending book and the amount of sustainable investments, in our asset and wealth management subsidiary, Handelsbanken Wealth & Asset Management. At the end of Q4 2021, Debt Capital Markets committed sustainability linked facilities totalling £283m and 16% of investments in Handelsbanken Wealth and Asset Management were in green or sustainable funds. The Bank intends to increase the coverage of its sustainability linked loan offering, from large corporates towards the mid-sized marketplace, with the support of our Debt Capital Markets team, who already have good experience in this area. We are in the process of developing further green products to support this metric and our overall Group goals.

Transitional risk metrics - Real estate energy efficiency
The use of EPC data is crucial to understanding the impact of transition risk. EPC ratings are monitored to provide a view of the energy efficiency of the bank's property lending book. There is an ongoing initiative to improve the data quality of the EPC ratings.

The distribution of the EPC ratings, as of December 2021 for our real estate collateral is shown below, compared to the UK market as of September 2021. The internal distribution is broadly aligned with the UK market, but it should be noted that the internal data is negatively skewed as only the worst EPC rating is recorded if a property has more than one rating.

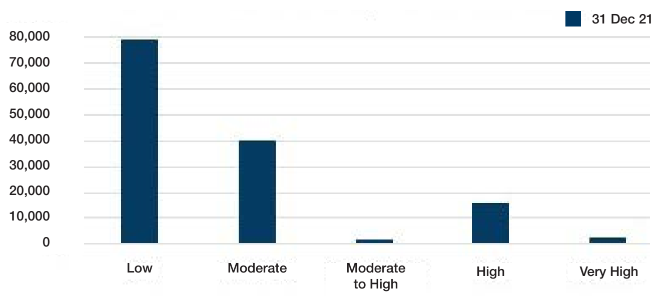


Climate risk sector exposure
The Bank has assessed physical and transition climate risk exposure to sectors with high physical or transitional climate risk.

As of 31 December 2021, less than 0.5% of lending to corporates are to the fossil fuel sector.

Exposure of lending to Sectors with high physical or transitional climate risk impact (£M)		
Sector	**31 Dec 2021**	**%**
Agriculture, Forestry & Fishing	191	1.1%
Business Services & Other - Accommodation, Food Service Activities & Human Health	359	2.1%
Business Services & Other - Other	1,276	7.3%
Construction	1,184	6.8%
Finance Industry - Insurance	27	0.2%
Finance Industry - Other	514	2.9%
Fossil Fuel - Direct (Extraction, Manufacture)	45	0.3%
Fossil Fuel - Indirect (Support Activities, Distribution, Trade, Sale)	11	0.1%
Manufacturing	403	2.3%
Mining & Quarrying	50	0.3%
Real Estate	12,404	70.9%
Retail / Wholesale trade	769	4.4%
Transport, Utilities & Storage	265	1.5%
Total	**17,498**	

Exposure to flood risk
The Bank has sourced flood risk data at postcode level from JBA (an external data provider). JBA's flood risk assessment incorporates four flood risk types (River, Coastal, Surface Water and Groundwater Chalk). The flood risk rating in the figure below is based on JBA's 2020 floodability index which indicates the likelihood of flooding for postcodes in the UK and it is based on a qualitative scale on five bands, ranging from low to very high flood risk. As of 31 December 2021, 11% of the collateral is in areas that have high or very high flood risk. Flood risk insurance is a condition of any lending and we do verify, and for larger exposures seek evidence, that flood risk insurance remains in place.



Corporate Governance report

CHAIRMAN'S INTRODUCTION

On behalf of the board of directors, I am pleased to present the governance report which describes the key areas considered by the Board and its committees this year and how those responsibilities were discharged. Over the last 12 months the world has begun to re-emerge from COVID-19 which led to an unprecedented health and economic crisis. Throughout, the Board continued to support the executive team whilst enhancing the high standards of corporate governance essential to effective Board oversight and vital to a successful organisation.

We have welcomed four new Board directors, as we increased the Board size from 7 to 9. We said farewell to Tanya Castell who left at the end of her term to join the Prudential Regulatory Committee (PRC) at the Bank of England. Martin Björnberg also returned to Sweden after spending nearly five years in the UK, helping to build the Bank from a branch into a fully functioning plc. We thank them both for their contributions and welcome Margaret Willis, Arja Taaveniku and Patricia Jackson who joined as non-executive directors, and Jörgen Olander who joined as Chief Financial Officer and executive director.

BOARD AND ACTIVITY

In another busy year, the monthly scheduled Board meetings were supplemented by training, briefing sessions and ad-hoc meetings 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:

- **Composition:** The Board, through the Nomination Committee, have remained aware that as all non-executive directors were appointed within a short period of time, following subsidiarisation, their terms would end at around the same time. Conscious of this, the Nomination Committee undertook a review of Board composition and an evaluation of succession plans for both executive and non-executive directors. This included a thorough review of the skills and experience required and demands on Board time in order to complement the strategic ambitions of the Bank. The thorough assessment, which is described in more detail on page 22, culminated in increasing the size of the Board by two, to bring it closer into line with peers, and bringing on two non-executive directors with skills and experience that complement the Board. Maureen Laurie was also appointed as the Senior Independent Director.
- **Strategy / Reorganisation:** The Board has retained close oversight over the simplification and streamlining of the organisational structure. Delivered in the year, the objectives which included increasing efficiency, clarifying responsibility and preparing the Bank for the next phase of growth (in line with the details found in the Strategic report on page 5) have already materialised. 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:** The Board 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 file remediation 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.
- **Governance & Risk management:** During the year the Board reviewed the policy framework and approved updates to policies and the governance framework of the Bank. In addition, the Board reviewed, challenged and approved the Bank's prudential documents including the ICAAP, ILAAP, recovery plan, risk tolerance statements and the Risk Management Framework. 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 to closely monitor progress and the performance of the anti-money-laundering remediation programme.
- The Board agenda during the year remained influenced by the pandemic and the subsequent lockdowns. The Board continued to monitor the outputs, receiving regular updates to ensure staff and customers remained supported.
- **Regulations:** The Board has remained informed and engaged on sustainability developments and climate change. It has also considered ongoing projects such as the LIBOR transition, operational resilience as well as the Bank's move towards an Internal Ratings Based ('IRB') approach to calculate risk-weighted exposure amounts for credit risk.

- **Culture:** The Bank's culture is integral to the way the Bank is run and helps ensure customers get the best possible service and outcomes and that it supports staff. The Board is committed to the development of a workplace strategy to help colleagues to thrive and succeed. Throughout the year, the Board engaged with management on progress with the reorganisation and proposals for being more flexible in how and where our colleagues work. To ensure an understanding of the views of all staff, the Board visited branches in the year and heard from the Chair of the UK Works Council who ensured the voice of employees was heard in the Boardroom. This has also been supplemented by feedback from the Financial Services Culture Board, employee surveys and regular updates from the CEO and Chief Human Resources Officer.
- **Effectiveness and Evaluation:** This year, the Board carried out its effectiveness review in-house (having undertaken an external facilitated review the previous year) with the assistance of the Governance team. The findings of the review are being worked through, but overall concluded that the Board operated effectively.

In addition to the above, regular updates have been provided on financial crime prevention, IT strategy, diversity and inclusion, sustainability and climate change and regular updates from 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, the Board IT Strategy Committee helps in the formulation, and has 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 21.

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 56% 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.

BOARD EFFECTIVENESS REVIEW

In 2020, Independent Audit Limited, an independent third party, was appointed to undertake an externally facilitated Board effectiveness evaluation. The findings of the review were presented in 2020 and concluded that the Board and its individual members operate effectively and possessed the right balance of skills and expertise, with some enhancements suggested. The Board has made substantial progress against the findings and this year conducted an internal review, which was undertaken via a questionnaire and included follow up discussions. A schedule of findings was created which is overseen by the Nomination Committee on behalf of the Board.

Three key themes that emerged from the evaluations and the good progress made against these in 2021, is outlined in the table below:

Themes from 2020	What the Board did in 2021
Consider Board composition and consider the appointment of an additional independent non-executive director	Ensuring the Board has sufficient capacity as well as the right balance and skills was considered by the Nomination Committee. It recommended the appointment of an additional independent non-executive director with front line banking expertise which led to the appointment of Margaret Willis in August. The Nomination Committee also felt that increasing the Board size with the addition of an experienced non-executive director would help strengthen the Board and manage the workload. Arja Taaveniku, who is an experienced business leader and also sits on the Handelsbanken Group Board, having spent over 30 years in leadership positions with a number of international retail organisations, was also appointed in August.
Ensure succession planning is in place	All new non-executive director appointments in the year were made on four year terms to mitigate the potential cliff-edge departure of the Board, given its new creation at subsidiarisation. Reviews of committee composition have also been undertaken to ensure succession plans are in place as required with other appointments made, as necessary.
Consider appointing a Senior Independent Director ('SID')	To bring the Board into line with other organisations, Maureen Laurie was appointed SID in July. Maureen supports the Board Chair in his role and acts as a sounding Board when necessary, but is also able to be the trusted intermediary in the event of any concerns about the Chair or CEO. This has not been an issue in the year, however also supports the desire of the Bank to strengthen its governance credentials especially given the non-independent Board Chair. The balance of independence on the Board will continue to be reviewed in 2022.

With regards to individual directors, the Board Chair appraised the directors' performance and the Board Chair's performance review was led by the Senior Independent Director and took into account the views of the rest of the Board. The Board concluded that all directors were fulfilling their duties and responsibilities effectively.

It is the Board's intention to undertake another externally facilitated review in 2022.

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 Financial Services Culture Board (formerly 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 2021. Our corporate governance priorities for the year ahead will be to continue to operate at high levels of corporate governance as well as reflect and further embed the learnings from the 2020 and 2021 Board effectiveness review, which will result 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 2021 at which senior executives, external advisors and independent advisors were invited, as required, to attend and present on business developments and governance matters. Due to COVID-19 the majority of these meetings took place by Skype during the first three quarters of the year. 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 2021. Additional Board and Board committee meetings were convened during the year to discuss ad-hoc business development, governance, and regulatory matters. 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 2021

Board Member	Board Meeting	Remuneration Committee	Audit Committee	Risk & Compliance Committee	Nomination Committee	IT Strategy Committee
Mikael Hallåker (Chair)	11/11	8/8				4/4
Tanya Castell	6/6		3/3	4/4	3/3	
John Ellacott	11/11	8/8	5/5	6/6		
Maureen Laurie	11/11	8/8			5/5	4/4
Agneta Lilja	11/11			6/6	5/5	4/4
Mikael Sørensen	11/11					
Martin Björnberg	10/10					
Arja Taaveniku	5/5			3/3		2/2
Margaret Willis	5/5	3/3	2/2	3/3		
Patricia Jackson	2/3		1/1	2/2	0/1	
Jörgen Olander	1/1					

1) The Board met on six separate occasions in the year to consider one-off items where a Board approval was required
2) The Board welcomes directors to attend meetings where they are not members
3) The Board Remuneration Committee met on seven separate occasions in the year to consider one-off items
4) The Board Audit Committee met on one separate occasion in the year to discuss capital briefing
5) The Board Risk and Compliance Committee met on an additional eight separate occasions in the year to consider one-off items
6) The Board Nomination Committee met on fourteen separate occasions in the year to consider one-off items
7) Patricia Jackson replaced Tanya Castell as Chair of the Board Risk and Compliance Committee on 1 October. Tanya Castell left the Bank at the end of her term to join the Bank of England's Prudential Regulatory Committee.
8) Jörgen Olander replaced Martin Björnberg as CFO and executive director on the 1 December. Martin Björnberg left his positions at Handelsbanken plc to return to a senior role at the Parent.

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 2021, 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 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 on pages 35-40.

Highlights of the work completed by the Board during 2021 can be found in the Corporate governance report on pages 21-24.

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 four independent non-executive directors, three 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 Handelsbanken Group subsidiaries: Handelsbanken Liv (life insurance) and Handelsbanken Fastigheter (property company). He is also a board member of the Handelsbanken Group's pension fund and the Group's pension trust. Mikael has been a member of senior management within the Bank's parent, having previously been Head of Investor Relations and Rating at Svenska Handelsbanken AB (publ.) since 2010. He has experience in investment banking and from the insurance industry in Sweden where he has sat on a number of subsidiary boards.

Board committee memberships
Board Remuneration Committee, Board IT Strategy Committee

Maureen Laurie
Senior 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

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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.

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

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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 was 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. Between 2018 and 2020 Mikael was a practitioner member of the board of the UK Banking Standards Board – 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

Jörgen Olander
Chief Financial Officer

Jörgen Olander joined Svenska Handelsbanken AB (publ.) in 1995 from KPMG where he trained as an accountant. Jörgen started working in the Bank's Internal Audit operations before moving to Finance where he held a number of specialist roles. Between 2007 and 2021 Jörgen moved on to hold senior management positions in the Group Finance and Human Resources departments and joined Handelsbanken plc in September 2021 as Deputy Chief Financial Officer, where he was appointed Chief Financial Officer 1 December 2021. Jörgen has been a member of the Board at the Group's subsidiary Stadshypotek AB.

Board committee memberships
None

Margaret Willis
Independent Non-Executive Director

Margaret has over 40 years' experience in financial services, having held a number of senior roles. Until recently she was CEO of Unity Trust Bank and prior to that she undertook roles within HSBC in the UK, US and Canada. She was a member of HSBC European executive and risk management committee and diversity council. Her board experience included HSBC Securities and Global Asset Management, Canada. She returned to the UK in 2012 to lead HSBC Wealth Management Europe.

Board committee memberships
Board Remuneration Committee, Board Risk and Compliance Committee, Board Audit Committee

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Arja Taaveniku
Non-Executive Director

Arja has extensive experience of Handelsbanken, as she is an independent non-executive director of the Bank's shareholder Svenska Handelsbanken AB (publ). She spent over 30 years in leadership positions with a number of international retail organisations including serving at the IKEA group between 1989 and 2012. She was also the CEO of the Ikano Group which operates within Banking, Insurance, Property and Retail 2012-2015, and as the CEO of a subsidiary and a member of the Kingfisher Plc executive team between 2015 and 2018. Arja is currently also a non-executive director at the FTSE 250 Dunelm Plc and is chairman of the board at Polarn O. Pyret AB and Svenska Handelsfastigheter AB.

Board committee memberships
Board Risk and Compliance Committee, Board IT Strategy Committee

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Patricia Jackson
Independent Non-Executive Director

Patricia has 30 years' experience in senior leadership roles supporting banks and other institutions in the development of their risk practices, capability and processes, both as a consultant and a non-executive director. Between 1994 and 2004 Patricia was the Head of the Financial Industry and Regulation Division of the Bank of England and in 2004 she became partner and Head of the Banking Risk Practice Division at Ernst and Young where she moved to a role of Senior Adviser and EMEIA risk governance lead between 2013 and 2017.
Patricia started her career as non-executive director in 2008 and was a member of the Lloyd's of London Franchise board from 2017 until 2020 where she chaired the risk committee. She currently holds non-executive director positions as chair of the risk committees in BGL (Group Board) and as chair of the board of SMBC Nikko Capital Markets Ltd.

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

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 procedures as well as career development initiatives.

The gender 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 demonstrates 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 2021 training has incorporated amongst other things deep dive sessions in respect of change management, work at our branches, sustainability, credit retail exposure, whistleblowing, resolvability, IRB and operational resilience.

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 & Asset Management, providing high level guidance to its Board of directors, setting out certain matters reserved for the plc. The steering guidelines for Handelsbanken Wealth & Asset Management 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.

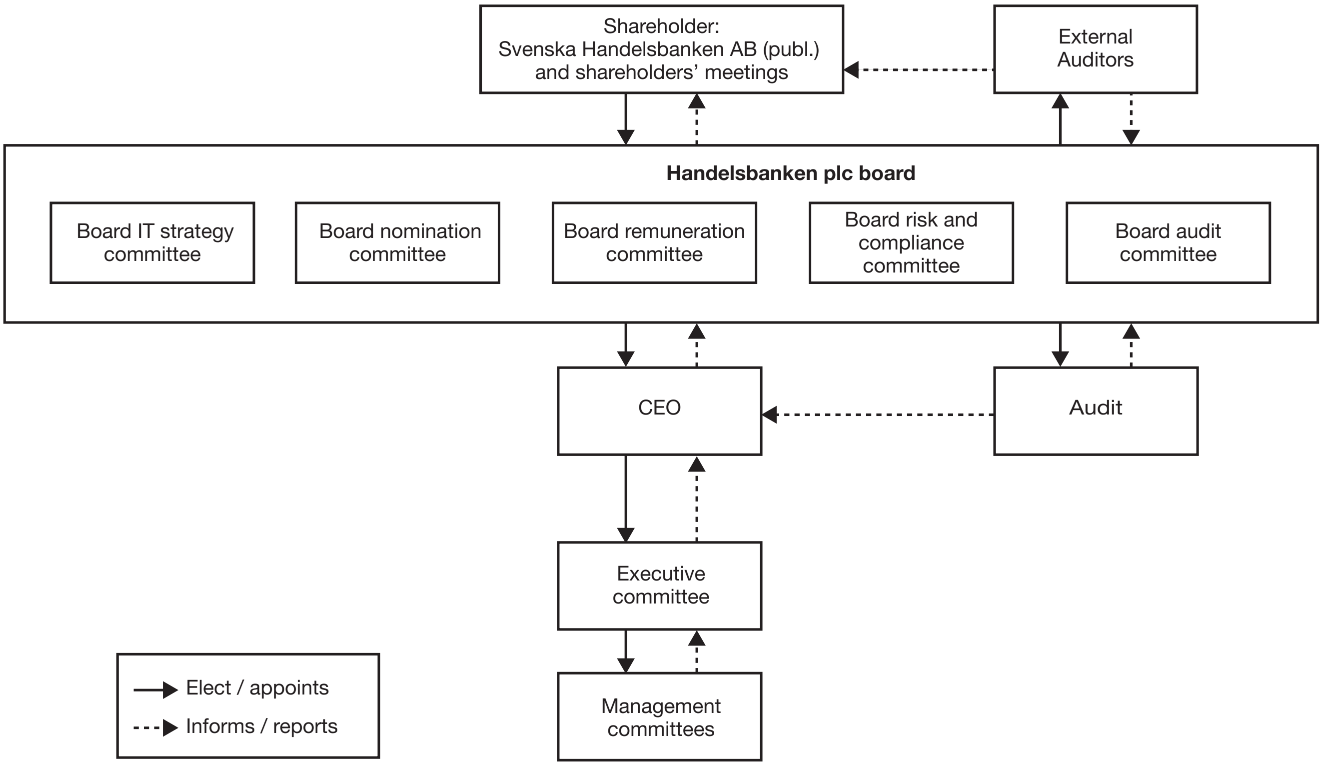
Directors are under a statutory duty to exercise independent judgement. This includes avoiding conflicts of interest or other circumstances likely to compromise their judgement. In the Bank, all employees, including the directors of the Board, must adhere to the Bank's Conflicts of interest policy and 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 2021:

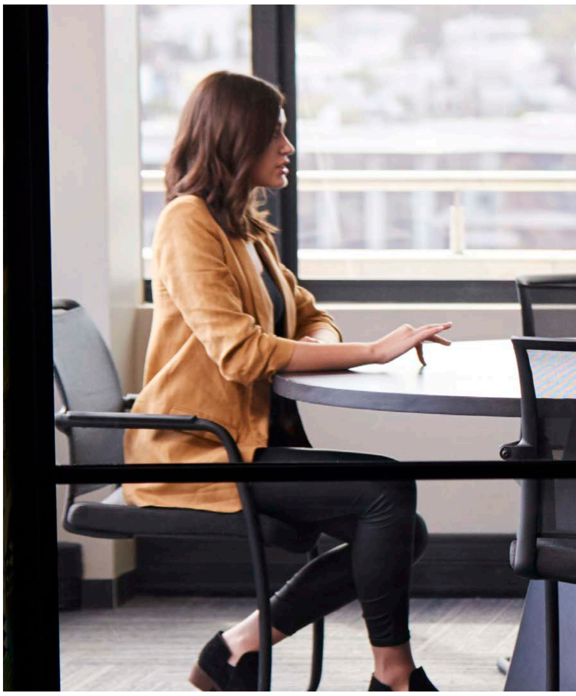


Integrity of information

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. A Board committee, called the UK Shareholder Committee is established at Group. 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 and progress is monitored throughout the year. 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.

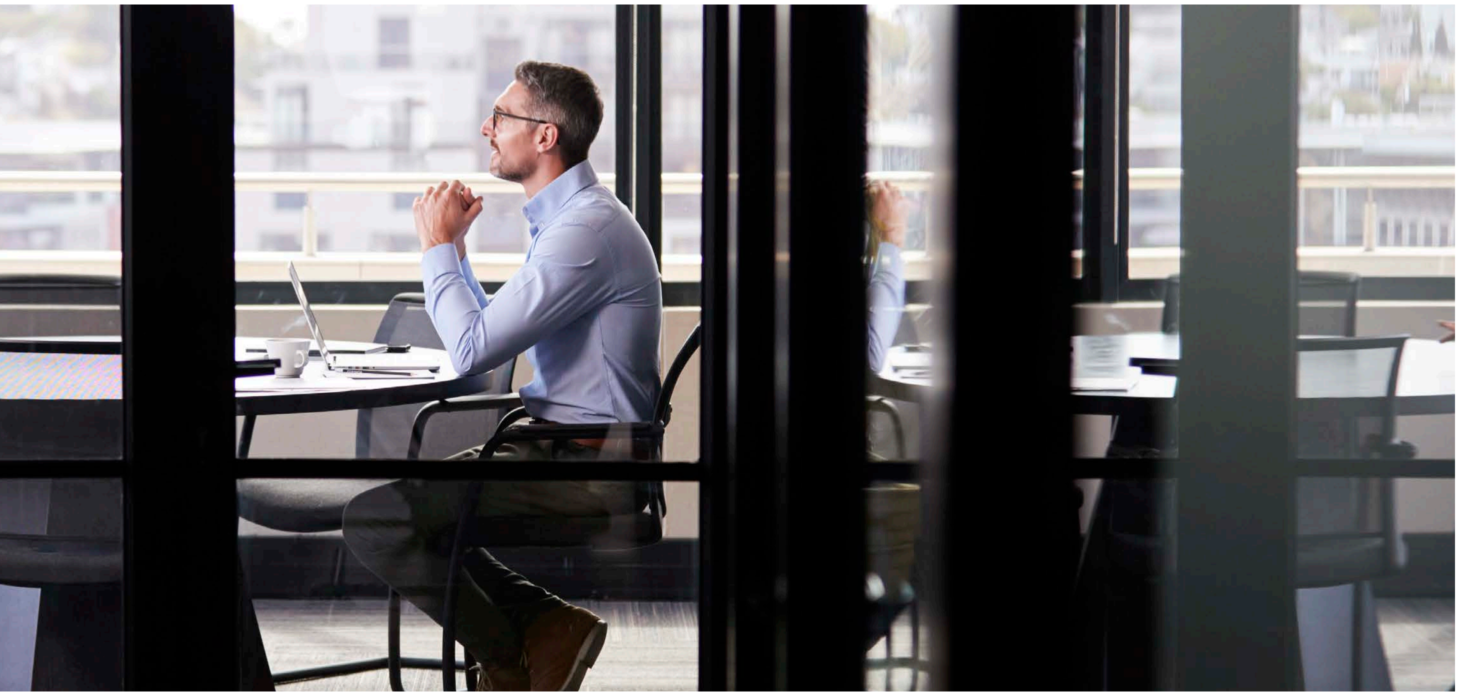
Risk and responsibilities
Handelsbanken plc's key risks are outlined in the risk and capital management report starting on page 54.

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 the Handelsbanken 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.

Oktogonen allows our employees to share in Handelsbanken Group's profits when prescribed targets are achieved and subject to the Board's overall assessment regarding the Bank's performance, on an annual basis. Any Oktogonen allocation is agreed by the Handelsbanken Group Board and ratified by the Handelsbanken plc Board, and takes into account overall performance, which is risk adjusted and based on a perspective over several years, taking into account the underlying business cycle and any business risks and impact on long term sustainable profits. The Bank's Remuneration Committee also decides if any individual adjustments should be made to allocations in terms of malus and / or clawback to relevant employees and / or leavers. Variable remuneration linked to an individual's activities or performance is used as appropriate in the subsidiary, Handelsbanken Wealth & Asset Management, for an increasingly limited number of non-customer facing employees and must be designed in such a way that it does not encourage unsound risk-taking on the part of the employee.

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 Human Resources Officer taking account of feedback from all relevant stakeholders, evaluating whether the remuneration system is fit for purpose and supports the corporate goal. An independent review is also undertaken annually by Compliance.

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 and 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 41 and the Sustainability report on pages 9-13.

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 committee Chairs meet with members of management on a regular basis when planning for meetings or to receive updates on certain areas or discuss projects, as necessary. This insights helps ensure the right items are on the agenda for discussion whilst providing additional insight
- The Board has been involved in steps to formulate a Diversity & Inclusion strategy. This has enabled the Board to understand the key issues and allowed them to provide informed input into the shape it is taking
- Representatives of the UK Works Council, which is a forum to ensure a strong voice for employees, attended two Board meetings during 2021 and two non-executive directors attended UK Works Council meetings to present specific items. Examples of topics discussed with the Board and Board members by the UK Works Council included the Bank's restructure, the introduction of the new Share Incentive Plan, the Bank's response to the COVID19 pandemic and the subsequent return to offices
- 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. Where restricted by COVID-19, many of the CEO's engagements were held 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 non-executive directors have held individual meetings with members of executive management throughout the year
- The non-executive directors have all visited a branch in the course of the year. This enabled them to have first-hand discussions with branch employees

Indirect

- The Board receives reporting from the management, either directly or to its Board committees
- The CEO's regular report to the Board provides insights from across the Bank and has during 2021 been expanded, to include dashboards and metrics (including personnel), to provide additional understanding of issues and challenges faced by the Bank
- There have been regular updates on organisational change from the Deputy CEO and Chief Human Resources Officer which has enabled visibility of how employees have been impacted and their views resulting from the project

Insights and outcomes

The Bank participates in the Financial Culture and Standards Board's annual survey into firms' cultures which formally captures the views of employees and forms one key part of how the Bank tracks colleague engagement. The results provide 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 surveys 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.

There is a system through which whistleblowing concerns can be anonymously reported which supports colleagues by ensuring they can raise concerns in a confidential and safe way.

Given the Bank's straightforward, fixed salary remuneration approach, it 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

- The Board received a presentation by a customer of the Bank on Sustainability. This customer was a leader in this field and provided helpful insight into what can be done to push the sustainability agenda
- The early part of 2021 remained hampered by travel restrictions from the COVID-19 pandemic. In the latter part of the year a branch visit enabled the Board to hear first-hand about customer views. Customer meetings are planned for 2022

Indirect

- The CEO report to the Board includes an overview of branch performance. 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 senior management in respect of developments in their respective areas, as well as briefings on vulnerable customers and the steps being taken to make improvements in this area
- The digital proposition has been a key focus this year as it has been increasingly embraced by customers during the pandemic. This is an area of continuing focus and the Bank strives to improve functionality and usability
- 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. The Board's focus on organisational change and technology at Board meetings during the year reflects this. The Bank is committed to investment in its digital platforms to improve capabilities and, to ensure focus and oversight in this area, the Board IT Strategy Committee was established in 2020.

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.

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 the leading role taken by the Bank in the Bankers for Net Zero initiative. Here the Handelsbanken Group has set a Group-wide target for 20% of its total financing to be green and / or sustainable (in line with prevailing taxonomies) by 2025, and Handelsbanken plc will contribute to this goal. As we launch new green products, we will also develop appropriate support for our branches, enabling them to engage with customers on their green and sustainable financing needs.

The Board has received updates from the External Affairs department at every meeting. This ensures harmonised 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 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 2021
- 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's External Affairs department ensures transparency and alignment of views and enhanced proactive engagement with authorities

Insights and outcomes

Handelsbanken plc has a useful 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. Material outsourcing and high risk third party arrangements are approved by the Board in accordance with the Bank's policy on outsourcing and high risk third parties

Indirect

- Key supplier risk updates 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 which is published on the Bank's website

Insights and outcomes
With a dedicated procurement and supplier management department, the Bank 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.

2021 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, providing assurance 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. The supplier management team are in regular weekly contact with some of our key suppliers to ensure they are supported in the event of any difficulties. 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.

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 regular updates on the Bank's sustainability work giving them an overview of initiatives in this area

Indirect

- Board reporting provides insight into branch matters
- The Board received a presentation from a leading organisation in the area of sustainability

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 approved a tax policy during 2021, to spell out and formalise the Bank's long-held commitment to pay all taxes due. This has also been embedded into the Bank's Risk Management Framework.

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
- The Board has been directly engaged in the formulation of a Sustainability Strategy
- The newly structured Sustainability team provided a series of updates to the Board during the year, which enabled input on the Sustainability Strategy which was approved by the Executive Committee in 2021
- The Handelsbanken Group is a leader in this field and continues its focus on having net zero emissions – both direct and financed – by 2040, with interim targets set for 2030 or sooner. The Board has received updates from the Group Head of Sustainability about initiatives and how they can be leveraged across the Handelsbanken Group

Indirect

- Policies, guidelines and instructions assist with alignment on corporate strategy, governance and sustainability
- The Bank is represented 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

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 the Bank's sustainability forum met monthly with the purpose of supporting the sustainability work locally as well as from a Handelsbanken 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 via the Banks subsidiary Handelsbanken Wealth & Asset Management, 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.

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 or the Group Chief Information Officer
- The Parent issues 'Steering guidelines' directly to the Board clarifying matters reserved for the shareholder
- The UK Shareholder Committee has the purpose of providing additional time, focus and support on matters of importance to Group and the Bank

Indirect

- Reporting keeps Board members informed and regular feedback on initiatives at Group level is received
- 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

Engagement with the shareholder is necessary in order 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.

The Bank has appointed a non-executive Group Board director, Arja Taavekiku in August 2021. Arja sits on the Board Risk and Compliance Committee and IT Strategy Committee which further supports understanding and appreciation of issues in key areas.

To further embed the relationship with the shareholder and the Board it is proposed that in 2022 a Board meeting be held in Stockholm.

ACADEMIA

The Handelsbanken Group is proud of the reputation it has gained for progressive corporate leadership, and at both Handelsbanken Group and Handelsbanken 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 2021, while several well profiled management thinkers have featured our model as a case study in their published works.

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 the appointment of 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 or four years, which can be extended provided the director still meets the criteria for membership of the Committee, and is subject to annual re-appointment at the AGM.

Recognising the importance of maintaining a balanced Board, the skills and experience of individual Board members are regularly reviewed and this has been especially prevalent this year with a number of Board changes. The right mix of skills, experience and competencies is vital for constructive discussion and, ultimately, effective Board decisions. Details of meeting attendance can be found in the Corporate Governance Report on pages 23-24, and individual members in the Wates principle 2 section on pages 27-28.

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

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

Activities and considerations during the year:

- It has been a busy year for the Committee in which they have been integral to leading and overseeing the succession planning process. The Committee oversaw and recommended to the Board the appointment of Margaret Willis, Arja Taaveniku and Patricia Jackson as a non-executive directors. They also oversaw the appointment of Jörgen Olander as an executive director, succeeding Martin Björnberg who returned to Sweden. In order to ensure it remained effective, the Committee also reviewed the appointment process for directors, which was continually refined over the course of the year and found to be effective. Details on the appointment process is set out below.
- The Committee received updates on succession planning for the Board and senior management. There is a continued focus on the recruitment processes to ensure an increase in diverse appointments, and that the process is designed to identify opportunities that enable leaders to grow their capability and potential for the future. In overseeing this approach, the Committee remained focussed on strengthening the Bank's leadership (management and executive) to ensure it has the talent needed for the future. This provided the Committee with a view of the talent pipeline of potential leaders as well their key strengths and development areas. It was noted that whilst there was work to do on the current gender balance, the Bank's succession pipeline will make progress at addressing this in coming years. It was also recognised that there was a lack of ethnic diversity in all areas. In recognition of this, there will be particular focus on increasing diversity within the senior management population and ensuring succession management facilitates opportunities for diverse colleagues. This will assist the Bank in building an inclusive culture where everyone can thrive and to reflect the diversity of the communities served. The gender balance at year end split between executive committee, senior management and employees is detailed below:

% Female	2021	2020
Executive Committee	36%	36%
Senior Management	25%	24%
Employees	47%	49%

- 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 previous discussions a representative of the UK Works Council attends a number of Board meetings during the year.
- The Committee has qualitative responsibility for identifying and reviewing 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. Following the reorganisation a review of criteria, to bring it into line with peers, saw the reduction in the number of MRTs, largely as a result of removing branch managers, who previously qualified. The Committee supervised the update of the Board Skills Matrix to reflect market developments and areas of increasing prominence. To support the continued focus on diversity and inclusion, particular focus was given to it when assessing the needs to the Board.
- The terms and time commitment of non-executive directors were considered to ensure it remained appropriate. With a large and demanding Board schedule, it built upon the recommendation in the external board effectiveness review the prior year to increase the size of the Board. This resulted in the appointment of both Arja Taaveniku and Margaret Willis. To assist with succession, there was the recommendation that their terms, as well as that of Patricia Jackson, be set at four years, so preventing all of the Board's tenures ending at the same time. Board succession was further aided by the renewal of the terms of all Board directors for a further three years, with the exception of Tanya Castell who

stood down at the end of her term to take up an opportunity with the Bank of England. Chairman succession was also considered and a plan implemented to address the process for any future change. In accordance with complying with high standards of corporate governance, all directors stand for annual 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, which covered capabilities, membership, composition and responsibilities, was considered formally at the November 2021 meeting and based on the feedback received as part of the review the Committee concluded that its performance continued to be effective. As a result of the review, the Committee decided that further training would be beneficial and that this would be addressed in 2022.

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 and external advisors. The Committee is satisfied it has received appropriate, timely and reliable information in order to discharge its responsibilities effectively.

Process for appointing directors of the Board
The Committee leads the recruitment of any new non-executive directors on behalf of the Board.

Board composition is the responsibility of the Board Chairman and the Nomination Committee. The Nomination Committee, as part of its deliberations, consider the current composition to ensure that there is an appropriate balance of independence, diversity, skills and experience on the Board. Succession is also factored in as well as taking into account the challenges and opportunities facing the Bank and the skills and expertise that may be required in the future.

- **Requisite Skills**
  The Board annually reviews its skills and composition, which includes use of a Board Skills Matrix against which directors assess their competency against a broad set of criteria. This is then overlaid with observations and feedback from Board and key management stakeholders to determine areas of strength and weakness and whether any changes or training is required. The Board approved Composition Statement also sets out the process to be followed and ensures a robust and thorough process is followed which includes the diversity of the Board. The Board is committed to enhancing diversity and it is something that will be focussed upon in 2022.
- **Recruitment Partner**
  Assuming that an external candidate is to be found, an independent third party is identified to assist with the search. This helps demonstrate a level of objectivity and assists with identification of the strongest candidate.

  The Bank has used Odgers Berndston and Ridgeway Partners for searches in the year and both were considered successful partners. A tender process is considered for each appointment to ensure the best candidates are found.
- **Induction**
  Despite COVID restrictions for much of the year, all new directors were provided with a tailored induction programme which took into account existing experience and the need to develop an understanding of Handelsbanken culture.

  Due to restrictions, many of the sessions were held via videoconferencing and branch visits and meetings held when safe to do so.
- **Evaluation of the process**
  During and following any recruitment process the Committee reflects on the process to continually refine and improve the process. At the end of 2021 following a robust process, taking into account the Board's commitment to diversity and the requirements for current and future composition of the Board, the Committee analytically evaluated the process and its components parts and found it to be effective.

BOARD REMUNERATION COMMITTEE

The Board Remuneration Committee has ownership and oversight responsibility for setting the remuneration policy for all the Bank's executive directors and employees who are senior management function holders and the chief executive officer of wealth management ('senior management'). The Committee makes recommendations on the remuneration and other terms of employment for senior management, in addition to reviewing and recommending proposals on the variable remuneration awards at Handelsbanken Wealth & Asset Management 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 of the Board.

In determining the Bank's remuneration policy, the Committee takes into account all factors which it deems necessary including relevant legal and regulatory requirements and any relevant guidance (including the FCA Remuneration Code and the PRA Remuneration Part rules). When determining remuneration policy and procedures, the Committee shall consider the principles of clarity, simplicity, risk, predictability, proportionality and alignment to culture. The objective of such policy shall be to attract, retain and motivate executive management of the quality required to run Handelsbanken plc successfully without paying more than is necessary, having regard to the views and remuneration policy of the shareholder, as well as of other stakeholders.

The Committee comprises four 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 or four years, which can be extended 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 Human Resource 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 pages 23-24, and individual members in the Wates principle 2 section on pages 27-28.

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

Mercer Kepler are the external advisors to the Committee, and were appointed in 2019. Mercer Kepler, in the course of the year presented on a variety of matters including, but not limited to, regulatory updates and reporting disclosures. Mercer Kepler also undertook remuneration benchmarking reviews, in addition to helping with the design and implementation of the new Oktogonen disbursement model - a UK approved HMRC Share Incentive Plan (see below for further details).

Activities and considerations during the year included:

- The Committee considered the approach to annual pay increases for the wider employee population for 2021, taking into account factors such as affordability, opinions and considerations from our control functions, the requirement to maintain adequate capital, the ability to attract and retain high quality employees. In considering the approach, the Committee also focused on the alignment between overall company performance and remuneration, whilst continuing to review and where appropriate challenge the Bank’s method to achieve this.
- In light of the economic and social uncertainty caused by the Covid pandemic, a decision was taken to freeze senior management pay for 2021. This was thought prudent to ensure that any increases could instead be distributed to those in less senior or developing roles, subject always to assessment against the Bank’s salary setting factors.
- As a result of a Handelsbanken Group decision to transfer the responsibility for deciding the appropriate disbursement model for the profit-sharing scheme Oktogonen to each of the home markets, the Committee considered various disbursement alternatives, supported by –Mercer Kepler. The Committee’s objective was that any alternative model would meet our regulatory requirements in the UK whilst remaining as close as possible to the principles of the Oktogonen scheme i.e. promoting employee ownership, a long term perspective and good risk management.
- A UK approved HMRC Share Incentive Plan (SIP), was decided upon as the most suitable alternative, with the Committee overseeing the introduction and implementation of the SIP in 2021. Handelsbanken plc employees that are employed during the financial year to which the Oktogonen allocation relates, are eligible to receive the annual free share award with the exception of some leavers. Employees cannot sell their shares for five years unless they leave the Bank, in which case they can sell their shares but there may be tax implications.
- With uptake levels of 97% for the SIP, the Committee believes this demonstrates the value of the scheme to employees and its important role in helping to underpin the Bank’s culture and values. Oktogonen also continues to acknowledge the Handelsbanken ethos of fairness with all staff who have worked for a whole performance year being awarded the same amount (with awards pro-rated for employees who worked part-time and/or joined part way through the performance year).
- The annual Gender Pay Gap analysis and statement were also considered. The Committee reviewed and found the current remuneration system to be fair and gender neutral, however acknowledges that there is still progress to be made. The main driver for improvement continues to be the imbalance of males and females at different levels of the organisation, which in part can be attributed to legacy recruitment, particularly in the branch network, which is expected to be supported and addressed through our recruitment, development and succession management. The Committee reiterates the Bank’s commitment to build a more balanced workforce that is representative of its customers, colleagues and society in general.
- Pension rights and entitlements form part of the remuneration policy which the Committee is responsible for. The policy ensures there is alignment of employer pension contribution levels between senior management and the wider workforce.
- The Committee has also reviewed and provided input into the annual goals and objectives for senior management. Measurement of progress against these goals will enable the Committee to correlate business performance and reward over the year. For 2022, there are now shared goals for senior management in the areas of inclusion and sustainability, reflecting the strategic importance of these areas.
- 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 and its application 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 provided input to 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 usually performs an annual self-evaluation of its performance based on a survey submitted to all members and relevant standing attendees taking part in meetings. With the recent addition of a new member, the self-evaluation was moved to Q1 2022 to give the new Committee the opportunity to make more informed responses to the survey. The results found the Committee to be operating effectively.

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 Kepler and training. The Committee is satisfied it has received appropriate, timely and reliable information in order to discharge its responsibilities effectively.

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 five 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 or four years, which can be extended 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.

During the year the Committee composition changed with the appointment of a new chair and two new members. Patricia Jackson was appointed as an independent non-executive director of the Board and Chair of the Committee on 1 October 2021, as the former Chair, Tanya Castell, resigned on 8 August 2021. In addition, the Committee welcomed Margaret Willis, independent non-executive director, and Arja Taaveniku, non-executive director, as new members on 1 August 2021.

In addition to the members the Chief Risk Officer, Deputy Chief Risk Officer, Chief Compliance Officer, Chief Credit Officer and Chief Audit Officer attend 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 pages 23-24, and individual members in the Wates principle 2 section on pages 27-28.

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

Activities and considerations during the year included:

- During 2021 the Committee oversaw and recommended for Board approval the annual review of the Bank's risk tolerance statements and the risk assessment that underpins the Bank's ICAAP and ILAAP for 2021 with the stress test results demonstrating that the Bank could withstand stress with only minor reliance on capital buffers. The Committee also reviewed and recommended for Board approval 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 focussed 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 focussed 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 2021 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 2021 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 usually performs an annual self-evaluation of its performance based on a survey submitted to all members and relevant standing attendees taking part in meetings. With the recent appointment of a new Chair and two new members, the self-evaluation has been moved forward until Q1 2022 to give the new Committee the opportunity to make more informed responses to the survey.

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 three members of the Board, all 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 or four years, which can be extended 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. The Committee welcomed two new members during the period, Patricia Jackson on 1 October 2021 and Margaret Willis on 1 August 2021, both independent non-executive directors. Patricia Jackson replaced Tanya Castell who resigned as independent non-executive director on 8 August 2021. With the appointment of Margaret Willis, the Committee extended the number of members from two to three.

In addition to the members, the Chief Audit Officer, Chief Financial 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 pages 23-24, and individual members in the Wates principle 2 section on pages 27-28.

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

Activities and considerations during the year included:

- During 2021 the Committee has considered a number of matters 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 continued to evaluate 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 2021. To support its review of the financial statements, an external subject-matter expert was invited to a Committee meeting during the year to discuss IFRS 9.
- The Committee reviewed the directors' going concern assessment in relation to the preparation of the financial statements on a going concern basis. The assessment included consideration of the Bank's capital plan and funding and liquidity position, including stress testing, as well as the continued impact of COVID-19 and Brexit. The Committee reviewed the proposed going concern statements and disclosures in the report and financial statements.

Based on its review the Committee concluded that the financial statements could be prepared on a going concern basis and this was appropriately disclosed. The going concern statement is included in the Directors' report on page 52.

- The Committee is striving to continually improve the Bank's governance and annual reporting. The Bank adopted 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 in 2020. 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 focussed disclosures as well as bringing to the forefront the Board process and the work of its committees. In line with the desire to further align with the UK Corporate Governance Code, the Committee appointed a third independent member during 2021, which also addressed one of the recommendations coming out of the external board effectiveness review undertaken in 2020.
- The Committee has monitored the work according to a plan of both internal and external audit, with specific focus on resources being sufficient and that remote working arrangements, as a result of the pandemic, 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 and formalisation of Board governance in relation to the risk acceptance process for audit issues.
- In line with good industry practice the Committee supported a Tax policy being established in 2021, 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.
- Business updates relating to the ongoing work with addressing audit findings were received from the Product and IT functions. The Committee also started to receive 6 monthly Legal updates from the Chief Legal Officer, to support their assessment of the value of provisions and contingent liabilities in the financial statements.
- In liaison with Group the Committee oversaw the tender process for a new external auditor to be appointed and ensured it fulfilled the expectations set out by the UK regulations. After a rigorous process, including a shortlist of two firms that were considered by the Committee, PwC were selected to become the external auditor for the financial year 2022.

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 focussed 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 2021 Internal Audit carried out a substantial number of audits in line with the approved audit plan, including thematic audits concentrated on the credit processes, anti-money laundering and key operational process. Other audits during the year centred on the risk and control environment across the organisation including a review of regulatory attestations, financial crime, information security, changes to the credit and operational processes as a result of COVID-19 and the payments processes.

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 January 2022 the Committee concluded that the Internal Audit department had continued to be effective during the financial year ending 31 December 2021.

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 Financial Reporting Council (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 takes 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 2021.

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 2021 there was one non-audit service performed by EY LLP, a CASS (Client Asset Assurance Standard) audit. This service is permitted and approved by the FRC Ethical Standards, and EY LLP confirmed their independence and ability to perform the work prior to the audit. 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 2021 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 self-evaluation for the year ending 31 December 2021 covered capabilities, membership and composition, oversight of external and internal audit and priorities against the terms of reference, published guidance and recommended practise. The views of the participants were considered anonymously and based on the feedback received as part of the review the Committee concluded that its performance continued to be effective at the January 2022 meeting. The self-evaluation resulted in the Committee agreeing to attend more audit committee specific training in 2022.

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 focussed 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 established a Board IT Strategy Committee in 2020. 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 helps in the formulation, and has oversight, of the Board approved UK IT Strategy.

The Committee comprises of four 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 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. The Committee welcomed the appointment of Arja Taaveniku as a new member and non-executive director and Anthony Brigginshaw as the new Chief Information Officer on 1 August and 24 August 2021, respectively.

Details of meeting attendance can be found in the Corporate governance report on pages 23-24, and individual members in the Wates principle 2 section on pages 27-28.

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

Activities and considerations during the year included:

- During 2021 the Committee held four meetings with the primary focus being providing input to, and the oversight of, the Bank's IT Strategy which helps to maintain pace with evolving demands in the financial services industry. The tender process for suppliers to assist with a new core banking solution, ring fencing and digitalisation were also discussed.
- In considering the IT Strategy, alignment with the Group-wide IT principles, information security and data management obligations are important and the Committee has endeavoured to ensure that synergies across the Group are utilised and an integrated approach is adopted where appropriate. The Committee received presentations from other 'home markets', forming part of the Handelsbanken Group, to assist with this process. In scope for these discussions has also been the relationship between the business strategy and the IT strategy.
- In response to the Competition and Markets Authority (CMA) survey, the Committee has also reviewed the existing core banking solution from a customer point of view and considered ways of improving the customer experience within a standardised, simplified and integrated IT environment, whilst retaining robust security.

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. This year's self-evaluation covered capabilities, composition, responsibilities, escalation and priorities against the

Terms of Reference. The views of the participants were considered anonymously and based on the feedback received as part of the review the Committee concluded that its performance continued to be effective at the Committee meeting in September 2021. The self-evaluation supported the appointment of a fourth member, the non-executive director Arja Taaveniku on 1 August 2021, and also concluded that some more training in respect of changing IT-technology may be appropriate. The latter would be considered as part of the agenda for 2022.

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 and external advisors. 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

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.

As discussed in the stakeholder engagement section on pages 35-40, the Bank liaises with suppliers on a range of issues to minimise risks and embed best practice in a number of areas throughout the supply chain. Supporting and engaging with suppliers ensures the Bank is in a position to receive the best possible outcomes for customers.

For further information on stakeholder engagement, please see the stakeholder engagement section on pages 35-40.

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

Mikael Sørensen
CEO

17 March 2022

Directors' report

The directors present their report and the financial statements for the Bank for the year ended 31 December 2021. 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 2021.

PROPOSED DIVIDEND

The directors do not recommend the payment of a dividend for the period (2020: 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 (Chairman)
- Maureen Laurie (SID)
- John Ellacott
- Agneta Lilja
- Mikael Sørensen
- Arja Taaveniku (appointed 1 August 2021)
- Margaret Willis (appointed 1 August 2021)
- Jörgen Olander (appointed 1 December 2021)
- Patricia Jackson (appointed 1 October 2021)
- Martin Björnberg (resigned 30 November 2021)
- Tanya Castell MBE (resigned 7 August 2021)

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 (2020: nil).

During the year, the Bank made £94,736 (2020: £56,645) donations to charitable organisations.

BRANCHES

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

OUR EMPLOYEES

Handelsbanken plc's long-term approach to relationships with its employees mirrors the relationship it builds with every customer. As with every customer, it sees each recruitment as a significant and long-term investment in the success of the Bank. Employees with broad knowledge, diverse backgrounds and experience make a vital contribution to the Bank, supporting the attainment of the Banks corporate goal. To retain employees, the right conditions must exist for personal and career development, while each individual's experience, circumstances and background must be respected. In line with our culture, we empower and enable all employees across the Bank to access appropriate development and learning resources. We are committed to diversifying our learning offerings, which are delivered in a blended format to ensure we accommodate different working styles, provide flexibility and ensure inclusivity.

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. Where a provision, criterion or practice places a disabled person at a substantial disadvantage in comparison with someone who is not disabled, the Bank embraces the opportunity 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

In 2021 the Bank continued to support the well-being of our employees throughout COVID-19 with the following:

- by facilitating a range of workshops relating to wellbeing topics for employees, line management support and training, and workshops to support line managers with their teams during the return to office

- the Virtual GP service (first introduced in 2020) continues to be a valuable source of support for our employees and their families
- continually updating our guides for employees e.g. Managing Sleep, Nutrition & Exercise

Whilst the negative impact of COVID-19 has been obvious, it has enabled greater flexibility in where and how we work. As a result, to coincide with the return to office, the Bank realised that it could make the most of the potential benefits of this flexibility to further enhance employee engagement and wellbeing by implementing a Hybrid Working policy which complements our culture. As a people orientated bank, we are keen to create a working environment where each individual can flourish and work flexibly in a way that suits their roles and responsibilities. Employees may vary the location from which they work, for example working from the same or different Handelsbanken offices the majority of the time, as well as working from home.

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 (which has become even more important since COVID-19 made it necessary for many of our employees to work remotely).

Every year all employees have the opportunity to participate in a survey which is designed and facilitated by the Financial Services Culture Board (FSCB) for its members. The survey focuses on nine key characteristics namely competence, reliability, responsiveness, resilience, accountability, openness, respect, honesty and shared purpose. The FSCB survey helps gather evidence that member firms across the UK can use to develop and maintain the appropriate organisational culture for their employees and customers. Following the distribution of the results, materials are subsequently provided to promote open discussion and feedback across the Bank regarding areas for improvement. The Board is briefed on the results of the survey and the action plan to address any 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 Human Resource Officer have quarterly meetings with the UKWC. In 2020 given the unique circumstances of the pandemic there were more frequent meetings with the UKWC, providing useful updates and feedback to both the UKWC and the Bank. In 2021, given the restructure the Bank was undertaking, fortnightly meetings were introduced with the UKWC, with both the CEO and Chief Human Resources Officer in attendance. These regular meetings also updated on issues surrounding the ongoing pandemic and, when appropriate, the return to office.

In 2021 the Chair of the UKWC attended one Board meeting, and another member of the UKWC attended a further Board meeting, to provide updates on the key issues that were being raised with the UKWC. Two Board members also presented to the UKWC in 2021, these meetings helped the UKWC to provide useful updates and feedback to the Board. Examples of topics discussed with the Board and Board members by the UK Works Council included the Bank's restructure, the introduction of the new Share Incentive Plan, the Bank's response to the COVID19 pandemic and the subsequent return of employees to offices.

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 both as intranet articles and 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. A series of online Q&A sessions with the CEO and other members of senior management have been held this year. All employees were invited to sign up to attend these sessions, and ask a question or questions of their choosing. It is intended that similar formats in face-to-face meetings will resume at the earliest possible opportunity.

In January 2021, the Bank began engagement with employees regarding a programme of reorganisation to be implemented during 2021, this programme is nearing its conclusion, having kept compulsory redundancies to a minimum by ensuring that affected employees were given the opportunity to apply for voluntary redundancy, as well as being kept informed of, and supported to apply for, suitable alternative roles across the Bank. As detailed above, the UKWC was regularly consulted and engaged with throughout the process. Through formats such as the Q&A sessions, branch meetings, and functional town halls senior leaders have ensured employees have been kept updated on the restructure, the resultant changes and also tried to deal with any questions or concerns. The anxiety caused by such uncertainty has not been underestimated by the Bank's senior leaders, however, and they all join the CEO in thanking colleagues who have remained professional and committed throughout the restructure.

To ensure employees are kept abreast of regulatory, market 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 ensure customers receive the best standards of service and care. At Handelsbanken plc, we have always focussed 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 remains 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 the SMCR.

The Training & Competence Scheme (T&C Scheme) operates across the Bank and covers all employees, irrespective of their activities and responsibilities, ensuring consistency with regulatory requirements. The T&C scheme outlines how the Bank assesses and demonstrates an employee's competence. This is achieved by using the Bank's performance management system – "the Wheel" (which includes an ongoing dialogue between employees and line managers to ensure that individual action plans and personal development are aligned to business objectives), mandatory training, value adding CPD, and encouraging professional qualifications (including through apprenticeships). The T&C Scheme provides a framework through all stages of employment, from recruitment to long term careers, ensuring the ongoing development of our people. This helps to ensure motivated and engaged colleagues, who live by the values underpinning the culture of the Bank and maintain the skills, knowledge and expertise necessary for the 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 against any protected characteristic. It 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 inclusive environment in which individual differences and the contribution of everyone is recognised and valued
- to provide a working environment that promotes safety, dignity and respect for all
- not to tolerate any form of intimidation, bullying or harassment
- to ensure that all training and development is inclusive and accessible to enable the same 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, in demonstrating support to diversity and inclusion, the Bank was one of the initial signatories of the Women in Finance charter, a pledge for gender balance across the UK financial services industry. Continued focus in this area has seen an increase of 50% of female leaders within the Bank since 2016. In addition, the appointment of the Head of Development and Inclusion has demonstrated positive movement in supporting the Bank's strategic focus on diversity and inclusion. The establishment of the UK diversity and inclusion working group will provide further insight, engagement and support from all employees.

In 2021, following our restructure, we adapted our Diversity and Inclusion (D&I) strategy to ensure alignment to our new 'One Bank' structure. In addition an Employee Resource Group framework was created to further encourage all employees to support and drive the D&I agenda. We are now developing a policy which will support the achievement of our D&I strategy. The policy will set out how the Bank recognises the value of an equal and diverse workforce and its commitment to creating and maintaining a truly inclusive work culture based on trust and respect for all individuals.

Since December 2019, 44% of staff have shared their diversity data, but we recognise a higher completion rate is needed to be able to set focussed and meaningful D&I actions. We have set a target of 60% completion rate by the end of 2022, and a renewed communication plan is being devised to raise that completion level. This base line data is vital in helping us to set the appropriate goals for the Bank to realise its ambitions in this area.

Although not a FTSE 250 listed company, we are aware and cognisant of both the Hampton-Alexander Review and the Parker Review, and will take these recommendations into account when deciding on our own appropriate D&I goals in 2022. Our Board is already 55% female, and our Executive Committee is 31% female. 35% of those senior leaders who are direct reports to Executive Committee members are female.

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.

Oktogonen - our employee profit-sharing scheme

As previously mentioned, 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. Any Oktogonen allocation is agreed by the Handelsbanken Group Board and ratified by the Handelsbanken plc Board, and takes into account overall performance, which is risk adjusted and based on a perspective over several years, taking into account the underlying business cycle and any business risks and impact on long term sustainable profits. Previously these allocations were made to the Oktogonen Foundation based in Sweden, which invested predominantly in Handelsbanken Group shares. Until 2021, when the Regulations were amended, employees had to be aged 60 to be eligible for a distribution. Now, however, from the age of 55 employees can elect to receive a distribution of their accumulated units in the Foundation, along with any commensurate growth in value.

As set out above, the UK has implemented a new disbursement model for Oktogonen in 2021 – the Share Incentive Plan (SIP) and defers the maximum amount possible per employee via the SIP. The SIP model allows a significant proportion of an allocation (depending on the quantum) to be awarded in the form of Handelsbanken Group shares and deferred for five years. Therefore the SIP maintains many of the fundamental principles of Oktogonen i.e. promoting employee ownership, good risk management and cements how importantly we view long termism in all aspects of the Bank.

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 35 and the Bank's Section 172 statement, on page 48.

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 investments include areas that drive efficiencies and simplify or automate manual processes, or the proposed development of technical capabilities in Customer Relationship Management.

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 54.

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

The Bank continues to monitor Russia's invasion of Ukraine and the potential impact it has on the Bank and our customers. Up to the current date no direct material impacts on the financial statements have been identified. Further explanation on the review of the impact on the financial statements (considering the ICAAP stress test scenarios) can be found on page 56.

GOING CONCERN

After making due enquiries, the directors believe that the Bank has sufficient resources to continue its activities for the foreseeable future, and over the going concern assessment period through to 31 March 2023.

For further information on Handelsbanken plc's going concern statement, please see note 1 on page 75.

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.

In 2022, the Bank will continue to support the increasing drive for sustainability and continue its programme of digital improvements to further enhance the Bank's customer offering and a more efficient customer process.

The Bank is thus continuing on its path of building a bank for the future, including those that drive efficiencies, and those that simplify or automate manual processes which will 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 likely developments in the business and information regarding significant events since the end of the financial period, please see information within this Directors' report on pages 49-52.

AUDITOR

Ernst & Young LLP have been in place as auditor of the Bank since Handelsbanken plc was formed from the UK Branch of Svenska Handelsbanken in 2018. As a result of the tender process described on page 45, PricewaterhouseCoopers LLP were selected to become the external auditor for the financial year 2022.

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

Mikael Sørensen
CEO

17 March 2022

Statement of **directors' responsibilities**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom 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 UK-adopted international accounting standards ('IFRSs').

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 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial position and financial performance;
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic report and Directors' report that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

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

The directors confirm that to the best of their knowledge:

- that the financial statements, prepared in accordance with UK-adopted accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- that the annual report, including the Strategic report, includes a fair review of the development and performance of the business and the position of the company and taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- that they consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the companies position, 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 2022

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.

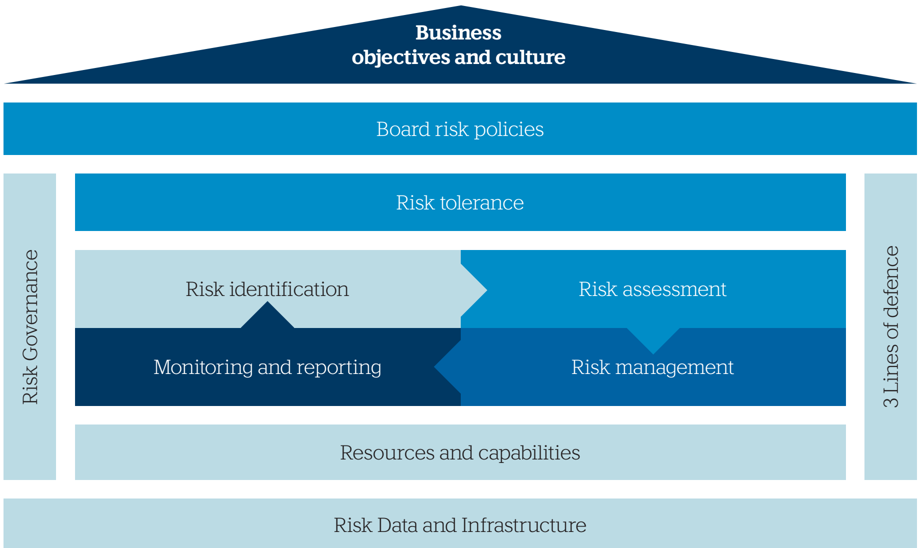
RISK CULTURE

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 to enable sustainable growth. Handelsbanken plc has an established risk management framework ('RMF') that sets out the Bank's structure of risk management including risk tolerance, governance and the approach to effectively identify, assess, manage and report relevant risks. The RMF is informed by Board risk policies and provides the link from the policies to instructions and standards, where the operational aspects of risk management is described and defined, including controls, monitoring and reporting. The Bank commissioned an external review of the RMF during the year, and following that review the Bank will continue enhancing and embedding improvements to the framework, in order to continue to aim for best industry practice.



RISK GOVERNANCE STRUCTURE

The Board of Handelsbanken plc has responsibility for setting strategy and corporate objectives and has the ultimate responsibility in ensuring risks are managed effectively. The Board has outsourced the oversight of risks and risk management to the Board Risk and Compliance Committee.

On the management level there are two key risk committees: The Financial and Capital Risk Committee and the Management Risk and Compliance Committee, that are responsible for overseeing the risk profile of the Bank. These committees are in turn supported by a number of sub committees for e.g. Credit, Operational, Model and Financial crime risk management.

RISK TOLERANCE

Risk tolerance is defined as the type and level of risk that the Bank is prepared to tolerate in pursuing its business objectives. The Bank has a conservative approach to risk and the articulated low risk tolerance is one of the fundamental principles of the business model. As such, there are few areas where the Bank is willing to tolerate more than the minimum level of risk.

Risk tolerances are set by the Board and are used to guide decision making and risk management across the Bank. The Risk Tolerance Statement consists of qualitative statements, supplemented by quantitative metrics where possible.

THREE LINES OF DEFENCE

Handelsbanken plc adopts a three lines of defence approach to risk management where the first line consists of the business areas and their central support functions, the second line of the risk and compliance functions and third line of internal audit.

- The first line of defence consists of the branch network and the supporting head office functions. The first line is responsible for risk management and for making business decisions in line with the Bank's risk tolerance
- The second line of defence consists of the risk control and compliance functions. These functions are independent units with responsibility for providing oversight and challenge to the first line, as well as supporting them in building out appropriate controls and risk management capabilities
- Internal audit is the third line of defence. They are independent and impartial and provide independent assurance to the Board. Their scope is unrestricted and based on independent assessment of key risks and how effectively they are being managed

RISK MANAGEMENT PROCESS

The Bank's risk management process consists of risk identification, assessment, management and monitoring and reporting.

Risk identification

Risk identification is the process of finding, recognising and describing risks that can have an impact on the strategic objectives of the Bank.

The process aims to identify all risks related to principal and emerging risk types.

Risk identification is carried out through both a top-down and bottom-up approach as well as by assessing emerging risks:

- Top-down risk assessment is performed by starting from the Bank's principal risks as defined in the risk taxonomy and from there identify specific risk events relevant to the Bank
- Bottom-up is performed by identifying key inherent risks in the business that affect the ability to achieve the Bank's objectives and these are linked to the risk taxonomy
- Emerging risks are newly identified risks or existing risks that are changing in terms of dynamics, and has the potential to impact the Bank in the future but which is highly uncertain in terms of timing, impact or likelihood. These risks may not be fully understood yet or measureable. These are to be identified through monitoring of new governance policy, regulations, industry trends and other external factors as well as monitoring of internal factors such as changing portfolio, business model and product offerings

The business areas are responsible for the bottom-up and emerging risk identification within their respective remit.

The second line review provides oversight over the risk identification processes, and is responsible for coordinating the top-down risk identification processes.

Risk assessment

Risk assessment is the process to assess and measure identified risks. This process allows the Bank to identify the most material risks and helps to prioritise resources and development of mitigating measures and controls. The risk assessment is done by assessing impact and probability (likelihood) in two stages: First for the inherent risk and second by measuring the residual risk after taking controls and existing risk mitigating measures into account.

Risk management

Risks are managed through preventive, detective and corrective controls that mitigate the risk exposure to a tolerable level. When a risk is outside of management risk tolerance, the functions managing the risk define action plans to change the underlying process, change existing controls or introduce new controls to prevent the risk going outside the Board risk tolerance. There are also other risk treatments that are used in certain instances such as elimination of the risk (i.e. cease activity) or risk transfer (taking insurance to provide cover).

Risk monitoring and reporting

Risk monitoring aims to continuously monitor identified and assessed risks to understand how the risk profile changes. This allows the Bank to ensure risk controls and mitigating actions remains efficient and that any changes in the risk profile can be escalated and addressed. Risk monitoring is performed across the first and second line:

- First line perform day-to-day risk monitoring in line with the Board risk policies and instructions
- The Risk Control function provides independent monitoring of the overall risk profile and risk exposure compared to risk tolerance thresholds and limits
- The Compliance function undertakes independent monitoring as a part of its oversight and challenge role, using a risk based approach to design an annual Compliance Monitoring Plan

Risk reporting provides the Board, risk committee members and senior management with appropriate, accurate and timely information related to the risk profile of the Bank to support timely actions and decision making.

Risk reports are produced by risk owners in the first line, and second line provide oversight and produce a risk opinion report. The most material risks are presented to the management risk committees which in-turn assess and escalate any risks or specific risk related issues to the Board Risk and Compliance Committee.

STRESS TESTING

Stress testing is a key risk management tool for measuring risks and testing the effectiveness of controls and mitigation measures. Stress testing, including scenario analysis, risk specific sensitivity analysis and firm wide stress tests, are performed both for internal risk analysis, informing business strategy, and for capital, liquidity and funding planning and adequacy assessment.

Three of the key stress testing processes are; the firm wide stress test used for the ICAAP, which test the Bank's capital adequacy over the capital planning horizon for a range of scenarios of different severity; the Liquidity stress test used for daily monitoring as well as for the ILAAP; and the Operational risk scenario analysis that analyses the Bank's key operational risks to assess potential impact and to test the controls and mitigating actions.

The Board Risk and Compliance Committee is actively involved in defining relevant scenarios and in reviewing key stress assumptions and results.

PRINCIPAL RISKS

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. These risks are broadly categorised and should be read in conjunction with other sections of this annual report, including the forward looking statements section and the Strategic report. It should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing Handelsbanken plc.

- Business Strategy Risk
- Credit Risk
- Liquidity, Funding and Capital Risk
- Market Risk
- Operational Risks including;
  - Financial Crime Risk
  - Compliance Risk
  - Information Technology and Information Security Risk
  - Change Management Risk
  - Third Party Management Risk
- Climate Change Risk

Business Strategy Risk

Business Strategy risk is the risk of loss of income, inability to reach strategic objectives, or risk of sustained financial loss by Handelsbanken plc due to business strategy decisions or plans (including remuneration), failure to implement strategies, or failure to adapt strategies to changes in the external or internal business environment.

Handelsbanken plc has a low risk tolerance of business strategy risk. Handelsbanken plc has a low risk business model that focusses on long term profit stability, through-the-cycle financial resilience and is true to the Handelsbanken culture. Business strategies should be achievable, understandable, resilient to normal business cycles, and adaptable to external events and changes.

The less dramatic than expected impact of Omicron in January 2022 has meant that the UK economy is back to square one, with overall level of GDP now above its pre-pandemic level, albeit the makeup of the underlying economy is now more reliant on government expenditure than previously. The UK's recovery was seen as having two distinct phases, in 2021 consumer spending was the main driver of the overall economy, while in 2022 the main economic drivers was envisaged as being government spending and business investment. The crisis in the Ukraine has changed this and clearly puts increased business investment at risk, our expectations for overall UK economic growth in 2022 and 2023 have been brought down as a result.

Over the course of 2021 consumer expenditure was driven by people redirecting incomes from savings to spending, savings had hit a high of 23.4 percent in Q2 2020 before it fell back to its long-term average of 7.6 percent. Looking at 2022, there are some significant impending headwinds for consumers in the form of inflation, increasing taxes, increasing cost of energy and further rises to interest rates, all of which points to a squeeze on consumption which will cost as much as £24 billion in 2022, only in part be made up through households lowering their savings rate as well as increased government expenditure. We do not see consumer spending reaching the pre-pandemic level until the first half of 2024.

Our expectations for 2022 and beyond have been adversely affected as a result of the potential impact on business investment in the wake of the Ukrainian crisis. However, because the absolute level of private sector business investment never regained the levels it had enjoyed prior to the pandemic, we are not expecting a dramatic fall in Gross Fixed Capital Formation. Rather our expectation is that any expansion in business investment will now be slower than previously anticipated. Over the longer term we continue to forecast that businesses will invest upwards of a quarter of the approximately £240 billion in savings they accumulated over the course of the pandemic and the driver of that investment will be the need to adapt to post pandemic consumers demands, as well as the new found imperative for greater security in global supply chains. The Government's generous capital allowance scheme, set out in the Spring 2021, which raised tax allowances for investment against corporation tax to 130 percent for the next two years, will not be sufficient to drive forward short term investments in light of the Ukrainian crisis.

Taken together these factors result in UK GDP, having expanded by 7.3 percent in 2021, but with the Ukrainian crisis now besetting us, the overall economy will fall well short of initial expectations and is now set to grow by 4.4 percent in 2022 and only 1.2 percent in 2023 (previous forecasts were 6.3 and 1.6 percent respectively) , before economic growth moves back to its trend rate of just under 2 percent from 2024 to 2026.

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.

The Bank continues to monitor Russia's invasion of Ukraine and address impacts on the Bank, as they arise. Although the 2022 ICAAP document was prepared based on the Bank's risk exposures as at 31st December 2021, and therefore does not incorporate estimates of the capital impact following the current geopolitical crisis, the Bank analysed the impacts of the geopolitical crisis outside of the ICAAP process and noted there were no direct material impacts on the financial statements. In addition, given the severity of the shocks considered in the ICAAP stress test scenarios and the fact that the Bank's capital position remains strong throughout all the scenarios, the resulting economic stress of the situation in Ukraine is considered to be covered by the range of scenarios considered in the ICAAP. Therefore the 2022 ICAAP stress scenarios provides assurance that the Bank is well prepared for the potential economic turmoil, based on management's judgment.

Credit Risk

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

The Bank believes that branches know their customers and the local market conditions best. Branches focus on our Core Customers, these customers fall into one of four categories, Private Individual, SME, Corporate and Property.

The Bank's strict approach to maintaining a low risk tolerance for credit risk means that it deliberately avoids high-risk transactions, even if the remuneration is high at the time. This low credit risk tolerance is maintained through a strong credit culture that is sustainable in the long term.

Maintaining a low tolerance for credit risk is a key component of the Bank's overall culture and its long-term perspective. Relationships with customers are for the long term, which means that the Bank is a stable and long-term business partner for its customers, regardless of the business cycle or market situation.

The Bank operates a number of well-established steering mechanisms, including the allocation of internal capital, minimum qualitative thresholds to aid customer selection and consistent credit policy which all support a prudent credit risk culture. It is important to the Bank that granting credit facilities is based on an assessment of each customer's repayment capacity.

The Bank's credit policy is centralised, in an otherwise decentralised bank, which enables the Bank to operate a consistent approach to credit decision making.

The Bank's decentralised way of working empowers employees to make credit decisions that are based on prudent, long term relationships. Employees are empowered to choose the best customers within their geographical area, and to only provide credit to those customers that have a better than average repayment capacity as defined by Credit Policy.

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.

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. If necessary, the local branch obtains support from the Head Office and central departments.

Operating within a decentralised and empowered organisation requires a strong control environment and common ideas on how credit related operations should be run. That is why the Bank never decentralise values, business model, business strategy, policies, risk frameworks, financial steering system or the brand. These all remain centralised elements within the Bank's otherwise decentralised way of working.

To ensure that the Bank maintains a strong control environment we:

- Have solid and fit-for-purpose policies, guidelines, risk frameworks, delegated decision limits and governance frameworks
- Maintain a risk register of key and emerging risks, and always having clear ownership of all risks
- Work focussed on mitigating all risks and ensuring proper oversight
- Maintain good data quality

A strong credit risk culture is embedded within the Bank through:

1. Strong leadership and a clearly defined credit strategy
2. Involvement of stakeholders in all stages of the risk management process through the operation of the 'Credit Lifecycle'
3. An emphasis on training in credit risk management procedures and continuous learning
4. Absence of an automatic decision making model so that individuals have appropriate accountability for actions and decisions
5. Communication and openness on all credit risk management issues and the lessons that can be learnt
6. Use of insights and knowledge sharing as best practice
7. There are no short-term incentives in terms of volume goals or bonuses

Ensuring quality and consistency is a key component of decentralised decision making. Within the credit process, an overview of the credit assessment 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 the Bank was well positioned to face the economic challenges brought about by the economic challenges caused by COVID-19. The portfolio has proven to be resilient and 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 (57%) is provided to Property Management customers, secured on Commercial Real Estate, and a further 2% unsecured. 31% of the portfolio is provided to Private Individuals, the significant majority (30% of total portfolio) secured on properties, mainly private dwellings, securing regulated mortgage contracts. 10% of our portfolio is to Non-Property Management corporate customers. In total, across all customers 5% of the Bank's portfolio is unsecured.

The composition of our portfolio has been largely unchanged throughout the year. The Bank has followed its principles of managing the 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.

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 secured on investment property collateral is 49% and the weighted average LTV for Private Individuals secured on residential properties which form collateral for a regulated mortgage contract is 57%.

The LTV distribution is based on the most up to date, un-indexed professional valuations on charged collateral, by customer classification as at 31 December 2021:

The LTV distribution is based on the most up to date, un-indexed professional valuations on charged collateral, by customer classification as at 31 December 2021:

2021 LTV	<50%	50-60%	60-70%	70-75%	75%-80%	80%-90%	90%-100%	>100%
Private Individuals £m	2,074	1,229	1,238	657	410	216	42	48
Private Individuals %	35.1%	20.8%	20.9%	11.1%	6.9%	3.7%	0.7%	0.8%
Property Management £m	6,810	3,958	670	99	135	104	68	161
Property Management %	56.7%	33.0%	5.6%	0.8%	1.1%	0.9%	0.6%	1.3%

2020 LTV	<50%	50-60%	60-70%	70-75%	75%-80%	80%-90%	90%-100%	>100%
Private Individuals £m	2,027	1,286	1,328	646	442	308	58	68
Private Individuals %	32.9%	20.9%	21.5%	10.5%	7.2%	5.0%	0.9%	1.1%
Property Management £m	6,671	4,068	950	96	140	78	65	219
Property Management %	54.4%	33.1%	7.7%	0.8%	1.1%	0.6%	0.5%	1.8%

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. 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 10 of these financial statements.

We have recorded an IFRS9 balance sheet provision of £23.9m in the year to 31 December 2021, a decrease of £13.4m 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 as at 31 December 2021 total £227m. Arrears volumes have grown £97m when compared with prior year. Current arrears volumes represent 0.9% of on balance exposure. The growth in arrears mainly relates to delays in refinancing matured loans, caused by operational factors and AML processes, and is not a reflection of a deterioration in credit quality. Of the total arrears, £66m relates to customers considered in financial difficulty.

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 continues to use post core-model adjustments to supplement the model based calculations to take account of potential severe economic conditions and uncertainties 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).

Stage 1 & 2 modelled IFRS9 volumes have reduced from £24m to £15.9m, down £8.1m, when compared to 31st December 2020. This reduction reflects a stabilisation of credit quality across the credit portfolio. There has been an improving trend in rating assessment during the second half of 2021 which reflects the positive indications of the underlying performance of the portfolio. Government and temporary modifications granted as financial support measures which were introduced to mitigate the economic consequences caused by COVID 19 have been withdrawn during 2021. Customers seeking longer term support have been assisted and evaluated via the business as usual credit assessment processes and provided with forbearance if appropriate.

Notwithstanding the quality of the portfolio, including the level of security at low loan to values, the economic outlook remains challenging, with uncertainty relating to inflationary and supply chain pressures, as such we have continued to deploy Post Model adjustments to support model produced provisions. 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 within the credit portfolio is the level of forbearance granted. As of 31 December 2021, active forbearance totalled £69.9m, a decrease from £120.4m as at 31 December 2020. All forbearance arrangements have been 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.

Forbearance allows modifications to 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

Interest only payment holidays that were granted to customers that required temporary support, but were not considered in financial difficulty, were not classified as forbearance. Those modifications were considered as part of our business as usual assessment. By 31st December 2021 interest only volumes across the portfolio had returned to pre Covid volumes.

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.

As at 31 December 2021 there were 7 customers with an active Government supported concession, with on balance exposure of £2.2m. 1,360 customers totalling £618m of on balance exposure had resumed payments and closed their concessions during 2021.

28 customers, with a total of £15.3m of on balance exposure, that had previously received a Government concession were in receipt of forbearance.

Customers have received forbearance where our credit assessments have indicated financial difficulty or where there was evidence of an unlikeliness to pay based on the terms of their existing agreements. When forbearance is granted, exposures are categorised as Stage 2 and subject to a lifetime ECL assessment.

Requests for covenant waivers or payment modifications that are not covered by a Government supported scheme have been agreed on a case by case basis through the normal credit decision making processes.

As at 31st December 2021, there were 141 defaults across the portfolio, totalling £94.8 million, based on exposure at default. £56.7 million of this EAD was derived from secured Property Management exposure.

The Bank has continued to monitor a high risk population of customers, being those that were identified as most likely to be adversely impacted by COVID-19. These customers have been kept under review throughout 2021 and have included those operating in care homes, hospitality and leisure, hotels, travel and non-food retail.

As at 31st December 2021, our on balance exposure to these higher risk customers totalled £892m (down from £1.008 billion as at 31 December 2020). This exposure represents less than 5% total on balance exposure.

£505 million of on balance exposure to those customers operating in high risk business areas are considered to have a better than average repayment capacity.

Liquidity and Funding 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.

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 the management of 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 portfolio of High Quality Liquid Assets (HQLA) 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, including a combination of the two, alongside appropriate reverse stress testing
- 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 funding and liquidity planning
- The Bank meets the PRA's Overall Liquidity Adequacy Rule (OLAR)

As of 31 December 2021, the Bank's balance sheet funding includes £19.2 billion (2020: £19.1 billion) of deposits from individual and corporate customers. This is supplemented by £7.9 billion (2020: £9.2 billion) of predominantly long term funding from Svenska Handelsbanken. 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 (2020: £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 £8.3 billion (2020: £9.0 billion) as of 31 December 2021. 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, 475% (2020: 329%) as of 31 December 2021, and has maintained a strong level above the minimum regulatory requirement of 100%. The composition of the LCR is shown below:

	2021	2020
Liquidity coverage ratio (LCR)%	475%	329%

	2021 £'000	2020 £'000
High quality liquid assets	8,254,283	9,023,690
Cash outflows	**5,786,303**	**6,431,789**
Deposits from the public and small and medium sized companies	987,966	922,406
Unsecured capital market financing and large corporate deposits	4,372,312	5,117,136
Other cash outflows	426,025	392,247
Cash inflows	**4,048,917**	**3,685,086**
Inflows from fully performing exposures	4,048,917	3,685,086

Market Risk
Market risk in Handelsbanken plc has been defined as the risk of loss arising from potential adverse changes in the value or income of the firm's assets and liabilities due to a fluctuation in market rates, namely interest and FX rates.

Exposure
Handelsbanken plc maintains a simple banking book balance sheet, with simple products and primarily Sterling denominated activity, does not engage in proprietary trading and does not hold any commodities in either trading or banking book.

The fixed income, currencies and commodities department (FICC) of the Bank has adopted an agency model with Svenska Handelsbanken, 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 is focussed 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
The Bank has largely transitioned 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 has been managed through a 'LIBOR transition steering Committee' to help ensure there is a smooth and measured implementation. The GBP LIBOR funding from Handelsbanken Group is transitioning to SONIA in the first quarter of 2022 in tandem with the transition of customer lending exposures to BofE / SONIA linked products. It is expected that market risks will remain controlled within the current limit structures throughout the transition.

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 risk management framework 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 operate banking services, 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 focussed on a number of key areas. Management continue to address risks with material residual exposures in line with the low risk tolerance of the Bank.

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, market abuse, tax evasion and noncompliance 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.

<u>Compliance risk</u>
Compliance risk is the risk of sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with laws, regulations, rules, codes of conduct or guidance applicable to its operations that are subject to authorisation and its regulatory

permissions. This includes improper licensing / certification as well as inadequate and ineffective engagement with regulators.

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 business owners, 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 payments and financial crime prevention areas continue to require focus in time and resource within the financial services sector as the landscape evolves further. Significant progress has been made in the development of systems, controls and technology, albeit continuous improvement is anticipated to be required in these areas across the industry.

Information technology and information security risk
Our business relies on the IT we use being fit for purpose for the Bank's needs. The Bank's IT therefore needs to be resilient, secure, available and appropriately governed such that IT supports the business to achieve its objectives, provide quality products and services to our customers, execute on our strategies and meet our legal and regulatory obligations.

IT presents the risk of technology solutions not meeting business requirements, customer expectations or failing to deliver consistently, resulting in sub-optimal performance.

IT is also essential in mitigating key Information Security and Data related risks. Information Security Risk is the risk of potential financial, reputational or legal / regulatory loss as a result of a compromise in the confidentiality, integrity, availability or traceability of information assets. Cyber-attacks remain a key area of focus across Financial Services organisations. The Bank remains alert to ongoing and emerging Cyber risks, with monitoring processes in place to identify vulnerabilities and robust controls to manage these risks.

Operational resilience, business continuity planning and IT resilience are critical for the Bank to respond to and recover from unexpected internal or external disruptions while maintaining continuous operations on important business services. Ongoing monitoring and recovery testing of systems and critical processes helps minimise the likelihood of continuity and resilience failures. The Bank continues to adapt its approach to the prevailing and evolving pandemic conditions as required. The Bank also continues to enhance processes to meet the evolving regulatory requirements and expectations impacting on IT (e.g. Operational Resilience, Outsourcing, ICT and Security Risk Measures etc.) and continues to enhance and invest in systems, processes, people and capabilities (including reporting and oversight) in alignment to the IT strategy and the broader direction of the Handelsbanken Group.

Change management risk
The Change management risk is 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. The Change Governance Framework has been launched this year, which is the overarching framework beneath which the Bank's change control processes operate. Further consolidation of change activities has been achieved by bringing Change Management and Transformation under the control of the Chief Information Officer, so that we are collaborating more closely than ever to minimise risks to the Bank.

Change management risks are managed through the Bank's change methodology and aforementioned framework 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.

Third party management risk
Third Party Management risk is the risk of the Bank's inability to effectively source or manage third party arrangements (including outsourcing), resulting in disruption to customer services or activities, business operations or regulatory breaches. 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 managed effectively.

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.

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 Svenska Handelsbanken'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 events, and the assessment of control. Operational risk reporting is an essential component of the framework providing the Operational Risk 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, but plausible, operational risk events materialising that could lead to a material impact on the Bank's ability to deliver on the strategic objectives or result in a significant impact on the 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 organisational change technology), regulatory and remediation programmes
- IT and operational resilience and the continued increase in the sophistication of technology and cyber–crime threats
- 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.

Climate Change Risk
The climate change risk management is described in the TCFD report on pages 14-20.

Environmental, Social and Governance Risk (ESG)
The bank's approach to ESG is described in the Sustainability report on pages 9-13.

CAPITAL MANAGEMENT

Handelsbanken plc aims to maintain a strong capital base in relation to the underlying risks of the business, regulatory requirements and internal risk tolerances, while having the resources to support further capital efficient growth.

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 2021, the TCR for the Bank is set at 10.3%.

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. Only the Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) are applicable to the Bank as of 31 December 2021.

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 2021 the bank applies the UK CCyB rate of 0% of RWAs set by the Financial Policy Committee (FPC). 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 in scope of UK leverage ratio minimum capital requirement. Nonetheless, From 1 January 2022, the PRA expects firms not in scope of the UK leverage ratio requirement to manage their leverage ratio above 3.25% in the normal course of business or as part of its base business plan. 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)
MREL is focussed 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 BofE 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 2021, 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 £2.9bn of capital resources, Handelsbanken plc has a total capital and MREL ratio of 25.2% of RWA, as of 31 December 2021.

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
As of 31 December 2021 the Bank's CET1 ratio and T1 ratio were 20.2%. 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.

In managing the available capital resources of Handelsbanken plc, the Bank's minimum regulatory requirements and internal risk tolerances are considered.

As part of the Bank's strategic capital planning process, the level of capital resources required to support the Bank's future growth, strategic business investments, and any forthcoming regulatory requirements are considered Handelsbanken plc also plans for severe stresses and sets out what actions would be taken if an extremely severe stress threatened the Bank's viability and solvency.

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:

	2021 £'m	2020 £'m
Common equity tier 1		
Paid up capital	5	5
Share premium	2,070	2,070
Retained earnings	317	197
Current year P&L	95	120
	2,487	**2,392**
Less regulatory deductions from common equity tier 1:		
Goodwill and other	(23)	(26)
Common equity tier 1 capital	**2,464**	**2,366**
Additional tier 1 instruments		
Total tier 1 capital	**2,464**	**2,366**
Tier 2	400	400
Total capital resources	**2,864**	**2,766**

Capital requirements

The Bank's Pillar 1 capital requirements for credit risk are calculated using the standardised approach under CRR, applying the risk-weights 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 2021, the Bank's RWAs decreased by c. £1.3 billion, compared to 31 December 2020, reflecting lower lending growth in 2021 and implementing improvements in the RWA calculations. The following table summarises the Bank's RWAs:

	RWAs 2021 £'m	RWAs 2020 £'m
Credit risk according to standardised approach	11,181	12,483
Operational risk according to BIA	995	965
Market risks	-	-
Total RWAs	**12,176**	**13,448**

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.

	2021		2020	
£'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	8,486	8,442	9,225	8,253
Institutions	4,199	4,310	3,855	3,657
Corporates	2,823	3,055	3,430	3,569
Retail	450	469	575	608
Secured by mortgages on immovable property	20,594	20,835	20,833	20,926
- of which, secured by mortgages on residential property	*13,689*	*13,849*	*13,330*	*13,304*
Exposures in default*	96	94	69	74
Items associated with particularly high risk*	161	164	154	169
Equity	44	44	44	44
Other items	88	127	104	149
Total	**36,941**	**37,540**	**38,289**	**37,449**

* Sourced from Common Reporting Framework

Capital adequacy ratios

The Bank's capital adequacy ratios are as follows:

	2021	2020
Common equity tier 1 capital ratio	20.2%	17.6%
Tier 1 capital ratio	20.2%	17.6%
Total capital ratio	23.5%	20.6%

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:

	2021 £'m	2020 £'m
Tier 1 capital	2,464	2,366
Exposure measure	33,635	35,325
Of which, on-balance sheet	*32,711*	*33,852*
Of which, (-) asset deduction	*(23)*	*(26)*
Of which, off-balance sheet	*947*	*1,499*
Leverage ratio	7.3%	6.7%

CREDIT RATINGS

Handelsbanken plc aims to have a high rating with the external rating agencies. During the year, prospects for Fitch rating moved to stable, after being negative in 2020 – due to the ongoing pandemic, the outlook for Standard & Poor remained stable. The Bank's long-term and short-term ratings which monitor the Bank can be seen below.

31 December 2021	Long-term	Short-term
Standard & Poor's	AA-	A-1+
Fitch	AA (S)	F1+

31 December 2020	Long-term	Short-term
Standard & Poor's	AA-	A-1+
Fitch	AA (N)	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 2021 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 33, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; 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. We also reviewed board meeting minutes and discussed the performance of the business, and future intentions, with management.
- We obtained and reviewed correspondence with Company's regulators, and met with Financial Conduct Authority and Prudential Regulation Authority, and considered any impact and potential risk to 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 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 stress and 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 of at least 12 months from when the financial statements are authorised for issue, to 31 March 2023.

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 £9m 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.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact Handelsbanken plc. The Company has determined that the most significant future impacts from climate change will be from credit risk, operational risk and conduct alongside the opportunities and risks associated with market shifts in the transition to a net zero economy. These are explained on pages 14-20 in the required Task Force for Climate related Financial Disclosures and on pages 56-65 in the principal risks and uncertainties, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in note 1, Basis of preparation on page 75, the Company considers its present financial exposure to climate-related risk to be low and accordingly has made limited reference to the impacts of climate-related risk in the notes to the financial statements, though consideration has been given, in particular to the possible financial impacts of climate-related risks on expected credit losses.

Our audit effort in considering climate change was focused on ensuring that the effects of emerging climate risks have been appropriately reflected by management in the financial statements including challenging the Directors' considerations of climate change in their assessment of going concern.

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 *At 31 December 2021 the Company reported total gross loans of £20 billion (2020: £21 billion) and £22 million (2020: £35 million) of expected credit loss provisions.* *Accounting policies (pages 75-86); and Note 10 of the Financial Statements (pages 95-101)* The determination of expected credit losses ("ECL") in the current economic environment continues to be highly subjective and judgemental particularly related to assessing the continuing impact of the pandemic on the economy. 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;	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. 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 COVID-19.	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
• 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"); and • Measurement of individually assessed provisions. Additionally, there is risk in relation to the accuracy and adequacy of the financial statement disclosures. The level of judgement and estimation has remained high 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.	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. 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 that the COVID-19 pandemic on collateral valuations and time to collect as well as whether planned exit strategies remained viable, including the potential impact of climate change risk where relevant. 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 the COVID-19 pandemic.	
The risk of fraud in revenue recognition through the application of the Effective Interest Rate (EIR) accounting *In the year ended 31 December 2021 interest income recorded was £571m (2020: £655m) and fees and commissions income was £37m (2020: £38m).* *Accounting policies (page 83); and Note 3 and 4 of the Financial Statements (page 92)* 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 individually low in 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.	We understood and evaluated the design effectiveness of key controls relevant for financial reporting and tested their operational effectiveness. This enabled us to rely on these key controls, which included specific automated application controls in the Company's banking system that are relevant to the recording of revenue. 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.	We communicated that we were satisfied that the selection and application of accounting polices applied to the Company's income was materially 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.

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 £9 million (2020: £10 million), which is 5% (2020: 5%) of adjusted profit before tax. The effects of the pandemic on the economy have impacted the Company's performance primarily through reduced interest income driven by the Bank of England base rate. In addition, there have charges to the income statement with respect of regulatory remediation activity and branch restructuring that can be considered to be non-recurring in nature. 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 most appropriate basis for materiality given the Company is a profit orientated entity.

Starting basis	• Profit before tax: £130m
Adjustments	• £20m added back relating to a reduction in interest income • £30m with respect of expenses charged to the Income statement that are non-recurring in nature
Materiality	• Total of £180m adjusted profit before tax • Materiality of £9m (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% (2020: 50%) of our planning materiality, namely £4.5m (2020: £5m). We have set performance materiality at this percentage (which is the lower end of our audit methodology) due to the various considerations including the past history of misstatements, the effectiveness of 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 uncorrected audit differences in excess of £0.45m (2020: £0.5m), 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 this gives rise to 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 53, 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 the Companies Act 2006, Financial Reporting Council ("FRC") rules and regulations, Financial Conduct Authority ("FCA") rules and regulations, Tax Legislation (governed by HM Revenue and Customs) and Prudential Regulation Authority ("PRA") rules and regulations.
- We understood how Handelsbanken plc 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.
- 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

- Following the recommendation from the Audit Committee we were appointed by the Company on 5 October 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the years ending 31 December 2018 to 31 December 2021.
- 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.

Stephen Littler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London
17 March 2022

Income statement

	Note	2021 £'000	2020 £'000
Interest income		571,058	655,358
of which interest income according to the effective interest method		*571,058*	*655,358*
Interest expense		(127,916)	(203,834)
Net interest income	3	**443,142**	**451,524**
Fee and commission income		37,552	38,425
Fee and commission expense		(3,300)	(3,250)
Net fee and comission income	4	**34,252**	**35,175**
Net gains on financial transactions	5	21,464	19,411
Total income		**498,858**	**506,110**
Personnel costs	7	(214,077)	(207,178)
Depreciation, amortisation and impairment of property, equipment, right of use and intangible assets	15,16 & 28	(30,114)	(21,498)
Other operating expenses	6	(133,406)	(106,203)
Total expenses		**(377,597)**	**(334,879)**
Profit before credit gains/(losses)		**121,261**	**171,231**
Net credit gains / losses	10	7,945	(10,046)
Net gains / losses on disposal of property, equipment and intangible assets		775	(585)
Operating profit		**129,981**	**160,600**
Taxes	17	(35,363)	(40,991)
Profit for the year		**94,618**	**119,609**

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

The notes on pages 75-114 form part of these financial statements.

Balance sheet

	Note	31 December 2021 £'000	31 December 2020 £'000
ASSETS			
Cash and balances with central banks	11	8,284,357	9,024,036
Other loans to central banks	12	102,779	98,393
Loans to other credit institutions	13	3,943,698	3,649,977
Loans to the public	2	20,177,506	20,858,150
Investments in subsidiaries	14	44,119	44,119
Intangible assets	15	22,613	26,042
Property and equipment	16	18,219	22,103
Right-of-use assets	28	53,717	66,212
Current tax assets		-	2,944
Deferred tax assets	17	1,768	1,549
Assets held for sale	18	145	210
Prepaid expenses and accrued income	20	9,133	7,876
Other assets	19	6,845	12,314
Total assets		**32,664,899**	**33,813,925**
LIABILITIES			
Due to credit institutions	13	7,875,770	9,234,311
Deposits from the public	21	19,218,027	19,090,724
Issued securities	22	2,976,981	2,980,128
Current tax liabilities		899	-
Provisions	23	18,078	14,638
Lease liabilites		57,305	65,013
Accrued expenses and deferred income	25	11,501	18,050
Other liabilities	24	19,267	18,608
Total liabilities		**30,177,828**	**31,421,472**
EQUITY			
Share capital	26	5,050	5,050
Share premium	26	2,070,619	2,070,619
Retained earnings		316,784	197,175
Profit for the year		94,618	119,609
Total equity		**2,487,071**	**2,392,453**
Total liabilities and equity		**32,664,899**	**33,813,925**

These financial statements were approved by the Board of directors and authorised for issue on 17 March 2022.

The notes on pages 75-114 form part of these financial statements.

Jörgen Olander, Director

Statement of changes in equity

2021	Note	Share capital	Share premium	Retained earnings including profit for the year	Total
		£'000	£'000	£'000	£'000
At 1 January 2021	26	5,050	2,070,619	316,784	**2,392,453**
Profit for the year		-	-	94,618	**94,618**
At 31 December 2021		**5,050**	**2,070,619**	**411,402**	**2,487,071**

2020	Note	Share capital	Share premium	Retained earnings including profit for the year	Total
		£'000	£'000	£'000	£'000
At 1 January 2020	26	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**

Cash flow statement

	Note	2021 £'000	2020 £'000
OPERATING ACTIVITIES			
Operating profit		129,981	160,600
of which paid in interest		*572,690*	*668,996*
of which paid out interest		*(131,475)*	*(215,983)*
Adjustment for non-cash items in profit:			
Net credit (gain) / losses	10	(7,945)	10,046
(Gain) / loss on financial transactions		(2,905)	(2,111)
Net losses / (gains) on disposal of property, equipment and intangible assets		(775)	585
Depreciation, amortisation and impairment of property, equipment, right of use and intangible assets	15, 16 & 28	30,114	21,498
Lease liability interest expense	28	1,439	1,625
Changes in the assets and liabilities of operating activities:			
Other loans to central banks	12	(4,386)	(16,722)
Loans to other credit institutions		(241,069)	(699,623)
Loans to the public		688,530	535,319
Due to credit institutions	13	(1,358,541)	(489,966)
Deposits from the public	21	127,303	2,636,174
Issued securities	22	(3,147)	21,508
Provisions	23	3,440	8,994
Lease liabilites		2,589	678
Income tax paid		(31,739)	(77,220)
Other assets	19	5,469	3,597
Prepaid expenses and accrued income	20	(1,257)	(1,449)
Other liabilities	24	659	(2,885)
of which payments made for variable lease expenses		*(3,659)*	*(3,656)*
of which payments made for short-term and low value leases		*(900)*	*(1,140)*
of which other		*5,218*	*1,911*
Accrued expenses and deferred income	25	(6,549)	(986)
Other		(371)	1,185
Cash (outflow) / inflow from operating activities		**(669,160)**	**2,110,847**
INVESTING ACTIVITIES			
Assets held for sale	18	65	(122)
Acquisitions of property and equipment	16	(3,270)	(3,491)
Disposal of property and equipment		997	(310)
Acquisitions of intangible assets	15	(3,464)	(6,704)
Acquisition of right of use asset	28	(3,100)	(5,179)
Cash (outflow) from investing activities		**(8,772)**	**(15,806)**
FINANCING ACTIVITIES			
Payments made for lease liabilities	28	(12,429)	(12,099)
Cash (outflow) from financing activities		**(12,429)**	**(12,099)**
Cash (outflow) / inflow for the year		**(690,361)**	**2,082,942**
Cash balance at beginning of year	11	9,058,781	6,975,597
Cash flow from operating activities		(669,160)	2,110,847
Cash flow from investing activities		(8,772)	(15,806)
Cash flow from financing activities		(12,429)	(12,099)
Net foreign exchange differences		(148)	242
Cash balance at end of year	**11**	**8,368,272**	**9,058,781**

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 UK adopted international accounting standards. 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 a non-UK 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.

The going concern threshold for capital is 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 2021, the Bank's TCR was 10.29%.

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 are not a relevant factor in considering uncertainties as they relate to the going concern assumption. For the avoidance of doubt, the Bank has a significant surplus to Pillar 2B buffer requirements at the 31 December 2021 and does not expect to come close to utilising its Pillar 2B buffers over the going concern assessment period.

As at 31 December 2021, the Bank had RWAs of £12,176m, resulting in a TCR of £1,253m. The Bank's capital resources were £2,864m, resulting in a surplus of £1,611m 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.

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 consumer expenditure to slow in 2022 due to rising taxes, rising cost of energy and rising interest rates.

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

- Small increase in RWAs reflecting lending building momentum over the year, as resources are freed up to redirect the focus onto customers and growth;
- Higher NII as a result of the rising interest rates; and
- Higher capital requirements following the Countercyclical buffer (CCyB) increase to 1% in December 2022, as announced by FPC in December 2021.

Based on these assumptions, the Bank's capital requirements are expected to increase at a faster pace than capital resources in the next 12 months.

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 (475% at 31 December 2021).

Additional information on LCR and Capital Resources can be found on pages 61 and 64 respectively.

After making due enquiries, the directors believe that the Bank has sufficient resources to continue its activities for the foreseeable future, and over the going concern assessment period through to 31 March 2023.

(b) Changes in Accounting Policies

New and amended standards and interpretations

The Bank has adopted the requirements of 'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR Reform Phase 2) which is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted. This has resulted in additional disclosures as described below.

IBOR reform Phase 2

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis. In addition, the amendments to IFRS 9 and IAS 39

NOTE 1 BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

allow for certain exemptions from hedge accounting requirements when existing reference rates in hedging relationship are replaced with alternative reference rates. The amendments are therefore assessed as facilitating the transition to new reference rates without significant profit / loss effects, and thus without a material impact on Handelsbanken's financial reports, capital adequacy, large exposures or other circumstances according to the applicable regulatory requirements. The comparative figures for previous periods have not been recalculated and opening retained earnings have not been impacted by any initial effect in conjunction with the application of the amendments. For further information, refer to Note 2.

Changes in IFRS which are yet to be applied
None of the changes to IFRS which have been issued but are not yet effective, are expected to have a material effect on the Bank.

(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 14.

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 2021 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 14 districts, supported by branch support and other central functions. 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 the 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.

NOTE 1 BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 27.

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.

NOTE 1 BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 8, 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.

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.

NOTE 1 BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Post-core model adjustments are made to modelled output mainly to account for situations where known or expected risk factors and information cannot be fully incorporated in the modelling process. These model adjustments (e.g. COVID-19) have been explained on page 86.

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 86 where post-core model adjustments (e.g. COVID-19) have been explained.

NOTE 1 BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The manual analysis aims to apply expert knowledge to determine 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 10.

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.

Climate change
In preparing these financial statements, the Bank has given consideration to the recommendations laid out by the Task Force on Climate-related Financial Disclosures (TCFD), and where relevant has incorporated assessment of the climate-related risks outlined in the TCFD report on pages 14-20 into judgements associated with recognition, measurement, presentation and disclosure, where so permitted by UK adopted International Accounting Standards. At 31 December 2021, the Bank considers its present financial exposure to climate-related risk to be low and accordingly has made limited reference to the impacts of climate-related risk in the notes to the financial statements, though consideration has been given in particular to the possible financial impacts of climate-related risks on its expected credit losses. Where forward-looking information is relied on in preparing the financial statements the Bank has given due

NOTE 1 BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

consideration, where appropriate and quantifiable, to potential future impacts of climate-related risk, but recognises that governmental and societal responses to climate change risks are still developing and thus their ultimate impacts on the Bank are inherently uncertain and cannot be fully known.

The Bank has identified credit losses as one of the main areas in which it could be exposed to the financial impacts of climate change risk, either where its lending practices could expose it to physical risks (e.g. secured collateral value detrimented by flooding caused by extreme weather events) or transition risks (e.g. where corporate customers' viability is threatened by the need to transition to greener working practices). The Bank's expected credit loss models do not explicitly consider the potential impacts of such risks and during the year it was considered whether a post-core model adjustment should be established to capture this exposure. Following a consideration of the potential impacts, it was determined that reasonably possible credit losses associated with climate risk were subject to a significant level of uncertainty and likely to be immaterial particularly when considering discounting of any future dated impacts. On this basis, no post-core model adjustment was recognised.

(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 for the Bank's 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.

NOTE 1 BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Provision is made for restructuring costs, including the costs of redundancy, when the Bank has a constructive obligation to restructure. Restructuring refers to major organisational changes, for example when employees receive termination benefits relating to early termination of employment, or branches are closed. In order for a provision to be reported, a detailed formal restructuring plan must have been established and communicated so that a valid expectation has been created in those affected, that the entity will carry out the restructuring. A restructuring provision only includes the direct expenditures arising from the restructuring and which are not related to the future operations.

If the Bank has a contract that is onerous, it recognises the present obligation under the contract as a provision. An onerous contract is one where the unavoidable costs of meeting the obligations under the contract exceed the expected economic benefits.

(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).

NOTE 1 BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 Oktogonen, established by Svenska Handelsbanken to allow employees to share in Handelsbanken Group's profits when prescribed targets are achieved and subject to the Board's overall assessment regarding the Bank's performance, on an annual basis.

As of the 2020 financial year (paid in 2021) and beyond, Oktogonen allocations will primarily be disbursed in the UK through a Share Incentive Plan ("SIP") as described in page 51 of the Directors' report.

Share-based payment arrangements - Share Incentive Plan ("SIP")

During the year ended 31 December 2021, the Bank established one share-based payment arrangement, a Share Incentive Plan ("SIP"). The Bank introduced the SIP as a more efficient means of disbursing Oktogonen allocations in the UK. The conditions for an allocation to the SIP are identical to those for the Oktogonen profit-sharing scheme. As an HMRC approved scheme, a SIP requires a UK trust to be established to operate the scheme on behalf of the company. The UK trust acquires and awards shares to the employees and then holds the shares on behalf of the employees. The Bank's share-based payment arrangement is settled in Svenska Handelsbanken shares and classified, in accordance with IFRS 2, as cash-settled by the Bank.

NOTE 1 BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The SIP has no vesting conditions as the conditions are the same as for the Oktogonen profit-sharing scheme and based on services rendered for the previous financial year. A UK Oktogonen allocation is subject to UK Board approval. Once approved, the share-based payment vests immediately and the full amount is expensed. In addition, the approved final allocation amount is reclassified as a share-based payment liability until the UK trust purchases the shares and immediately awards to employees. The SIP is designed to enable retention of the shares awarded to employees in the trust for 5 years after the award date. In accordance with HMRC regulations if an employee leaves the Bank then their shares must be withdrawn from the SIP.

For more detail see Note 9: Share-based payment arrangement.

(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) Significant accounting judgements, estimates and assumptions

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 significant accounting judgements, estimates and key assumptions is included in the following notes:

- Estimating the incremental borrowing rate, see note 1(j)
- Provisions (including restructuring provisions), see notes 1(m) and note 23
- 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) and the lessor (Asset Financing) see note 28
- Impairment of Property and Equipment (see note 16) Right-of-use assets (see note 28) and Intangible Assets see notes 15 and 1(r), below

Impairment of intangibles

The Bank has intangible assets with a carrying amount of £22.6 million (2020: £26.0 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 2021 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 5.30 per cent (2020: 5.69 per cent) after tax

NOTE 1 BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

based on an estimate of the market average required return on the investment subject to impairment testing. 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 2021, 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 another three alternative scenarios (the additional "severe downturn" scenario was first used as of 31 December 2021) to take into account the non-linear aspects of expected credit losses. These alternative scenarios represent conceivable developments, one significantly worse, one 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. The provision requirement in 2021 has decreased mainly due to positive rating migrations, reduced exposure and updated values relating to forward looking macroeconomic risk factors.

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 applies forward-looking information in the form of macro scenarios (one neutral, one upturn, one downturn and one severe downturn, the latter scenario was first applied in 2021) 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 neutral scenario, or base case, is assigned a weighting of 60% (2020: 70%), while an upturn in the economy is assigned a weighting of 15% (2020:15%) , a downturn in the economy is assigned a weighting of 15% (2020:15%) and the severe downturn in the economy scenario is assigned a weighting of 10% (2020: 0%, as no fourth scenario in 2020). The following table presents the 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 2021 and 31 December 2020, respectively.

NOTE 1 BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Macro scenarios

	Severe downturn*					Downturn					Neutral					Upturn				
Macro factors %	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
GDP Growth	6.70	-0.10	-13.50	-0.30	1.40	6.70	-0.19	0.38	2.50	1.73	6.70	5.20	1.30	1.70	1.70	6.70	7.61	2.78	1.40	1.73
Unemployment rate	4.80	5.00	8.00	7.50	7.20	4.80	6.84	8.40	7.00	6.40	4.80	4.50	4.80	4.50	4.25	4.80	3.34	3.40	3.80	4.15
Policy interest rate	0.10	0.25	0.00	-0.20	-0.20	0.10	0.10	0.10	0.10	0.50	0.10	0.50	0.50	0.75	1.00	0.10	0.75	1.00	1.25	1.50
Commercial property price growth	12.43	0.00	-15.00	7.00	3.00	12.43	-9.95	-5.04	0.45	3.66	12.43	0.71	-0.74	1.23	1.98	12.43	5.66	1.14	2.89	2.52
Residential property price growth	12.94	0.00	-15.00	7.00	3.00	12.94	-6.25	-0.70	3.06	3.66	12.94	4.03	3.09	4.09	3.52	12.94	9.36	5.40	4.38	3.90

* There are differences in the 2022 economic drivers of each scenario and the assumed policy reactions, giving some differences in the timing of key outcomes

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 Downturn (negative) and Upturn (positive) scenarios, respectively.

2021		2020	
Increase in the provision in a Downturn scenario, %	Decrease in the provision in an Upturn scenario, %	Increase in the provision in a Downturn scenario, %	Decrease in the provision in an Upturn scenario, %
11.36	-6.27	11.08	-6.97

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 cannot be fully incorporated in the modelling process, for example forecast economic scenarios for uncertain political events. As of 31 December 2021, provisions include PMAs amounting to total GBP 6.2 million (2020: GBP 8.3 million). The level of PMAs is lower this year due to the updated values relating to forward looking macroeconomic risk factors. 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 54-65. 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

2021 £'000	Gross			Provisions			Loans after deduction of provisions
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Private individuals	6,060,574	111,104	35,919	(196)	(142)	(2,054)	**6,205,205**
of which other loans with property mortgages	*5,769,169*	*105,428*	*30,688*	*(152)*	*(120)*	*(994)*	*5,904,019*
of which other loans, private individuals	*291,405*	*5,676*	*5,231*	*(44)*	*(22)*	*(1,060)*	*301,186*
Property management	11,575,994	588,878	61,806	(3,100)	(4,698)	(5,415)	**12,213,465**
Manufacturing	134,780	3,381	53	(110)	(40)	(39)	**138,025**
Retail	258,229	16,125	603	(197)	(178)	(218)	**274,364**
Hotel and restaurant	64,245	245,258	3,047	(80)	(3,678)	-	**308,792**
Passenger and goods transport by sea	706	498	-	-	(16)	-	**1,188**
Other transport and communication	102,348	2,441	13	(84)	(14)	(13)	**104,691**
Construction	168,798	6,681	226	(227)	(76)	(67)	**175,335**
Electricity, gas and water	23,536	162	-	(36)	(1)	-	**23,661**
Agriculture, hunting and forestry	119,500	659	-	(111)	(8)	-	**120,040**
Other services	337,974	45,368	116	(363)	(536)	(67)	**382,492**
Holding, investment, insurance companies, mutual funds etc	157,992	10,042	362	(175)	(86)	(38)	**168,097**
Other corporate lending	55,085	7,185	30	(58)	(61)	(30)	**62,151**
Total	**19,059,761**	**1,037,782**	**102,175**	**(4,737)**	**(9,534)**	**(7,941)**	**20,177,506**

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**

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.

2021 £'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	-	-	8,284,357	-	-	-	-	-	**8,284,357**
Other loans to central banks	-	-	102,779	-	-	-	-	-	**102,779**
Loans to other credit institutions	-	-	-	-	-	-	-	3,943,698	**3,943,698**
Loans to the public	13,161,544	6,184,387	35,843	-	39,612	141,356	-	614,764	**20,177,506**
Total	**13,161,544**	**6,184,387**	**8,422,979**	**-**	**39,612**	**141,356**	**-**	**4,558,462**	**32,508,340**
Off-balance sheet items									
Contingent liabilities	759,840	815,895	96,709	-	5,798	-	-	2,578,682	**4,256,924**
of which guarantee commitments	*18,106*	*13,820*	*42*	-	*2,774*	-	-	*682,190*	***716,932***
of which obligations	*741,734*	*802,075*	*96,667*	-	*3,024*	-	-	*1,896,492*	***3,539,992***
Total	**759,840**	**815,895**	**96,709**	**-**	**5,798**	**-**	**-**	**2,578,682**	**4,256,924**
Total on and off-balance sheet items	**13,921,384**	**7,000,282**	**8,519,688**	**-**	**45,410**	**141,356**	**-**	**7,137,144**	**36,765,264**

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

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

NOTE 2 RISK MANAGEMENT (continued)

LIQUIDITY RISK

Contractual maturity analysis

The following table summarises the contractual maturity profile 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.

2021 £'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	8,284,357	-	-	-	-	-	102,779	**8,387,136**
To credit institutions	3,943,698	-	-	-	-	-	-	**3,943,698**
Loans to public	972,558	2,299,091	2,070,090	3,864,927	8,010,254	2,960,586	-	**20,177,506**
Other	-	-	-	-	-	-	156,559	**156,559**
of which shares and participating interests	-	-	-	-	-	-	*44,119*	*44,119*
of which other	-	-	-	-	-	-	*112,440*	*112,440*
Total	**13,200,613**	**2,299,091**	**2,070,090**	**3,864,927**	**8,010,254**	**2,960,586**	**259,338**	**32,664,899**
Liabilities								
To credit institutions	104,687	433,730	1,466,149	2,244,256	2,458,584	1,168,364	-	**7,875,770**
Deposits from public	18,135,003	1,082,024	1,000	-	-	-	-	**19,218,027**
Issued securities	472,163	2,504,818	-	-	-	-	-	**2,976,981**
of which CDs less than one year	*472,163*	*2,504,818*	-	-	-	-	-	*2,976,981*
Other	-	-	-	-	-	-	107,050	**107,050**
Total	**18,711,853**	**4,020,572**	**1,467,149**	**2,244,256**	**2,458,584**	**1,168,364**	**107,050**	**30,177,828**
Off-balance sheet items								
Unutilised guarantees and loan commitments	3,539,992	-	-	-	-	-	-	**3,539,992**

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**

NOTE 2 RISK MANAGEMENT (continued)

Maturity periods for financial liabilities

The table below does not directly reconcile to the Bank's balance sheet or contractual maturity table, as the table includes all cash flows, on an undiscounted bases, related to both principal and future interest flows for the Bank's financial liabilities.

2021 £'000	**Up to 30 days**	**31 days - 6 months**	**6 - 12 months**	**1 - 2 years**	**2 - 5 years**	**Over 5 years**	**Unspecified maturity**	**Total**
Liabilities								
To credit institutions	125,368	459,339	1,508,708	2,305,990	2,557,020	1,211,319	-	**8,167,744**
Deposits from public	18,135,008	1,082,462	1,000	-	-	-	-	**19,218,470**
Issued securities	472,163	2,505,230	-	-	-	-	-	**2,977,393**
of which CDs less than one year	*472,163*	*2,505,230*	-	-	-	-	-	*2,977,393*
Other	-	-	-	-	-	-	107,050	**107,050**
Total	**18,732,539**	**4,047,031**	**1,509,708**	**2,305,990**	**2,557,020**	**1,211,319**	**107,050**	**30,470,657**

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**
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**

MARKET RISK

LIBOR replacement

Handelsbanken plc holds no derivatives on its balance sheet and is not a trading bank. It also does not maintain a tradeable liquidity portfolio and as such holds LIBOR linked banking book exposures only in the form of customer loans and borrowings from Handelsbanken Group. As a result Handelsbanken plc established a LIBOR transition project in 2019 which spans the business with cross-functional governance which includes: Legal, Finance, Risk, Product and Communications. During 2021, the Bank continued to develop alternative Risk Free Rates (RFRs) such as compounded overnight SONIA, SOFR and BofE base rate lending capability and is on track to transition existing LIBOR contracts maturing past 31 March 2022 onto these alternative rates.

Throughout 2021, Handelsbanken plc has enhanced its product offering across RFRs and worked with customers to transition to new products or understand their readiness to transition. Alongside developing and enhancing product capability for alternative rate lending, it has also reviewed the impact on funding as a result of LIBOR reform and as a result, implemented changes to deal with these impacts.

Handelsbanken plc is approaching LIBOR reform following industry guidance and best practice in line with the regulatory expectations for calculating the credit adjustment spread and approach to transition taking into consideration the associated operational and conduct risks. It is following industry endorsed guidance on calculating the credit adjustment spread and uses ISDA 5 year historical median approach which is also supported by the Bank of England Working Group on Risk Free Rates ("RFRWG") and the FCA. In January 2020, the RFRWG published a paper ("Use Cases of Benchmark Rates: Compounded in Arrears, Term Rate and Further Alternatives") and as a result of a review of this paper, the majority of existing GBP LIBOR lending transitioned to BofE base rate during the first quarter of 2022, following cessation of GBP LIBOR. The remainder has transitioned to compounded overnight RFRs. USD LIBOR contracts have either transitioned to alternative USD RFRs during the first quarter of 2022 or in instances where the customer has elected, will transition to alternative USD RFRs on or prior to the USD LIBOR cessation date of 30 June 2023.

During 2021, Handelsbanken plc has actively engaged customers and progressed with contractually amending existing LIBOR contracts that mature after 31 March 2022. Good progress has been made regarding client outreach, utilising the Bank's relationship model to communicate directly with customers. Following regulatory guidance, whereby the customer should not pay more than LIBOR would have been whilst LIBOR exists as a comparative, the vast majority of LIBOR loans that have been contractually amended to transition at their first roll over in the first quarter of 2022.

Handelsbanken plc is exposed to a variety of risks as a result of LIBOR reform; particularly Conduct and Operational Risk.

NOTE 2 RISK MANAGEMENT (continued)

Conduct Risk – LIBOR transition is a complex concept, particularly for less sophisticated customers and as such can lead to customer complaints. Handelsbanken plc has developed clear and concise communication materials and customers should be treated with due care and the Bank has followed an industry approach where applicable to transition customers.

Operational Risk – Transitioning customers to alternative rates is operationally challenging due to its technical nature. Operational risks are being managed by the development of an automated process to migrate loans to alternative rates with appropriate contingency plans in place should the automated process fail.

There are no LIBOR referencing agreements on the Bank's liabilities side apart from downstream funding from Handelsbanken Group. The GBP LIBOR funding from Handelsbanken Group is transitioning to SONIA in the first quarter of 2022 in tandem with the transition of customer lending exposures to BoE or SONIA. This ensures that the Bank does not create new material interest rate basis risk as a result of the transition and the Bank remains within interest rate risk tolerance.

The following table summarises all exposures impacted by interest rate benchmark reform as at 31 December 2021.

2021 **£'000**	**Non derivative financial assets - carrying value[1,2]**	**Non derivative financial liabilities - carrying value**
	£'m	£'m
GBP LIBOR (1 Month)	75	-
GBP LIBOR (3 Months)	6,718	2,559
GBP LIBOR (6 Months)	34	10
GBP LIBOR (Other)	55	-
USD LIBOR (1 Month)	4	-
USD LIBOR (3 Months)	17	-
USD LIBOR (6 Months)	19	-
USD LIBOR (Other)	-	-
EUR LIBOR (1 Month)	2	-
EUR LIBOR (3 Months)	42	-
EUR LIBOR (6 Months)	12	-
Other (CHF)	6	-
Total	**6,984**	**2,569**

1 Includes all LIBOR exposures including those that will mature before 31 March 2022
2 Gross carrying amounts excluding allowances for ECL's

NOTE 3 NET INTEREST INCOME

	2021 £'000	2020 £'000
Loans to the public	530,308	601,258
Loans to credit institutions and central banks	8,843	17,699
Loans to other group undertakings	2,691	5,880
Other interest income	29,216	30,521
Total interest income	**571,058**	**655,358**
of which interest income according to the effective interest method	*571,058*	*655,358*
Deposits and borrowing from the public	(16,724)	(48,673)
Due to credit institutions and central banks	-	-
Due to other group undertakings	(107,013)	(138,531)
Issued securities	(2,088)	(14,780)
Lease liability	(1,439)	(1,625)
Other interest expense	(652)	(225)
Total interest expense	**(127,916)**	**(203,834)**
Net interest income	**443,142**	**451,524**

NOTE 4 NET FEE AND COMMISSION INCOME

	2021 £'000	2020 £'000
Payments	22,852	22,232
Loans and deposits	10,789	12,446
Intercompany commission	2,132	1,914
Guarantees	1,349	1,507
Other	430	326
Total fee and commission income	**37,552**	**38,425**
Payments	(3,262)	(3,213)
Loans and deposits	(3)	(1)
Intercompany commission	(30)	(34)
Other	(5)	(2)
Total fee and commission expense	**(3,300)**	**(3,250)**
Net fee and commission income	**34,252**	**35,175**

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.

NOTE 5 NET GAINS ON FINANCIAL TRANSACTIONS

	2021 £'000	2020 £'000
Foreign exchange spot instruments	10,908	10,800
Financial instruments at amortised cost	10,552	8,534
of which loans	*10,552*	*8,534*
Other	4	77
Total	**21,464**	**19,411**

NOTE 6 OTHER OPERATING EXPENSES

	2021 £'000	2020 £'000
Professional and legal fees	50,140	27,963
Intercompany recharges	36,989	28,780
Rent and premises costs	13,573	14,400
IT and communication costs	9,233	9,709
Unrecoverable VAT on intercompany invoices	8,110	6,321
Travel, marketing, membership & supplies	5,818	6,097
Consultancy fees	5,263	11,112
Restructuring costs	2,668	-
Auditors remuneration	692	705
Other operating expenses	920	1,116
Total operating expenses	**133,406**	**106,203**

The increase in Professional and legal fees mainly relates to increased Financial Crime remediation work being undertaken by the Bank, which has largely been completed, once finalised it is expected that costs in this area will begin to stabilise.

Restructuring costs comprise amounts provided for onerous contracts, professional and legal fees provided in relation to the restructure.

For further details on intercompany recharges, please see note 31.

Auditor's remuneration

	2021 £'000	2020 £'000
Fees payable to the company's auditor for the audit of the company accounts	654	625
Fees payable to the company's auditor for other services:		
Audit related assurance services	30	24
Audit services for the purpose of reporting to the company's parent	37	37
Other assurance services	-	19
Total audit and non-audit fees	**721**	**705**

NOTE 7 PERSONNEL COSTS

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

Average number of employees

	2021	2020
Head office and support	927	881
Branch operations	1,703	1,637
Total	**2,630**	**2,518**

Personnel costs for the above persons were:

	2021 £'000	2020 £'000
Wages and salaries	151,737	148,730
Pension costs	22,762	21,756
Social security costs	19,165	17,701
Staff benefits and other	19,018	15,426
Share-based payment arrangement	1,395	3,565
Total	**214,077**	**207,178**

Wages and salaries include a gross redundancy provision of £6m as of year end as a result of the restructuring. Costs of approximately £3.2m have been incurred against the provision during the year and the net redundancy provision at 31 December 2021 is £2.8m.

For further detail on the Share-based payment arrangement, please see Note 9.

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)

	2021 £'000	2020 £'000
Short-term employment benefits	1,889	1,786
Post employment benefits	55	63
Share-based payment	3	-
Total remuneration	**1,947**	**1,849**

Total pension contributions made by the Bank on behalf of the directors in 2021 was nil (2020: 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.

During year to 31 December 2021 nine (2020: five) directors were remunerated via Handelsbanken plc, the remaining two (2020: two) directors were paid via Svenska Handelsbanken.

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

	2021 £'000	2020 £'000
Director's emoluments and fees	988	987

NOTE 9 SHARE BASED PAYMENT ARRANGEMENT

As described in page 51 of the Directors' report, as of the 2020 financial year (paid in 2021) and beyond, Oktogonen allocations will primarily be disbursed in the UK through a UK approved HMRC Share Incentive Plan ("SIP"). Following the approval of an Oktogonen award for the 2020 performance year this was disbursed via the SIP during 2021.

Handelsbanken plc employees that are employed during the financial year to which the Oktogonen allocation relates, are eligible to receive the annual free share award with the exception of some leavers. Employees cannot sell their shares for five years unless they leave the Bank, in which case they can sell their shares but they may have tax implications.

Awards made during 2021 are shown in the table below.

	2021		2020	
	No. of shares	Average cost of shares £	No. of shares	Average cost of shares £
Annual free share awards	374,442	8.33	-	-

	2021 £'000	2020 £'000
Expenses arising from share based payment transactions	1,395	3,565
2020 Oktogonen allocation	(49)	3,565
2021 Oktogonen allocation	1,444	-
Share-based payment liability	57	-
Oktogonen allocation provision	1,488	3,565

NOTE 10 CREDIT LOSSES

Reconciliation of expected credit loss provision gains and losses

	2021 £'000	2020 £'000
Expected credit losses on balance sheet items		
Stage 3 provision	(2,523)	(2,992)
Reversal of Stage 3 provision to Stage 1 or Stage 2	2,478	2,664
Costs related to provision Stage 3	(4)	(43)
Total expected credit (losses) in Stage 3	**(49)**	**(371)**
The year's net provision Stage 1	520	1,098
The year's net provision Stage 2	6,839	(9,624)
Total expected credit gains / losses in Stage 1 and Stage 2	**7,359**	**(8,526)**
Total expected credit gains / losses on balance sheet items	**7,310**	**(8,897)**
Expected credit gains / losses on off-balance-sheet items		
The year's net provision Stage 3	-	-
The year's net provision Stage 2	597	(1,223)
The year's net provision Stage 1	85	(17)
Total expected credit gains / losses on off-balance-sheet items	**682**	**(1,240)**
Write-offs		
Actual credit losses for the year[1]	(5,433)	(1,247)
Utilised share of previous provisions in Stage 3	5,115	1,016
Total write-offs	**(318)**	**(231)**
Recoveries	271	322
Net credit gains / losses	**7,945**	**(10,046)**
of which loans to the public	*7,277*	*(8,776)*

[1] Of the year's actual credit losses, £0.05 million (2020: £0.2 million) is subject to enforcement activities.

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

2021 £'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	8,284,357	-	-	-	-	-
Other loans to central banks	102,779	-	-	-	-	-
Loans to other credit institutions	3,943,757	-	-	(59)	-	-
Loans to the public	19,059,761	1,037,782	102,175	(4,737)	(9,534)	(7,941)
Total	**31,390,654**	**1,037,782**	**102,175**	**(4,796)**	**(9,534)**	**(7,941)**
Off-balance sheet items						
Total off-balance sheet	4,087,984	167,295	1,232	(596)	(1,000)	-
of which contingent liabilities	*708,573*	*7,520*	*426*	*(143)*	*(492)*	-
of which commitments	*3,379,411*	*159,775*	*806*	*(453)*	*(508)*	-
Total	**35,478,638**	**1,205,077**	**103,407**	**(5,392)**	**(10,534)**	**(7,941)**

NOTE 10 CREDIT LOSSES (continued)

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)**

Key figures, credit losses

Loans to the public

	2021	2020
Credit gain / loss ratio, % of loans to the public acc[2]	-0.04%	0.04%
Total credit loss reserve ratio, %	0.11%	0.17%
Credit loss reserve ratio Stage 1, %	0.02%	0.03%
Credit loss reserve ratio Stage 2, %	0.92%	1.01%
Credit loss reserve ratio Stage 3, %	7.77%	16.33%
Proportion of loans in Stage 3, %	0.47%	0.33%

[2] The calculation is based on the net credit gain / loss for the year and the Loans to public balance at the beginning of the year. This year's credit gain ratio is due to a net credit gain of GBP 7.945 million.

CHANGE ANALYSIS

Change in provision for expected credit losses

Balance sheet items that are subject to impairment testing

2021 £'000	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	(5,316)	(16,373)	(13,273)	**(34,962)**
Derecognised assets	368	1,618	219	**2,205**
Write-offs	-	-	5,115	**5,115**
Remeasurements due to changes in credit risk	(1,991)	3,730	1,213	**2,952**
Foreign exchange effect, etc	(235)	421	623	**809**
Originated assets	(246)	(274)	-	**(520)**
Transfer to Stage 1	(518)	711	-	**193**
Transfer to Stage 2	1,323	(2,525)	-	**(1,202)**
Transfer to Stage 3	1,819	3,158	(1,838)	**3,139**
Provision at end of year	**(4,796)**	**(9,534)**	**(7,941)**	**(22,271)**

NOTE 10 CREDIT LOSSES (continued)

CHANGE ANALYSIS

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)

Loans to public

2021 £'000	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	(5,271)	(16,373)	(13,273)	**(34,917)**
Derecognised assets	349	1,618	219	**2,186**
Write-offs	-	-	5,115	**5,115**
Remeasurements due to changes in credit risk	(1,963)	3,730	1,213	**2,980**
Foreign exchange effect, etc	(232)	421	623	**812**
Originated assets	(245)	(273)	-	**(518)**
Transfer to Stage 1	(517)	711	-	**194**
Transfer to Stage 2	1,323	(2,525)	-	**(1,202)**
Transfer to Stage 3	1,819	3,157	(1,838)	**3,138**
Provision at end of year	**(4,737)**	**(9,534)**	**(7,941)**	(22,212)

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)

NOTE 10 CREDIT LOSSES (continued)

Off-balance sheet items that are subject to impairment testing

2021 £'000	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	(682)	(1,596)	-	**(2,278)**
Derecognised assets	66	177	-	**243**
Remeasurements due to changes in credit risk	77	406	-	**483**
Foreign exchange effect, etc	4	56	-	**60**
Originated assets	(47)	(38)	-	**(85)**
Transfer to Stage 1	(64)	158	-	**94**
Transfer to Stage 2	33	(180)	-	**(147)**
Transfer to Stage 3	17	17	-	**34**
Provision at end of year	**(596)**	**(1,000)**	**-**	**(1,596)**

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)**

The change analysis shows the net effect on the provision for the Stage in question for each explanatory item during the period. The effect of derecognitions and write-offs is calculated on the opening balance. The effect of revaluations due to changes in the methodology for estimation and foreign exchange effects etc. is calculated before any transfer of the net amount between Stages. 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 10 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

2021 £'000	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	31,967,988	1,616,230	81,300	**33,665,518**
Derecognised assets	(1,205,546)	(126,178)	(18,040)	**(1,349,764)**
Write-offs	-	-	(5,433)	**(5,433)**
Remeasurements due to changes in credit risk	(806,269)	155,670	(12,877)	**(663,476)**
Foreign exchange effect, etc	(88,229)	(14,861)	(1,964)	**(105,054)**
Originated assets	975,165	12,719	936	**988,820**
Transfer to Stage 1	912,415	(908,972)	(3,443)	**-**
Transfer to Stage 2	(343,740)	344,736	(996)	**-**
Transfer to Stage 3	(21,130)	(41,562)	62,692	**-**
Exposure at end of year	**31,390,654**	**1,037,782**	**102,175**	32,530,611

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

Loans to the public

2021 £'000	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	19,195,537	1,616,230	81,300	**20,893,067**
Derecognised assets	(1,199,807)	(126,178)	(18,042)	**(1,344,027)**
Write-offs	-	-	(5,433)	**(5,433)**
Remeasurements due to changes in credit risk	(434,655)	155,670	(12,875)	**(291,860)**
Foreign exchange effect, etc	(23,271)	(14,861)	(1,964)	**(40,096)**
Originated assets	974,412	12,719	936	**988,067**
Transfer to Stage 1	912,415	(908,972)	(3,443)	**-**
Transfer to Stage 2	(343,740)	344,736	(996)	**-**
Transfer to Stage 3	(21,130)	(41,562)	62,692	**-**
Exposure at end of year	**19,059,761**	**1,037,782**	**102,175**	20,199,718

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

NOTE 10 CREDIT LOSSES (continued)

Off-balance sheet items that are subject to impairment testing

2021 £'000	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	4,310,170	155,107	660	**4,465,937**
Derecognised assets	(235,539)	(10,552)	(189)	**(246,280)**
Remeasurements due to changes in credit risk	(222,465)	51,222	(192)	**(171,435)**
Foreign exchange effect, etc	(7,152)	1,269	(14)	**(5,897)**
Originated assets	212,373	1,813	-	**214,186**
Transfer to Stage 1	77,701	(77,701)	-	**-**
Transfer to Stage 2	(46,872)	46,873	(1)	**-**
Transfer to Stage 3	(232)	(736)	968	**-**
Exposure at end of year	**4,087,984**	**167,295**	**1,232**	4,256,511

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

Balance sheet items, by PD range

2021	Gross volume £'000			
PD value[3]	Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	25,905,784	63,040	-	**25,968,824**
0.15 to <0.25	3,610,222	97,836	-	**3,708,058**
0.25 to <0.50	1,276,079	79,692	-	**1,355,771**
0.50 to <0.75	117,309	134,493	-	**251,802**
0.75 to <2.50	422,617	538,603	-	**961,220**
2.50 to <10.00	58,644	121,339	-	**179,983**
10.00 to <100	-	2,779	-	**2,779**
100 (default)	-	-	102,175	**102,175**
Total	**31,390,655**	**1,037,782**	**102,175**	32,530,612

2020	Gross volume £'000			
PD value[3]	Stage 1	Stage 2	Stage 3	Total
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

[3] Refers to 12 month PD value as at the reporting date

NOTE 10 CREDIT LOSSES (continued)

Loans to the public, by PD range

2021 PD value[3]	Gross volume £'000 Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	13,580,183	63,040	-	**13,643,223**
0.15 to <0.25	3,610,810	97,836	-	**3,708,646**
0.25 to <0.50	1,276,286	79,692	-	**1,355,978**
0.50 to <0.75	111,988	134,493	-	**246,481**
0.75 to <2.50	421,840	538,603	-	**960,443**
2.50 to <10.00	58,654	121,339	-	**179,993**
10.00 to <100	-	2,779	-	**2,779**
100 (default)	-	-	102,175	**102,175**
Total	**19,059,761**	**1,037,782**	**102,175**	**20,199,718**

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**

[3] Refers to 12 month PD value as at the reporting date

Off-balance sheet items, by PD range

2021 PD value[3]	Gross volume £'000 Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	3,653,796	123,657	-	**3,777,453**
0.15 to <0.25	216,482	5,436	-	**221,918**
0.25 to <0.50	122,075	3,890	-	**125,965**
0.50 to <0.75	49,944	14,187	-	**64,131**
0.75 to <2.50	44,212	15,783	-	**59,995**
2.50 to <10.00	1,475	3,874	-	**5,349**
10.00 to <100	-	468	-	**468**
100 (default)	-	-	1,232	**1,232**
Total	**4,087,984**	**167,295**	**1,232**	**4,256,511**

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**

[3] Refers to 12 month PD value as at the reporting date

NOTE 11 CASH AND BALANCES AT BANKS

	2021 £'000	2020 £'000
Cash held at central banks	8,284,357	9,024,036
Due from other banks	84,719	35,047
Of which on demand	*84,719*	*35,047*
Of which term deposits	-	-
Balance at end of year	**8,369,076**	**9,059,083**
Of which accrued interest income	*863*	*346*
Of which provision for expected credit losses reported as provisions, see note 23	*(59)*	*(44)*
Loans to intercompany, on demand	3,858,978	3,614,930
Total	**12,228,054**	**12,674,013**
of which accrued interest income	*25*	*16*

Cash balance at the end of the year in the cash flow statement includes Cash held at central banks and Due from other banks, excluding accrued interest income and provisions for expected credit losses.

NOTE 12 OTHER LOANS TO CENTRAL BANKS

	2021 £'000	2020 £'000
Cash held at central banks	102,779	98,393
of which term deposits	*102,779*	*98,393*

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 13 DUE TO / FROM OTHER CREDIT INSTITUTIONS

	2021 £'000	2020 £'000
Due from other banks	84,779	35,092
Intercompany lending	3,858,978	3,614,930
Total	**3,943,757**	**3,650,022**
Provision for expected credit loss	(59)	(45)
Total asset	**3,943,698**	**3,649,977**
of which accrued interest income	*25*	*15*
Loans from other credit institutions		
Due to other banks	110	1,187
Intercompany borrowing	7,875,660	9,233,124
Total liability	**7,875,770**	**9,234,311**
of which accrued interest expense	*10,946*	*14,158*

NOTE 14 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	Total £'000
Cost	
At 1 January 2020 and 1 January 2021	44,119
Impairment	
At 31 December 2020 and 31 December 2021	-
Balance	
At 31 December 2020 and 31 December 2021	44,119

The investments in subsidiaries held by the Bank during 2021 have been regularly reviewed for impairment indicators. An annual impairment review was undertaken at 31 December 2021, taking into account the current economic conditions. No impairment was needed as a result of the reviews during the year ended 31 December 2021.

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*
*Handelsbanken Asset Management Limited (inactive)**	*07453509*	*20-22 Wenlock Road, London N1 7GU*	*Dormant, proposal to strike*	*100*

* Handelsbanken Asset Management Limited was dissolved on 22 February 2022

NOTE 15 INTANGIBLE ASSETS

2021	Internally developed software £'000
Cost	
At 1 January 2021	37,056
Additions	3,464
Disposals	(294)
At 31 December 2021	**40,226**
Accumulated amortisation and impairment	
At 1 January 2021	(11,014)
Amortisation	(4,934)
Impairment	(1,959)
Disposals	294
At 31 December 2021	**(17,613)**
Balance at 1 January 2020	26,042
Balance at 31 December 2021	**22,613**

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**

Intangible assets consist of internally developed software. As at 31 December 2021 there was £1.5 million (2020: £19.5 million) of capitalised work in progress included within intangible assets that is currently not being amortised, including £0.6m (2020: £1.7m) of impairment during the year relating to these projects. Capitalised work in progress relates to projects that have not yet been completed or have not yet met the criteria to commence amortisation.

Development costs incurred and recognised in the income statement and not capitalised amount to £12.3 million (2020: £4.8 million).

NOTE 16 PROPERTY AND EQUIPMENT

2021 £'000	Branch fit out	Fixtures, fittings and equipment	Computer equipment	Property	Total
Cost					
At 1 January 2021	35,721	6,765	8,725	-	**51,211**
Additions	1,920	364	986	-	**3,270**
Disposals	(1,181)	(200)	(184)	-	**(1,565)**
At 31 December 2021	**36,460**	**6,929**	**9,527**	**-**	**52,916**
Depreciation					
At 1 January 2021	(18,040)	(5,388)	(5,680)	-	**(29,108)**
Charge	(3,315)	(612)	(1,811)	-	**(5,738)**
Impairment	(1,195)	-	-	-	**(1,195)**
Disposals	972	196	176	-	**1,344**
At 31 December 2021	**(21,578)**	**(5,804)**	**(7,315)**	**-**	**(34,697)**
Balance at 1 January 2021	17,681	1,377	3,045	-	**22,103**
Balance at 31 December 2021	**14,882**	**1,125**	**2,212**	**-**	**18,219**

NOTE 16 PROPERTY AND EQUIPMENT (continued)

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**

Handelsbanken plc has made an assessment of property and equipment and has subsequently impaired £1.2m of fit out costs relating to premises the Bank is to exit due to the reorganisation mentioned in the Strategic report on page 5. The value impaired is equal to the balance of the fit out at the date the Bank expects to vacate the premises and no longer receive economic benefit from the assets.

NOTE 17 TAXES

Income tax expense for the year

	2021 £'000	2020 £'000
Corporation tax:		
UK corporation tax at 27%	34,815	42,226
Adjustments in respect of previous years	767	(755)
Total current tax charge	**35,582**	**41,471**
Deferred tax:		
Origination and reversal of timing differences	(919)	(36)
Adjustments in respect of previous years	1,409	(318)
Movement in corporation tax rate	(709)	(126)
Total deferred tax (credit)	**(219)**	**(480)**
Tax charge on profit on ordinary activities	**35,363**	**40,991**

NOTE 17 TAXES (continued)

The tax assessed for the year is higher (2020: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

Tax reconciliation

	2021 £'000	2020 £'000
Profit on ordinary activities before taxation	129,981	160,600
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19%	24,697	30,514
Tax effects of:		
Expenses not deductible for tax purposes	291	572
Bank corporation tax surcharge	8,908	11,104
Adjustments to tax charge in respect of prior years	767	(755)
Adjustments to tax charge in respect of prior years deferred tax	1,409	(318)
Adjustment of deferred tax for rate change (revalued to 19%)	(709)	(126)
Total tax charge	**35,363**	**40,991**

The main rate of corporation tax reduced from 20% to 19% on 1 April 2017, and will increase to 25% on 1 April 2023 in accordance with the Finance Act 2020.

The charge in respect of the corporation tax surcharge for banks which was introduced from 1 January 2016 is £8.9m in the period ended 31 December 2021. The surcharge imposes an 8% charge on the banking profits of the Group (less a £25 million allowance against those profits).

Deferred tax assets of £1,768k have been recognised at 33% (corporation tax 25% and bank surcharge 8%)

In the spring budget of 2021, the Government announced that from 1 April 2023 the banking surcharge rate will decrease to 3% and the allowance will increase to £100m. Since the proposal to decrease the ratio to 3% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would decrease the deferred tax asset by £268k.

Deferred tax balance

	2021 £'000	2020 £'000
Holiday accrual	941	179
Fixed asset timing differences	827	1,370
Deferred tax assets	**1,768**	**1,549**

Deferred tax movement

	2021 £'000	2020 £'000
Deferred tax asset at beginning of year	1,549	1,068
Fixed asset temporary differences	1,002	(142)
Holiday accrual	(83)	179
Prior year adjustment	(1,409)	318
Movement in tax rate	709	126
Deferred tax asset at end of year	**1,768**	**1,549**

NOTE 18 ASSETS HELD FOR SALE

	2021 £'000	2020 £'000
Property	145	210

Assets held for sale in 2021 consist of two premises owned by the Bank. Sales for both of these properties were completed in January 2022.

NOTE 19 OTHER ASSETS

	2021 £'000	2020 £'000
Sundry debtors	2,937	3,215
Other intercompany assets	2,004	1,937
Trade debtors	1,904	2,167
VAT	-	4,995
Total	**6,845**	**12,314**

NOTE 20 PREPAID EXPENSES AND ACCRUED INCOME

	2021 £'000	2020 £'000
Prepayments	5,835	4,807
Other accrued income	1,979	1,784
Accrued commission income	1,319	1,285
Total	**9,133**	**7,876**

NOTE 21 DEPOSITS FROM THE PUBLIC

	2021 £'000	2020 £'000
Corporate	13,413,305	13,700,999
Private	5,788,545	5,378,042
Intercompany borrowing	16,177	11,683
Total	**19,218,027**	**19,090,724**
of which accrued interest expenses	*224*	*429*

NOTE 22 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	2021		2020	
	Carrying	Nominal	Carrying	Nominal
Issued securities at beginning of year	2,979,300	2,979,300	2,952,600	2,952,600
Issued	7,814,596	7,814,596	8,274,800	8,274,800
Matured	(7,817,600)	(7,817,600)	(8,248,100)	(8,248,100)
Foreign exchange effect	-	-	-	-
Balance at 31 December	**2,976,296**	**2,976,296**	**2,979,300**	**2,979,300**
Accrued interest expenses	685		828	
Issued securities at end of period	**2,976,981**	**2,976,296**	**2,980,128**	**2,979,300**

Maturity analysis of securities

2021 £'000	Up to 30 days	31 days - 6 months	6 months - 1 year	Total
Certificate of Deposits	472,163	2,504,818	-	2,976,981

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

NOTE 23 PROVISIONS

£'000	Provisions for off-balance sheet items	Restructuring provision	Other provisions	2021 Total	2020 Total
Provision at beginning of year	2,278	-	12,360	14,638	5,644
Additional provision	-	14,287	2,480	16,767	7,918
Reduction in provision	-	(9,028)	(3,617)	(12,645)	(164)
Change in expected credit losses	(682)	-	-	(682)	1,240
Provision at end of year	**1,596**	**5,259**	**11,223**	**18,078**	**14,638**

Other provisions mainly consist of amounts provided to restore the Bank's premises back to their original condition upon exit, an Oktogonen provision (please see Share based payment arrangement Note 9 for more detail) and amounts allocated for future settlement of the claims on the Bank.

The restructuring provision includes £2.1m relating to onerous contracts for business rates and service charges related to the premises to be vacated.

The restructuring provision was regularly reviewed and updated throughout the year as more information became available, At 31 December 2021, incurred year to date employee and premises costs in relation to restructuring was £3.2 million and approximately £0.2 million respectively.

The provision for off-balance sheet items relates to expected credit losses. See note 10 and note 27.

NOTE 24 OTHER LIABILITIES

	2021 £'000	2020 £'000
Sundry creditors and other liabilities	11,444	9,146
VAT	2,191	6,419
Trade creditors	5,276	2,289
Other intercompany liabilities	356	754
Total	**19,267**	**18,608**

Sundry creditors and other liabilities consist mainly of tax and social security costs and other liabilities.

NOTE 25 ACCRUED EXPENSES AND DEFERRED INCOME

	2021 £'000	2020 £'000
Other accrued expenses	8,929	10,994
Deferred income	2,232	6,662
Accrued commission expense	340	394
Total	**11,501**	**18,050**

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 26 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares of 100p each*	Ordinary shares £'000	Share premium £'000	Total £'000
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**
Shares issued during year	-	-	-	-
At 31 December 2021	**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 27 CONTINGENT LIABILITIES

	2021 £'000	2020 £'000
Contingent liabilities		
Credit guarantees	346,678	417,876
Other guarantees	175,752	177,330
Of which, intercompany	*91,066*	*49,353*
Of which, other	*84,686*	*127,977*
Irrevocable letters of credit	194,089	192,704
Of which, intercompany	*160,900*	*160,440*
Of which, other	*33,189*	*32,264*
Other	*413*	-
Total contingent liabilities	**716,932**	**787,910**
of which subject to impairment testing according to IFRS 9	*716,519*	*787,910*
Commitments		
Loan commitments	2,859,369	2,768,527
Unutilised part of granted overdraft facilities	606,303	824,695
Other	74,320	84,805
Total commitments	**3,539,992**	**3,678,027**
of which subject to impairment testing according to IFRS 9	*3,539,992*	*3,678,027*
Provision for expected credit losses reported as provisions, see note 23	*1,596*	*2,278*

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 cases which were disclosed as contingent liability as of year-end can be seen in other line in the table above. In addition to the ones disclosed, there are a number of cases, as a result of the ordinary course of business, which could result in contingent liability, but the Bank is comfortable that they are not material to our financial statements.

Commitments include loans and overdraft commitments provided to customers.

NOTE 28 LEASING

LEASING AS A LESSOR

Disclosures on gross and net investments

	2021 £'000	2020 £'000
Gross investment	4,636	8,707
Unearned finance income	(53)	(110)
Net investment	**4,583**	**8,597**

Distribution by maturity

£'000	Within 1 year	Between 1 and 5 years	Later than 5 years	Total
At 31 December 2021				
Distribution of gross investment	2,351	2,285	-	4,636
Distribution of net investment	2,324	2,259	-	4,583
At 31 December 2020				
Distribution of gross investment	3,053	5,654	-	8,707
Distribution of net investment	3,026	5,571	-	8,597

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 28 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

	2021 £'000
Balance at 1 January 2020	68,286
Additions	5,179
Depreciation	(11,707)
Right-of-use remeasurements	4,454
Balance at 31 December 2020 and 1 January 2021	**66,212**
Additions	3,100
Depreciation	(11,767)
Impairment	(4,521)
Right-of-use remeasurements	693
Balance at 31 December 2021	**53,717**

Handelsbanken reviewed the right-of-use assets as at 31 December 2021 and has impaired £4.5m of assets relating to the reorganisation project mentioned in the Strategic report on page 5. The impairment relates to the capitalised costs from the date the Bank expects to leave the premises until the end of the lease contract.

Lease liabilities

Maturity analysis, contractual undiscounted cash flows

	2021 £'000	2020 £'000
Less than one year	10,847	12,072
More than one year, less than 5 years	31,978	36,535
More than 5 years	16,101	22,052
Total undiscounted lease liabilities	**58,926**	**70,659**

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.

Amounts recognised in income statement

	2021 £'000	2020 £'000
Depreciation expenses	11,767	11,707
Variable lease expenses	3,659	3,656
Lease liability, interest expenses	1,439	1,625
Short-term, Low-value lease expenses	900	1,140

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 variable, short-term and low-value leases recognised in the income statement amounted to £6.0 million (2020: £6.4 million).

NOTE 28 LEASING (continued)

Amounts recognised in cash flow statement

	2021 £'000	2020 £'000
Total cash outflow for leases	12,429	12,099

NOTE 29 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Information about the fair values of financial instruments which are carried at amortised cost is given in note 30 and in the table below.

2021 £'000	Amortised cost	Total carrying amount	Fair value
Assets			
Cash and balances with central banks	8,284,357	8,284,357	8,284,357
Other loans to central banks	102,779	102,779	102,779
Loans to other credit institutions	3,943,698	3,943,698	3,943,698
Loans to the public	20,177,506	20,177,506	20,152,868
Other assets	6,845	6,845	6,845
Total	**32,515,185**	**32,515,185**	**32,490,547**
Investments in subsidiary		44,119	
Other non-financial assets		105,595	
Total assets		**32,664,899**	
Liabilities			
Due to credit institutions	7,875,770	7,875,770	7,867,389
Deposits from the public	19,218,027	19,218,027	19,216,244
Issued securities	2,976,981	2,976,981	2,976,323
Other liabilities	19,267	19,267	19,267
Total	**30,090,045**	**30,090,045**	**30,079,223**
Non-financial liabilities		87,783	
Total liabilities		**30,177,828**	

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 29 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

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 30 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of financial instruments at amortised cost

2021 £'000	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	8,284,357	-	-	8,284,357
Other loans to central banks	-	102,779	-	102,779
Loans to other credit institutions	-	3,943,698	-	3,943,698
Loans to the public	-	-	20,152,868	20,152,868
Total financial assets	**8,284,357**	**4,046,477**	**20,152,868**	**32,483,702**
Liabilities				
Due to credit institutions	-	7,867,389	-	7,867,389
Deposits from the public	-	19,216,244	-	19,216,244
Issued securities	-	2,976,323	-	2,976,323
Total financial liabilities	**-**	**30,059,956**	**-**	**30,059,956**

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 31 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 14 to the financial statements.

A full list of the directors of the Bank can be found in the Directors' report on page 49, 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 2021:

2021 £'000	Balances at 31 December 2021	Interest (income) / expense
Residential mortgages	2,477	42
Credit cards and other loans	69	-
Deposits	1,270	1
Other	1,537	-

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	-

Credit cards and other loans include loans given to directors from Handelsbanken plc and other Group companies at the same terms and conditions applicable to all employees. Any additional tax costs incurred in the UK as a result of these transactions have been included in Note 8.

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.

During the year ended 31 December 2021, the Bank received income and expenses from related parties as follows:

	2021		2020	
£'000	Parent	Wholly owned subsidiary	Parent	Wholly owned subsidiary
Intercompany interest income	2,691	-	5,880	-
Intercompany interest expense	(107,013)	-	(138,525)	(6)
Net intercompany interest expense	**(104,322)**	**-**	**(132,645)**	**(6)**
Intercompany commission income	2,132	-	1,914	-
Intercompany commission expense	(30)	-	(34)	-
Net intercompany commission income	**2,102**	**-**	**1,880**	**-**
Other intercompany income	998	2,637	1,051	1,883
Other intercompany expense	(40,624)	-	(31,714)	-
Total other intercompany income / (expense)	**(39,626)**	**2,637**	**(30,663)**	**1,883**
Total	**(141,846)**	**2,637**	**(161,428)**	**1,877**

NOTE 31 RELATED PARTY TRANSACTIONS (continued)

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 2021 were as follows:

	2021		2020	
£'000	Parent	Wholly owned subsidiary	Parent	Wholly owned subsidiary
Included within assets				
Intercompany lending*	3,858,978	-	3,614,930	-
Other intercompany assets	2,004	-	238	1,699
Total	**3,860,982**	**-**	**3,615,168**	**1,699**
Included within liabilities				
Intercompany deposits	7,875,660	16,177	9,233,124	11,683
Of which deposits	*7,188,117*	-	*8,554,916*	-
Of which subordinated loans	*400,633*	-	*400,615*	-
Of which senior non preferred debt	*200,092*	-	*200,082*	-
Of which other	*86,818*	*16,177*	*77,511*	*11,683*
Other intercompany liabilities	356	-	754	-
Total	**7,876,016**	**16,177**	**9,233,878**	**11,683**
Of which, accrued interest	*10,971*		*14,174*	

* Subject to impairment testing

No impairment of intercompany balances is required with specific regard to the current economic environment.

NOTE 32 SUBSEQUENT EVENTS

Handelsbanken plc has reviewed events from 31 December 2021 up until the authorisation of the financial statements for issue.

The Bank continues to monitor Russia's invasion of Ukraine and the impact it has on the Bank and our customers. Up to the current date no direct material impacts on the financial statements have been identified. Further explanation on the review of the impact on the financial statements (considering the ICAAP stress test scenarios) can be found on page 52.

NOTE 33 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.

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